

CONFIDENTIAL



FROM: E KWIECINSKI
DATE: 11 January 1983

PS/CHANCELLOR
(Ms Rutter)

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State (R)
Sir D Wass
Mr Littler
Mr Middleton
Mr Monck
Mr Moore
Mr Robson
Mr French
Mr Battishill - IR
PS/IR
Mr Quinn - B of E

INTERNATIONAL BANKING SCENE: TAX TREATMENT OF BAD DEBTS

You asked for the Financial Secretary's comments on Mr Battishill's submission of 5 January, and on the draft letter to the British Bankers' Association.

The Financial Secretary has commented that if banks re-schedule dubious sovereign risk debt, in theory it is not a bad debt. Since the banks are so keen to avoid defaults, one of the consequences should be that they should not be able ^{to} write-off sovereign risk debts against their taxable profits. Moreover, he thinks that ^{as} we are not going to tax the banks this year, we should not make it easy for them to pay even less tax.

In his view the banks were pretty reckless in the way they lent money in the past to poor risk Sovereign States. He thinks they should get their fingers burned a little on this occasion - it may make them more careful next time. This is another reason for being a little sticky in letting them have tax relief for their losses. The Financial Secretary would therefore be fairly hard-nosed about the problem. It is however for the Revenue to administer the law as it stands.

He is happy for the letter to go to the BBA, subject to point (c) being toughened up a bit by a phrase like: "although re-scheduling will normally indicate that the debt is not bad."

SK.

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