



10 DOWNING STREET

From the Private Secretary

5 January 1982

The Prime Minister held a meeting this evening at 1730 with the Attorney General and the Chancellor of the Exchequer about the Penlee Lifeboat Disaster Fund.

The Attorney General said that both he and the Charity Commissioners had met the Trustees of the Fund, and had examined the terms of their appeal. The Commissioners and he were both agreed that the Fund was not a charitable trust. He had announced this publicly. All the monies raised by the appeal could therefore be passed to the families affected. The only question was whether the donations would be liable for tax. If the beneficiaries of the appeal invested the monies they received, then clearly the income from this investment would be subject to income tax. More importantly, however, there was the question of the liability of the donors, and the trustees, for capital transfer tax. The Attorney General's initial view was that this was not likely to be a problem. The Trustees had confirmed that most of the £2 million that had been raised had come in the form of small donations below £100 in value. Only £200,000 had come in donations of more than £3,000 each. Since the donors would not incur any CTT liability on gifts of less than £3,000, it was likely that the total liability for CTT would be very small, and probably not more than £60-70,000. The Attorney General proposed that the Government should make a statement that it was willing to indemnify all the donors against any liability for CTT. The Government would be criticised for being mean and niggardly if it did not do so.

The Chancellor of the Exchequer said that he would consider the Attorney General's proposal urgently, and would let the Prime Minister know his decision within 24 hours. The Inland Revenue and the Treasury Solicitor's Department would need to determine the tax position in more detail before a decision could be taken. At first sight, however, it looked as though the CTT liability might be even less than the Attorney General had estimated. Not only was there an annual exemption from CTT for gifts up to a value of £3,000, there was also a small gifts exemption for gifts up to £250 per donee. Since there were eight families involved in the disaster, each donor could give eight times £250, or £2,000, which would fall under the small gifts exemption. It therefore seemed likely that individual gifts of less than £5,000 would be exempt from CTT. The Chancellor of the Exchequer agreed that a clear statement of the tax position was needed, and he was inclined to favour the Attorney General's suggestion that the donors should

/be indemnified against

be indemnified against any CTT liability.

There was also some discussion of the need for long term guidance to those setting up similar funds in future. It was agreed that people setting up funds should have clear advice on how to word their appeals, so that they could be sure from the outset of the status of their fund, and in particular about whether or not it was a charitable trust. The Attorney General suggested that he should issue instructions to solicitors on the forms of words that should be used in appeals. The Prime Minister suggested that the Home Secretary might answer an arranged Parliamentary Question, and give similar advice in his Answer. The Chancellor of the Exchequer suggested that the Home Secretary might also encourage the Charity Commissioners to play a more positive role in the setting up of disaster appeals. He himself would consider whether advice might be given to the public through the banks. The Prime Minister agreed that the Home Secretary should be asked to consider all these possibilities, and to report to her as soon as possible. I should be grateful if John Halliday could put in hand the necessary action.

I am copying this letter to Jim Nursaw (Attorney General's Office) and John Halliday (Home Office).

W. F. S. RICKETT

John Kerr, Esq.,
H.M. Treasury.



H Affairs ds

10 DOWNING STREET

From the Private Secretary

7 January 1982

Thank you for your letter of 6 January about the Penlee Lifeboat Disaster Fund.

The Prime Minister was very pleased that the Chancellor felt able to indemnify the donors to this fund against any liability for CTT. As you know, his decision was announced by your press office, and by ours, last night.

I am copying this to John Halliday (Home Office) and Jim Nursaw (Law Officers' Department).

W. F. S. RICKETT

John Kerr, Esq.,
HM Treasury.

A

Prime Minister



Press Office are making arrangements with the Treasury to announce this evening that the Government will indemnify all donors against any liability for C.T.T. It is clear from

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

6 January 1982

This letter that only very few donations will in fact be liable.

W. Rickett, Esq.,
Private Secretary,
10, Downing Street

WR
6/1/82

MS

Dear Willie,

Thank you for your letter of 5 January about the Prime Minister's meeting last night on the Penlee Lifeboat Disaster Fund.

The meeting agreed that a clear statement of the tax position was required. Following consultations with the Inland Revenue, I can confirm that it would be exceptional for a donation to the Fund to attract CTT liability. The following list of exemptions would apply:-

(a) first, a donor may make gifts of £250 per year per recipient tax free. This exemption applies irrespective of the number of beneficiaries, and the Inland Revenue would for tax purposes treat any single donation as being divided equally between all recipients.

(b) Secondly, there is an exemption for total gifts of £3,000 by the same donor in any one year (although the full £3,000 would of course only apply to a donation to the Fund if the donor had made no other chargeable gifts in the same year). While exemptions (a) and (b) are not cumulative, their joint effect is to exempt the greater of £250 times the number of beneficiaries or £3,000 (less any other gift). You will be aware that the number of beneficiaries of the Penlee Lifeboat Disaster Fund has yet to be determined by the Trustees: the number need not necessarily be no greater than the number of lives lost in the Disaster.

(c) There will also be no charge if the donor made his gift out of income.

(d) Even if a gift were not covered by any of exemptions (a) to (c), there would be no immediate charge unless the individual donor's cumulative total of transfers since the introduction of CTT were to exceed £50,000.

/(e) Donations



(e) Donations made by companies or charities are not liable to CTT: this will presumably exempt many of the largest donations.

I hope that this clarification is useful. What emerges from it very clearly is that only in a very small number of cases - particularly generous donations by individuals who habitually give large sums, out of capital - could contributions to the Fund attract CTT liability. Nevertheless, the Chancellor maintains his view that it would be appropriate for the Government to offer indemnification against such liability. He has instructed officials to work out appropriate arrangements, and he would have no objection to an early announcement.

Copies of this letter go to Jim Nursaw (Attorney General's Office) and John Halliday (Home Office).

Yours ever,
J.O. Kerr

J.O. KERR
Principal Private Secretary



6 JAN 1982



COMMUNICATIONS



10 DOWNING STREET

From the Principal Private Secretary

4 January 1982

File AH

CC HO
LCD
Tsy
LPO
CWO
LAD
CO

BF

Home
Affairs

See Jim,

PENLEE LIFEBOAT DISASTER FUND

As I told you on the telephone earlier today, the Prime Minister thinks that it would be helpful if the Attorney General could provide a formal Opinion on the state of the law as it affects the disbursement of money from the Penlee lifeboat disaster fund to the relatives of those who lost their lives. She hopes that the Attorney General will be able to produce his Opinion in the course of this week.

No doubt the Home Secretary will then wish to consider urgently, in the light of the Attorney General's Opinion and the outcome of tomorrow's meeting between the Charity Commissioners and the trustees of the disaster fund, whether any changes in the law are needed.

I am copying this letter not only to John Halliday (Home Office) but also to Michael Collon in case the Lord Chancellor wishes to offer a view on whether the law as it stands today is satisfactory. I am also sending copies to John Kerr (HM Treasury), David Heyhoe (Lord President's Office), Murdo Maclean (Chief Whip's Office), Christine Duncan (Lord Advocate's Office) and David Wright (Cabinet Office).

Yours sincerely,

Anne Whitmore.

Jim Nursaw Esq.,
Law Officers' Department.

AA