

e N.O.



Prime Minister

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This doesn't

fall vs very

much. A

subject for a regular

wednesday meeting?

Yes Mrs 21/9

Treasury Chambers, Parliament Street, SW1P 3AG  
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PRIME MINISTER

TAXATION OF INTERNATIONAL BUSINESS

In view of your previous interest in these matters, I am sure you would like to hear of our current plans on the taxation of international business. I am minuting you now because, subject to your approval, we shall shortly be publishing revised draft legislation on 'controlled foreign companies' (tax havens).

2. You discussed the subject with Geoffrey Howe last November and agreed to the publication of a Consultative Document, including draft clauses. We were proposing to legislate in this year's Finance Bill, and were intending to introduce a number of important modifications to reflect the business community's comments on the proposals in the Consultative Document. The Election called a halt to this but in an arranged Parliamentary Question shortly before the Summer Recess, I confirmed that the Inland Revenue would be publishing draft clauses (or revised clauses) on a number of matters left over from the 1983 Finance Bill, including the proposed provisions on controlled foreign companies. These revised provisions are now ready for issue and I think there would be merit in publishing them as soon as possible. This would give the business community ample opportunity to study the revised draft clauses before April 1984 which is the proposed starting date for these particular provisions. (April 1984 is also the starting date proposed



for the other half of the international tax 'package' left over from the 1983 Bill (helping companies by allowing them to set off double taxation relief before ACT).)

3. You may also be interested to hear how matters now stand on the other two issues which have hitherto been considered alongside the tax haven proposals - company residence and upstream loans. As foreshadowed in December's Consultative Document, the Inland Revenue recently issued a Statement of Practice amplifying the current case law test of company residence. This should finally lay to rest any remaining fears that we still intend to legislate to replace these tried-and-tested rules with a statutory definition. I would not, however, wish to rule out at this stage the possibility of legislation either on upstream loans or on certain specific abuses of the company residence rules. But these are complex matters, on which further consultation may well be required. Any legislation, therefore, would not be included in the 1984 Bill, but would be a matter for 1985 or later.

4. I shall, of course, continue to keep you in touch with developments on all these issues.

*Margaret O'Mara*

(N.L.)

20 September 1983

*(approved by the Chancellor and  
Signed in his absence)*