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10 DOWNING STREET

From the Private Secretary

19 September 1983

In the Prime Minister's absence abroad, I am writing on her behalf to thank you for your letter of 16 September. I know she will read this with interest on her return, and that it will be useful background for the meeting she will be having with Ministers and officials.

WR

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The Rt. Hon. Margaret Thatcher,
10 Downing Street,
London S.W.1.

16 September, 1983

Dear *Margaret,*

Very many thanks for the letter you wrote to me from Chequers which I have followed up with a short note to Lord Cockfield.

I am anxious not to over-burden you on the subject but think the attached memorandum may be useful for your files as the passage concerned is such a good illustration of how an excess of Revenue caution can stifle the good intentions of Ministers.

Yours

Peter


Peter M.B. Rowland

Simplification of Finance Act 1982 Section 53 and Schedule 9

Broadly speaking, for the provisions to apply, the company must be unquoted and a trading company (or the holding company of a trading group), and the "purchase" must have been wholly or mainly for the benefit of the trade in question. The taxpayer must be resident and ordinarily resident and have held the shares for five years, and must show that, although participation in the company's profits without receipt of a dividend will normally follow, this was not one of the main purposes of the transaction. Finally, it must be shown that tax avoidance was not a main purpose either.

It might well be thought that these stringent conditions provide ample protection against abuse. However, if for some reason it is also essential that the taxpayer's interest should be substantially reduced it should not take some four pages of highly complicated gobbledegook to say so. Indeed, if the supposed mischief could actually be identified I have no doubt that some very much shorter way of dealing with it could be devised.

There are other seemingly otiose complications; to take just one example, if, where shares derive from a spouse, one may take the spouse's period of ownership into account, is it really necessary that the spouses should have been living together when the transfer took place, or indeed at the time of the purchase? Again, provided the other conditions are met I wonder if the provisions need to be confined to residents; after all, a substantial holding in the hands of a foreign legatee could be particularly tiresome.


Peter M.B. Rowland