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Prime Minister

MCS 6/9



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

5 September 1983

Michael Scholar Esq  
10 Downing Street  
LONDON  
SW1

Dear Michael,

I am writing to let you know about a statement that the Chancellor proposes should be issued very shortly about Offshore and Overseas Funds.

As you know, a number of funds have been established outside the United Kingdom, mainly in the Channel Islands, which roll up income rather than distributing it year by year. The result, under present law, is that the investor pays only capital gains tax on the rolled up income in the fund when he disposes of his investment. Income has effectively been converted into capital gains. And the capital gains tax liability may itself be nil or very low because of the £5300 annual exemption limit and indexation relief.

The funds have recently grown very fast in size. They may now total £1500m. The tax loss is already around £60m a year and possibly substantially more. It is clear that, without early action, the sums involved and the tax loss will continue to grow fast. The absence of such action has already attracted a fair amount of press comment.

The Chancellor therefore intends to issue an early statement to say that since existing legislation does not give adequate protection to the Exchequer, he will propose new provisions in the 1984 Finance Bill. These will provide that when an investor resident in the UK disposes of a holding in an offshore or overseas fund, an appropriate amount of income or corporation tax will be paid.

The statement will also say that there will be a "period of grace" before the new rules apply, and promise a second statement to specify the date from which this will happen. Those who wish to dispose of their holdings before the change takes place will therefore be able to do so. This procedure should help to ensure that funds are run down gradually, and so reduce the risk of disruption in the markets.

*It would be better if the whole thing came in one statement - The report to have bits in next week's paper - It indicates that the matter has not been thought through*

Yours,

*Thd:tt*

MISS J C SIMPSON  
Private Secretary