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SUBJECT

cc MASTER



cc Mr. P. Graham, FPC
FPC
Chief Sec., HMT
LPS
LCO
Mr. Stewart, HMT
CDL
John Kerr, HMT

file 50/54

10 DOWNING STREET

From the Private Secretary

14 December, 1983.

Dear Alex,

The Prime Minister chaired a meeting this morning to consider the scope for simplifying tax legislation in the light of correspondence with Mr. Peter Rowland. Present were the Lord Chancellor, Lord Privy Seal, Chancellor of the Duchy of Lancaster, Chief Secretary to the Treasury, First Parliamentary Counsel, and Mr. Graham of the Office of the Parliamentary Counsel. The papers before the meeting, in addition to the correspondence with Mr. Rowland, were a note by the Treasury dated 5 October, a minute from the Chancellor of the Duchy of Lancaster to the Prime Minister dated 17 October, and a letter from the First Parliamentary Counsel to the Prime Minister's Office dated 7 November.

Introducing the discussion, the Prime Minister said that simpler tax legislation was clearly a desirable objective, and one which the Government should strive to attain. What was required was a process of "consolidation with amendments", and it was for consideration how this might best be achieved in terms of Parliamentary procedure.

The Lord Chancellor said that the established procedure was to introduce a bill in advance in order to make any necessary changes in the law, and then to proceed with consolidation in the normal way. This had been the process adopted successfully with the Law of Property Act 1925, and on many later occasions. The Chief Secretary commented that a procedure of this nature did not address Mr. Rowland's criticism of the language in which tax law was drafted. The Lord Chancellor agreed, although he added that it would be a mistake to equate brevity with clarity.

The Prime Minister said that the task of simplification should not be defeated by procedural considerations. The process of resolving ambiguities necessarily and rightly involved policy decisions. These could be minor, but in some areas fundamental structural changes were undoubtedly needed. There was a strong case for a systematic programme of reform.

The Chancellor of the Duchy of Lancaster commented that it was essential to prepare the ground for legislative changes properly in advance. Thorough consultation, including the publication of draft

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clauses, could do much to reduce subsequent difficulties in Parliament. The Lord Privy Seal said that changes described as modest by the Government were often seized upon by back benchers in the belief that they could substantially affect particular interest groups. Conservative MPs were especially vigilant in this respect. The Prime Minister accepted that such difficulties could arise, although exposure drafts could help a great deal to minimise them. She believed that the House in general would support the objective of clearer and more comprehensible legislation. Much of the detailed work could in principle be done in a special standing committee - this would be preferable to a select committee, whose procedures could act as a brake on progress.

The Lord Privy Seal argued that any attempt to devise a new Parliamentary procedure would only serve to delay desirable reforms, since the procedure itself would require lengthy consideration. There were advantages in including the changes in annual finance bills, since there was a generally accepted timetable for their passage. Separate bills could be exploited as a means of delaying other parts of the Government's legislative programme. Parliamentary Counsel agreed with the distinction that had been made between consolidation and restructuring. Consolidation should follow, and could not precede, changes in the substance of the law. He was, however, concerned about the demands that a major programme of tax law reform could make on drafting resources. He argued that additional staff took up to two years to train, and more existing staff could only be employed on tax work if they were diverted from other tasks. The Chief Secretary added that a large programme of tax law reform would also be a major exercise for Treasury Ministers and officials.

The Prime Minister said that there were several examples of areas of tax law which were in urgent need of attention, and which could form early items in a programme of reform. She referred in particular to corporation tax, where the aim should be to reduce reliefs and set a lower rate, relief from capital transfer tax and capital gains tax, and stamp duty. The Chief Secretary added that there was a need also to look at the income tax schedules. The whole task of drafting tax legislation would be made much easier if tax rates in general were lower - high tax rates fuelled the tax avoidance industry.

Summing up, the Prime Minister said that simplifying tax legislation was a worthwhile and exciting objective which should form part of the Government's longer term programme. She invited the Chancellor of the Duchy of Lancaster, in consultation with the Treasury and Parliamentary Counsel, to put forward proposals for a programme of reform. This would encompass structural changes in the tax system, consolidation and simplification of language. A Treasury Minister would need to be allocated to this work (the Prime Minister suggested Mr. Stewart and the Chief Secretary agreed to consult the Chancellor on this). The aim would not be to invent new principles of taxation. Rather, it would be to take the structural reforms which were necessary from time to time, as circumstances changed, and to build them into a coherent programme which could be announced in advance, and to which the Government could be committed. It was accepted that implementation
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of such a programme might well require some temporary strengthening of the resources of the Parliamentary Counsel.

I am copying this letter to the Private Secretaries to those Ministers who attended the meeting, and also to John Kerr (H.M. Treasury).

Yours ever,

David

David Barclay

Alex Galloway, Esq.,
Office of the Chancellor of the Duchy of Lancaster

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