CONFIDENTIAL

Prime Minister:

Shall I ask the Chancellor what the score is?

MES 27/4

Yes please

MT

PRIME MINISTER

CLAUSE 90 OF THE FINANCE BILL

It may have escaped your notice that this Clause extends very considerably the powers of the Inland Revenue to deduct 40% from transactions involving land where the disposer has a usual place of abode outside the United Kingdom. Hitherto this power was restricted to development land. Now it is extended to all land, where the price exceeds £50,000.

This will:

i. introduce risks into lending of money on mortgage security in the United Kingdom, especially when there is a chance that the owner is likely to live abroad;

ii. make inward investment into UK property unattractive, including such desirable investment as, for example, Japanese manufacturers acquiring commercial sites, or Greek shipowners buying houses or offices; and

iii. give the Inland Revenue considerable discretion to control by regulation the sale of land in the UK.

It is very odd indeed that the extension of the 40% deduction should be applied under conditions where there has been a very considerable collapse in the price of land. And in any case they are subject to the normal levy on capital gains and income. Doubtless it will be argued that the deducted 40% can be reclaimed after the usual delays and paper work from the Inland Revenue. True, perhaps, but the new clause smacks of the presumption of guilt. And in any case we have ample evidence of the fact that deduction at source, irrespective of liability, does greatly inhibit capital flows and trade.

AW

ALAN WALTERS
27 April 1983

CONFIDENTIAL