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NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM,  
HOUSE OF COMMONS ON THURSDAY, 19 FEBRUARY, 1981 AT 4.00 P.M.

Present:

Chancellor of the Exchequer  
 Chief Secretary  
 Financial Secretary  
 Sir Douglas Wass  
 Mr. Ryrie  
 Mr. Burns  
 Mr. Middleton  
 Mr. Battishill  
 Mr. Britton  
 Mr. Monck  
 Mr. Unwin  
 Mr. Pirie  
 Mr. Cropper  
 Mr. P. Lewis - Inland Revenue

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 TAXATION OF THE BANKS

Coverage of the levy

The Financial Secretary reported that he had concluded the legislation would be hybrid if Giro and the Trustee Savings Banks were not included. He proposed to accept the Inland Revenue recommendations that inter-bank deposits and 40 per cent of transit items should be included in the coverage of the levy; the Bank of England were content with this on technical grounds.

Retrospection

2. The Financial Secretary said he had sought a way of making the levy seem less retrospective. One possibility might be to apply it to non-interest-bearing deposits at a date in 1981, but it was difficult to find representative dates early in the year. Moreover the case for the levy rested on the high profits earned by the banking system in 1979 and 1980. In further discussion it was suggested that an element of retrospection was unavoidable, if the banks were to be prevented from taking action to avoid



payment. It made little difference in principle whether the relevant dates were in the latter part of 1980 or the earlier part of 1981. There was no escaping the fact that the levy would apply to the 1981 profit and loss account. The point was made that it would be desirable to base the levy entirely on the position at some past series of dates when the exact circumstances of particular institutions were known accurately; there could be a risk otherwise - given the technical difficulty of defining a bank - of certain institutions coming within the ambit of the levy more or less by accident.

3. It was agreed that the levy should be applied to relevant deposits in October, November and December 1980. Mr. Pirie was asked to approach the Bank to discover whether any particular problems would arise in relation to particular banking institutions; Treasury Ministers expressed concern about the number of accepting houses which would come within the ambit of the levy.

#### Rate of the levy

4. The Chancellor noted that the levy might encounter a good deal of political opposition. A majority of the Conservative Finance Committee officers were opposed to it, as were the "Chelsea Five"; and it was subsequently established that the advice of the Whips was on balance against it. On the other hand, it was noted that the banks had for the time being been holding the field in the public debate, with the Government unable to reply in advance of the Budget. Ministers felt that Parliamentary opposition was unlikely to be sustained when the difficulty of raising money from other sources was understood; and it seemed likely to appeal to opinion outside Parliament. It would be very difficult for the Labour Party to vote against it, although they might take the opportunity of criticising it on the inconsistent grounds that it did not punish the banks enough and the banks needed the money to lend to industry. The Chancellor asked that the legislation should take the form of one long clause rather than several short ones, with much of the material relegated to schedules; it would be necessary to take this in Committee on the floor of the House.



5. The Chancellor noted that the clearing banks' profits during the second half of 1980 would shortly be announced, the indications seemed to be that those from their domestic business would be down, although profits from their international business might keep total profits more or less flat. Overall profits would have fallen away from their best levels, and a further reduction was to be expected in 1981. It was agreed, nevertheless, that the clearing banks should not have any difficulty in raising the £300 million implied by a 2½ per cent rate of levy; Mr. Leigh-Pemberton had already suggested that the necessary funds could be secured through rights issues, which would have the useful incidental effect of reducing the money supply. Although the banks would represent that the levy would have a serious multiplicative impact on their ability to lend, it seemed unlikely that there was much of real substance in this. The £120 million which would come from other banks was, perhaps, a source of more concern; this reinforced the need for adequate information from the Bank of England about its impact on particular institutions.

6. The Chancellor, concluding the discussion, said that a 2½ per cent levy on the deposit base agreed should now be regarded as a firm decision, subject to final clearance with the Prime Minister. He would now reply to Sir Jeremy Morse on the lines suggested.

JW

(A.J. WIGGINS)  
20 February 1981

Distribution

Those present  
Mr. Ridley