

CHANCELLOR OF THE EXCHEQUER

FROM: ADAM RIDLEY

DATE: 8 June 1984

cc Financial Secretary
Chief SecretaryEconomic Secretary
Minister of State

Mr Lord

Mr Portillo

Mr R I G Allen

Mr Culpin

Mr Folger

Mr Unwin Miss Rutter

Mr Houston, FCO

Mr Sherbourne, No. 10 ←

PS/C&E

VAT ON FOOD YET AGAIN

As you may have seen from the article by "our political correspondent" on page 12 of today's Financial Times, Robin Cook has written to Mr Gummer to challenge him to reconcile a recent letter from Barney Hayhoe to Geoffrey Howe about VAT on food with the Government's repeated denials that it intends to extend VAT to all food. At the same time, Labour Weekly in their edition of today carry a piece by Chris McLaughlin setting out some of the background to the story. It transpires that the rumours I picked up earlier in the week, indirectly from PA, were correct and can be substantiated. The MST wrote to the Foreign Secretary on May 17, giving him guidance as to how to reply to a letter from a Labour Euro-candidate, Andrew MacKinlay. That letter was wrongly sent on to Mr MacKinlay himself. And it is now being widely circulated by the Labour Party and used as a pretext for their campaign. I attach copies of the MST's letter, the Labour weekly piece, and Mr MacKinlay's original letter to the Foreign Secretary.

2. Very probably this issue will come up yet again at Monday's press conference. I am therefore briefing the Research Department and making these ^{papers} available to them immediately. Though there are difficult passages in the MST's letter, there are also a number of others which are not unhelpful, so the position should be manageable.

3. In the meantime I gather that Central Office will today be launching some kind of counter-attack on the Labour Party, which will amongst other things recycle the "nonsense, poppycock" line which has been taken with some success hitherto.

As Mr Gummer only received Robin Cook's letter about half an hour ago, ^(circulation) there has been no time to consider whether and if so how to reply to his challenge. *There arranged this. I'd think Mr Gummer will be asked to consult us should he decide to reply.*

4. It also appears that the counter-attack on Labour (and the Alliance) will run an argument which is designed to help diminish the potential enthusiasm of the agricultural community for either of these parties. This will be to point out that both are advocates of the re-rating of agricultural land. Bearing in mind your desire not to have gratuitous commitments which restrict Ministers' future freedom of manoeuvre in such areas, I am trying to see whether there are any clear public commitments to the effect that we oppose the re-rating of agricultural land. I believe that the PM has ruled it out, probably in an answer to a PQ. But I am checking on this just in case you should have reservations of a familiar kind!

AR

A N RIDLEY



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Sir Geoffrey Howe QC MP
House of Commons
LONDON SW1A 0AA

17th May 1984

John Peffer

... You wrote to John Moore on 12 April enclosing this correspondence from Mr Andrew Mackinlay, the prospective Euro-candidate for the Labour Party in the London South and Surrey East constituency.

As you know, our 1979 Manifesto committed us to reducing income tax from the levels maintained by previous Labour Governments, and envisaged that these cuts could be financed by a switch from taxes on earnings to taxes on spending. Your first Budget in 1979 took an important step in this direction by setting a new standard rate of VAT of 15 per cent. Nigel Lawson's recent Budget continued the process by extending the VAT base to cover two areas of expenditure where there is a considerable element of discretionary spending - building alterations and hot take-away food and drink.

We must continue to reduce direct taxation if we are to make it worthwhile to work and if individuals are to have real freedom of choice in spending or saving their own money. This means the indirect tax base will have to be further extended. We have no set views at present about how this should be done, but it would be wrong to assume that any part of the tax system is immutable. VAT is the major tax on consumer spending, and clearly has an important part to play. We are well aware of the importance of many of the zero-rated items to families and the less well off, and would not wish to make any move that placed a new and heavy burden on family budgets. But it would be wrong to interpret that as a commitment to retain the present VAT structure indefinitely.

I should add that our views on this have not been influenced by our European commitments, as Mr Mackinlay appears to think. It is true that under Article 28 of the European Community's Sixth Directive on VAT, zero and reduced rates are to be reviewed by the Council of Ministers every five years. However the Directive makes it clear that zero-rating can only be abolished in this way following a unanimous decision of the Council, and would therefore require the agreement of the United Kingdom.

Barney Hayhoe

BARNEY HAYHOE

All out attack on Tory plan to widen VAT



Police set for new demo charges

P1.
Labour Weekly
June 8th

BY KEN HYDER

LABOUR has entered the last week of the European elections with a concerted attack on Tory plans to put up food prices by slapping VAT on essential goods.

The Tories' intentions were revealed in a letter from treasury minister Barney Hayhoe to foreign secretary Geoffrey Howe.

In the letter, dated May 17 last, Hayhoe refers to the need to extend the indirect tax base if direct taxes are ever to be cut.

And he says: "VAT is the major tax on consumer spending, and clearly has an important part to play.

"We are well aware of the importance of many of the zero-rated items to families and the less well off, and would not wish to make any move that placed a new and heavy burden on family budgets.

"But it would be wrong to interpret that as a commitment to retain the present VAT structure indefinitely."

Labour

CHRIS McLAUGHLIN

Hayhoe's letter to Howe was prompted by the questioning of Labour Euro candidate Andrew Mackinley who wrote to all the Westminster MPs in the London South and Surrey East Euro constituency. Howe then passed on Hayhoe's letter to Mackinley.

Hayhoe's comments are seen by the Labour Party as particularly worrying in the light of pressure from other EEC members for Britain to lift its zero rating on some essential items such as food, children's clothing, gas, electricity and fares.

As Hayhoe points out, zero-rating can only be abolished by unanimous decision of the council of ministers, which would require Britain's agreement.

Labour fears the government is preparing the way for that decision.

This, the party estimates, would mean low income families would have to spend nearly 4 per cent more of their weekly budget on food. For high incomes families it will be only 2 per cent.

Abolishing all zero rating would add about £4 a week to the low paid family's food costs and £6 to their overall spending.

In the last week of the campaign Labour intends to drive home the

message that this is just the latest of a series of Tory food price increases which include:

- consistently rubber stamping proposals to increase common agricultural policy prices, even for goods in the notorious food mountains;
- the imposition of 15 per cent VAT on hot take-away food in the last budget;
- a 50 per cent rise in milk prices.

Labour is also attacking the alliance over its splits on defence. Alliance candidates are to be challenged to state which way they would vote if a motion condemning cruise missiles and for their removal from Britain came before the European assembly.

When this motion was put to the commons by Labour, three SDP MPs voted against, three were absent, while five Liberals voted against the Labour motion, two in favour, one abstained and nine were absent.

A government motion supporting cruise had the three SDP MPs voting against that as well, while the Liberals voted against.

Back to the victorian era

SOCIAL security rule changes have been described as a disgrace to civilised society by Lothian Euro election candidate, David Martin, who said this week that they were "a blatant attack on the poor and vulnerable."

"It is further evidence of the

government's determination to dismantle the welfare state and take us back to the victorian era of soup kitchen social services," he said.

The regulation changes would lead to claimants not eating properly, or becoming homeless.

THE government is likely to use the miners' dispute as a spring-board for bringing in changes in the law to make it easier for police to charge demonstrators.

Recommendations by the Law Commission last October on the offence of unlawful assembly are now set to be adopted.

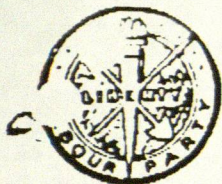
The idea is to replace the common law offence of unlawful assembly with two other offences covering violent disorder and collective behaviour which may cause fear among others.

The argument that it would effectively reduce the tariff for the offence is spurious. The present common law offence technically carries a sentence up to life imprisonment. But in practice offenders do not receive more than the five, or two years maximum in the replacement laws.

At the moment unlawful assembly offences are heard at the crown court and it has been extremely difficult for police and prosecution to secure a result from a jury.

The new offences could be heard in magistrates courts as well.

The miners' dispute again highlights the panoply of offences police have at their disposal to bring



London South
& Surrey East

Labour Party

Prospective **Euro'** Candidate ANDREW MACKINLAY

365 Leatherhead Road, Chessington, Surrey KT9 2NQ

6th April 1984

House of Commons
London SW1

Dear Sir Geoffrey

I wonder if you have seen the report in the Sunday Times (18 March 1984) - a copy of which is attached - in which it is alleged that your colleague Nigel Lawson is preparing, during his period of office, to extend VAT to areas which hitherto have been exempt or zero rated. This inevitably leads one to the conclusion that amongst those items which could have VAT added to their cost by the end of this parliament are:

- Children's clothes
- All food and groceries
- Commuters' bus/train fares
- All construction
- Electricity
- Newspapers

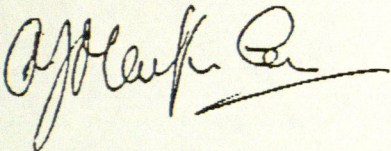
The Sunday Times report has come as no great surprise to me; although I had hoped against hope that my earlier suspicion that the Conservative Government would contemplate putting VAT on such essentials would not come about. Such a step would not only increase cost for businesses, but would also hit some of the poorest and most disadvantaged in our community.

My earlier suspicions that your colleagues in the Conservative Government would extend VAT in this way was aroused when I learnt that the EEC Council has to review reduced rates of VAT and exemptions every five years on the basis of a report from the Commission and, "where appropriate, is to adopt the measures required to ensure their progressive abolition."

Like so many things that go on at Commission and Council of Minister level at the EEC, this threat to the British taxpayer is not widely known. I am sure you would agree that they do have a right to know about this. They will also be keen to learn that their MP's will resist such moves in the House of Commons. I hope you will not think it impertinent, but can I ask, would you be prepared to vote against such VAT extensions if and when Nigel Lawson places them before the House of Commons?

I look forward to your reply.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Andrew Mackinlay', with a long horizontal flourish extending to the right.

Andrew Mackinlay

From: The Rt. Hon. Sir Geoffrey Howe, QC MP



HOUSE OF COMMONS
LONDON SW1A 0AA

12th April 1984

Handwritten signature

I should be grateful if you could let me have a suitable reply to the enclosed letter from Mr. Andrew Mackinlay, the Prospective Euro' Candidate for London South and Surrey East in a form that I can publish in the local press.

Handwritten signature

VATI

John Moore, Esq., MP,
The Financial Secretary,
HM Treasury.

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Mackinlay