

PRIME MINISTER

Mr. Peter Rowland is coming to see you on Tuesday morning. Lord Cockfield will also be present. The purpose of the meeting, in lieu of a letter, is to thank him for stimulating an interesting debate within Government on reform and simplification of tax legislation, and to outline to him how the Government intends to tackle this objective.

As Lord Cockfield's note of 13 January makes clear, the exercise now in hand goes further than the original Rowland proposal. The stages where an input from Mr. Rowland might be useful have not yet been reached. That will come after the discussion you will be having with the two Chancellors on a long term tax strategy. This will identify a sequence for tackling the major tax blocks. Until that is done, and the basic structure of each block is settled, there is probably not much point in Mr. Rowland putting forward re-drafts.

You might like to be aware that there is some tension between the two Chancellors. The Chancellor of the Exchequer argues that it is his responsibility to set out the strategy and he appears to be trying to manoeuvre the Chancellor of the Duchy of Lancaster into Stages 2 and 3. The latter sees an important role for himself in Stage 1. It will be an important task of the tripartite meeting to work out a modus vivendi.

Attached are:

- (i) Lord Cockfield's note of 13 January;
- (ii) a sample re-draft of part of the Taxes Act, sent in today by Mr. Rowland; *(see inside file cover)*
- (iii) the record of the 14 December meeting;

/ (iv) Lord Cockfield's

- (iv) Lord Cockfield's note of 17 October;
- (v) earlier submissions from Mr. Rowland.

AT

ANDREW TURNBULL

13 January, 1984

See AT to PM 13.1.84
Para 4 (ii).

Part of draft/

Taxes Act 1985

General notes

1. The re-drafting completed earlier related to two quite short passages. This sample has now been enlarged and its scope widened by including, inter alia, the first Sections 1-33 of the Taxes Act 1970, and by taking the first steps towards the production of a consolidated Act.
 2. It is headed "draft Taxes Act 1985" because I consider a draft Act could be readily achieved given the necessary Revenue support - three officials and a secretary, all part-time.
 3. The larger sample re-enforces the view that the legislation could be halved in length and made very much clearer without any material alteration in the substantive provisions. The old age relief provisions attached as an Appendix provide a perhaps extreme illustration of what is possible.
 4. It is, however, also abundantly clear that there are numerous anomalies which call for changes in the law mostly of a minor character but some of more importance.
 5. The re-draft is subject to various detailed comments not included here. It covers the following:-

Taxes Act, 1970	Sections 1 - 34 (except the provisos to Sections 25 and 26)
	Sections 98, 375 and 377
	Section 528
	Schedule 13
Finance Act, 1972	Section 70
Finance Act, 1976	Paragraphs 4 and 5 of Schedule 4
Finance Act, 1977	Section 31 (1) and Schedule 7
Finance Act, 1981	Section 34
Finance Act, 1982	Section 53 and Schedule 9 paragraphs 1 - 4 (already forwarded)
- Extra-statutory concession A.15
- The principle decided in Earl Howe v Commissioners of Inland Revenue 7 Tax Cases 289 has been incorporated in part.

Appendix

(1A) Subject to subsection (1B) below, subsection (1) above shall have effect -

(a) in relation to a claim by a person who proves that he or his wife was at any time within the year of assessment of the age of sixty-five or upwards, as if the sum specified in paragraph (a) were £3,755; and (b) in relation to a claim by a person who proves that he was at any time within the year of assessment of the age of sixty-five or upwards, as if the sum specified in paragraph (b) were £2,360.

and for the purposes of this subsection a person who would have been of the age of sixty-five or upwards within the year of assessment if he had not died in the course of it shall be treated as having been of that age within that year.

(1B) Where the claimant's total income for the year of assessment exceeds £7,600 subsection (1A) above shall not apply except in a case where the deduction to be allowed under subsection (1) above will be increased by virtue of this subsection; and in such a case shall apply as if the sums mentioned in it were reduced by two-thirds of the excess of that total income over £7,600.

Re-draft

(2) If the claimant or his wife was 65 or over at any time during the year - or would have been had death not supervened - the said sums of £2,795 and £1,785 shall be increased to £3,755 and £2,360 respectively, provided that if the claimant's total income for the year exceeds £7,600 the amount of the increase shall be reduced (or eliminated) by deducting two-thirds of such excess.

DRAFT/
TAXES ACT 1985

PART I

I N T E R P R E T A T I O N

1. Definitions

In this Act, except where the context otherwise requires -

"PAYE" means the "pay as you earn" system for deducting tax charged under Schedule E provided by section .

"tax", where neither income tax nor corporation tax is specified, means either United Kingdom income or United Kingdom corporation tax;

"total income" has the meaning given it by section .

"year" means year of assessment;

Total income

- (1) By "total income" is meant the total income of a person from all sources computed in accordance with the Income Tax Acts.
- (2) Where tax at the basic rate for a given year is deductible from any income or charge upon income, or a tax credit based on the advance corporation tax rate for a given year forms a constituent part of an item of income, the income or charge shall be treated as appertaining to that year in calculating total income regardless of the period of accrual.
- (3) In arriving at total income -
 - (a) an assessment shall be treated as final and conclusive if it is final and conclusive for income tax purposes; and
 - (b) no allowance or adjustment not previously made under the applicable provisions of the Income Tax Acts shall be taken into account whether in respect of any -
 - (i) loss or diminution of income ;
 - (ii) capital allowance under section or section (allowances given by way of discharge or repayment);
 - (iii) relief under section (deductible interest);
 - (iv) relief by reason of the operation of an election for the herd basis.
- (4) Every return of total income shall contain the information set out in Schedule 1.

PART II

INCOME TAX CHARGE AND GENERAL PROVISIONS

CHAPTER I

THE CHARGE AND DATES FOR PAYMENT

6. The charge

Where any Act provides that income tax is to be charged for any year at any rates it shall be charged in accordance with and subject to the provisions of the Income Tax Acts -

- (a) at those rates upon all property and profits or gains respectively described in the following sections of this Act;

Schedule A - Section
Schedule B - Section
Schedule C - Section
Schedule D - Section
Schedule E - Section
Schedule F - Section

- (b) at the basic rate upon all payments of the nature mentioned in section (annuities, etc.) section (mining royalties) and section (waylean rents) which he makes and which he may deduct in computing his total income

7. The charge and years of assessment

Every assessment and charge to income tax shall be made for a year commencing on the 6th April and ending on the following 5th April

8. Dates for payment

- (1) Income tax charged under Schedule D for any year on an individual or firm in respect of the profits or gains of a trade, profession or vocation shall be payable in two equal instalments, the first on or before the 1st January in that year or thirty days after the date of issue of the notice of assessment, whichever is later, and the second on or before 1st July in the following year, provided that if the date of issue of the said notice is later than the 2nd June in that year the whole of the tax shall be payable thirty days after such date.

- (2) The provisions of the Income Tax Acts relating to the recovery of income tax shall apply to an instalment of tax as they apply to the whole of the tax.

- (3) Income tax charged for any year at other than the basic rate -

- (a) on income from which tax has been deducted (otherwise than under PAYE) or is treated as having been deducted or paid; or

(b) is chargeable under Schedule F, shall be payable on or before 1st December following that year or, if later, thirty days after the date of issue of the notice of assessment.

(4) Subject as aforesaid, and to the provisions of the Income Tax Acts, income tax shall be payable on or before the 1st January in the year for which it is charged or thirty days after the date of issue of the notice of the assessment, if later.

9. Income exempt from the charge

There shall be exempt from the charge to income tax -

annuities payable under the law of the Federal German Republic or any part thereof relating to the compensation of victims of National-Socialist persecution which under any such law is specifically exempted from tax of a character similar to that of income tax;

a disabled person's vehicle maintenance grant made to the owner under paragraph 2 of Schedule 2 to the National Health Service 1977, section 46 (3) of the National Health Service (Scotland) Act 1978, or any similar enactment in Northern Ireland;

income from "savings certificates" as defined by section 71 of the Capital Gains Tax Act 1979, not being certificates purchased in excess of the amount authorised by the relevant regulations, and subject, in the case of certificates issued or treated as issued under section 15 of the Exchequer and Financial Provisions Act (Northern Ireland) 1950, (i) to the holder being resident and ordinarily resident in Northern Ireland at the time of purchase or repayment of the certificates, and (ii) to a claim being made to the Board.

income from a scholarship, exhibition, bursary or other similar educational endowment arising to a person receiving full-time instruction at an educational establishment; the Board may consult the Secretary of State for Education and Science (or the Secretary of State for Scotland or the Governor of Northern Ireland) as to whether income is as aforesaid;

interest arising on tax reserve certificates;

CHAPTER II

PERSONAL RELIEFS

11. General

- (1) The reliefs mentioned in this Chapter shall -
- (a) require the making of a claim or, in the case of section 21, compliance with its provisions;
 - (b) be subject to the modifications made by section where an election for separate assessment has been made; and
 - (c) be unavailable to non-residents except in the circumstances and to the extent set out in section 24.
- (2) No relief under this Chapter shall be given on income the tax on which the claimant is entitled to charge against any other person, or to deduct, retain or satisfy out of any payment, except in so far as the relief would exceed tax at the basic rate on that income.
- (3) In this Chapter -

"relative" includes any person who when he was under the age of sixteen was in the claimant's custody and maintained at the claimant's own expense;

"married persons allowance" means the relief given by section 12

(1) (a).

12. Personal Relief

- (1) Subject to the provisions of subsection (2) a claimant may deduct from his total income -
- (a) £2,795, if for the year of assessment he either has his wife living with him, or is wholly maintaining her but can deduct none of the maintenance payments for tax purposes; otherwise,
 - (b) £1,785.
- (2) If the claimant or his wife was 65 or over at any time during the year - or would have been had death not supervened - the said sums of £2,795 and £1,785 shall be increased to £3,755 and £2,360 respectively, provided that if the claimant's total income for the year exceeds £7,600 the amount of the increase shall be reduced (or eliminated) by deducting two-thirds of such excess.
- (3) If the claimant's total income includes earned income of his wife he may also deduct an amount equal to that income or £1,785, whichever is less, and for this purpose earned income shall not include any pension or other income or compensation for loss of office referable to his services in an office or employment, nor any benefit under the Social Security Acts - other than unemployment benefit or a Category A retirement pension (exclusive of any increase under section

10 of the Social Security Pensions Act 1975 or the Northern Ireland equivalent).

(4) If the claimant marries during the year and such marriage is not disregarded pursuant to section 16 he may claim under subsection 1 (a) if not otherwise entitled to do so, but so that the amount deductible shall be reduced by one-twelfth of £1,010 for every complete month from the 6th April in the year to the date of the marriage.

13. Housekeeper Allowance

(1) A widower who has a resident housekeeper for the year of assessment and is not entitled to relief under section 14 may deduct £100 from his total income if -

(a) the housekeeper is a relative of his or of his deceased wife, being a person who, or, as the case may be, whose husband, has not been allowed the married persons allowance and in respect of whom no other person has, and has not relinquished, a claim to relief under this Chapter; or

(b) the housekeeper is not a relative of his or of his deceased wife and no such relative is able and willing to act.

(2) A claimant shall only be eligible for one deduction under this section for a year.

(3) This section shall apply to a claim by a widow with the necessary adaptations.

14. Relief in respect of resident children

(1) A claimant with whom a qualifying child resides during the whole or part of the year may deduct £1,010 from his total income if -

(a) he is not entitled to the married persons allowance and at least part of such residence is at a time when he is not married and living with his or her spouse; or

(b) he is a man who is entitled to the said allowance and whose wife was totally incapacitated by physical or mental infirmity throughout the year.

(2) A "qualifying child" is a child who either has not reached his sixteenth birthday on 6th April in the year in question or is in receipt either of full-time training for not less than two years for a trade, profession or vocation, or full-time instruction at an educational establishment, and who is either a child of the claimant, or has not reached his eighteenth birthday on the said date and is maintained at the claimant's own expense during at least part of the year.

(3) For the purposes of subsection (2), "child of the claimant" includes a stepchild, an illegitimate child (provided the claimant has married the other parent after the child's birth), and a child adopted by the claimant before becoming eighteen.

(4) The Inspector may require the person undertaking the training to furnish particulars in such form as the Board may prescribe, and the Board may consult the Secretary of State for Education and Science, the Secretary of State in Scotland, or the Department of Education for Northern Ireland, as to whether a child is receiving full-time instruction at an educational establishment.

(5) Where two or more are entitled to relief for the same child it shall be apportioned between them as they agree or otherwise in proportion to the length of time it resided with the respective claimants in the year.

(6) Where amounts are apportioned to a claimant in respect of two or more children he may deduct the sum of those amounts subject to a maximum of £1,010.

(7) A claimant who is the only person entitled to relief in respect of one child shall not be entitled to an apportionment in respect of another child.

15. Apportionment of relief

(1) In the absence of agreement between claimants as to an apportionment under section 14 or 18, it shall be made by such body of General Commissioners for a division in which a claimant resides as the Board may direct or, if none resides in Great Britain, by the Special Commissioners, and the Board may if it thinks fit refer the claim for relief itself to such body (or to the Special Commissioners in the case of non-residents) in which event, no other body shall have jurisdiction to make the apportionment.

(2) The Commissioners making an apportionment shall proceed as on an appeal and any person who has, or apart from section 14 (7) would have, a claim shall be entitled to appear and be heard or to make written representations.

(3) Paragraph 1 of the Obsolescent Provisions Schedule shall have effect in regard to double claims for the former child relief.

16. Claim under ss. 13 or 14 for year of marriage

A person who marries during a year of assessment may by notice in writing to the Inspector elect that his marriage be disregarded for the purposes of section 13 or 14 for that year, in which event it shall also be disregarded for the purposes of section 12.

17. Widow's bereavement allowance

If a man dies in a year for which he was entitled to the married persons allowance or would have been apart from an election under section 16 or section (separate taxation of wife's earnings), his widow may deduct £1,010 from her total income for that year and, if she has not re-married by the following 6th April, for the subsequent year

as well.

18. Dependent relatives

- (1) A claimant who maintains at his own expense -
- (a) his or his wife's mother being a widow or otherwise not living with a husband; or
 - (b) any relative of his or his wife's who is too old or infirm to maintain himself;

shall be entitled to a deduction from total income for each such person who has a total income below the aggregate of £100 and what would be received in the year from a Category A retirement pension (assuming the weekly rate to consist of the basic component only), such deduction to be the lesser of £100 and the amount by which that person's income is below the said aggregate figure.

(2) Where two or more jointly maintain such a person the deduction shall be apportioned between them in proportion to the value of their respective contributions as they may agree, failing which the apportionment provisions of section 15 shall apply.

(3) Subsection (1) shall apply to a woman claimant with the necessary adaptations but with the substitution of £145 for £100 in both places except -

- (a) where she is a married woman living with her husband;
- (b) for the purposes of apportionment as provided by subsection (2).

(4) A claimant who maintains at his own expense a person whose total income does not exceed £50 and who is either his widowed mother or mother-in-law or a relative falling within the terms of subsection 1 (b) may deduct £100 from his total income instead of the amount he would be entitled to deduct under subsections (1) - (3).

(5) A claimant who pays less than £75 a year to a person not residing with him but otherwise as mentioned in subsection (1) may deduct from his total income the lesser of the amount so contributed and the statutory allowance of £100 (or £145) restricted as aforesaid and where two or more contribute less than £75 in total each shall be entitled to deduct the lesser of his contribution and his proportion of the restricted statutory allowance.

19. Dependency on the services of a son or daughter

A claimant who by reason of old age or infirmity has to depend upon the services of a son or daughter who resides with and is maintained by him may deduct £55 from his total income.

20. Relief for blind persons

(1) A claimant who, or whose wife, is registered as a blind person during any part of a year of assessment may deduct £360 from his total income or, if both are so registered, £720, provided he relinquishes

effect of bringing within the qualifying conditions for endowment policies a policy which had previously conformed thereto except as respects the amount guaranteed upon death; or

(c) its sole object was to provide on a person's death or disability a sum substantially the same as one then secured by a mortgage of his residence or business premises, being a mortgage repayable by annual or more frequent regular instalments - but so that in Scotland for "mortgage" there shall be read a heritable security within the meaning of the Conveyancing (Scotland) Act 1924 (but including one constituted by ex facie absolute disposition or assignation).

(5) The provisions of Parts II of Schedule 2 regarding the certification of qualifying policies, of Part III which deal with industrial assurance policies and premiums to friendly societies and industrial assurance companies, and of Part IV which are supplementary shall have effect.

22 Payments to secure certain deferred annuities

(1) Subject to the provisions of this and the following section and sections and (retirement annuity pensions; contributions under various Acts) a claimant is entitled to deduct from the income tax with which he is chargeable tax at the "appropriate rate" on any sums he pays or has deducted from his salary pursuant to any Act or the terms of his employment in order to secure a deferred annuity for his widow or provide for his children after his death.

(2) The appropriate rate is the basic rate of tax where the claimant's total income exceeds £2,000, three-fourths of the basic rate where it exceeds £1,000 but not £2,000, and otherwise one-half of the basic rate but not exceeding 17½%.

(3) No relief shall be given under subsection (1) in so far as the sums so paid or deducted exceed the claimant's total income as reduced by any deductions made under this Chapter.

(4) If the claimant's liability to income tax after deducting relief under this section exceeds the tax which would have been payable at the basic rate if the claimant's total income were more than £1,000 (or £2,000 as the case may be) relief under this section shall be increased by a sum equal to tax at one-fourth of the basic rate on the payment in respect of which the relief is given less tax at the basic rate on the amount by which the total income falls short of £1,000 (or £2,000).

23 Relief under section 21 and limits on relief under sections 21 and 22

(1) A resident of the United Kingdom who is entitled to relief under section 21 in respect of a premium may deduct and retain 15 per cent thereof and payment of the balance shall be accepted as payment in full.

- (2) The payee may recover from the Board the amount so deducted.
- (3) A non-resident who is a member, or the wife of a member of the armed forces of the Crown, or is a woman serving in any of the capacities (formerly) set out in section , or who falls within section 24 (1) may claim a similar relief from the Board to be provided by way of discharge or repayment of tax but subject in the last mentioned case to the provisions of section 24 (2).
- (4) The aggregate premiums and other sums in respect of which relief is given under section 21 shall not exceed £1,500 in any year, or one-sixth of the person's total income, if greater.
- (5) The aggregate relief given under sections 21 and 22 in respect of payments to secure benefits other than capital sums on death shall not exceed tax on £100, calculated at 15 per cent in the case of premiums and at the appropriate rate as defined by section 22 (2) in the case of other payments.
- (6) Such part of a premium or other payment in respect of a life insurance policy as the Inspector considers is referable to risks arising from war or war service abroad, together with any additional sums paid to cover such risks under an existing policy, shall be ignored in calculating the one-sixth and the £100 mentioned in this section.

24. Non-residents

- (1) A non-resident shall not be eligible for the said reliefs unless he satisfies the Board that he:-
- (a) is a British subject or a citizen of the Republic of Ireland; or
 - (b) is resident in the Channel Islands or the Isle of Man; or
 - (c) having previously resided in the United Kingdom resides abroad for the sake of his health or that of a member of the family who resides with him; or
 - (d) is or was, or is a widow whose late husband was, in the service of the Crown; or
 - (e) is in the service of a missionary society or a territory under Her Majesty's protection.
- (2) The said reliefs shall not reduce the non-resident's tax liability for the year below such proportion of what it would have been had the whole of his income been chargeable to tax as the income actually chargeable bears to the whole of his income.
- (3) Subject to the proviso that the non-resident's tax liability shall not be greater than if no double taxation relief were available, income eligible for such relief and also the relief itself, shall be ignored in computing for subsection (2) purposes (i) what his liability would have been on the supposition mentioned, and (ii) the amount of income actually chargeable.

(4) In subsection (3) "income eligible for double taxation relief" means income which by virtue of an Order in Council made under Section is taxed but at a rate which is reduced such reduction being otherwise than by way of credit.

PART
TAX AVOIDANCE

Sales cum dividend etc.

- (1) This section applies to stocks or securities the interest or dividends on which are at a fixed rate only and do not depend on the earnings of a company, and to any other stocks, securities or shares in relation to which an individual has effected transactions otherwise than by a transfer through a United Kingdom stock exchange on which ad valorem duty has been paid under the heading "Conveyance or Transfer on Sale" in Schedule 1 to the Stamp Act 1891.
- (2) Subject to the provisions of subsection (4), in computing an individual's total income his income from any such stocks, securities or shares may be treated as accruing, and forming part of total income, on a day-to-day basis over the period mentioned in subsection (3).
- (3) The period shall be that for which the income is stated to be payable or, if none, the shorter of twelve months preceding the date on which it was declared payable and the period to that date from the last previous declaration of a dividend - other than an interim dividend in respect of a stated period - payment of interest, or other profit in respect of the asset concerned.
- (4) The income shall not be so treated unless to do so would increase the individual's liability to tax otherwise than at the basic rate for any year by more than 10 per cent, and then only if the individual fails to establish to the Board's satisfaction that this was fortuitous and did not occur in any of the three previous years.
- (5) The Board may by notice require an individual to furnish within a stated time (not being less than twenty-eight days) particulars of any such stocks, securities or shares in which he had any beneficial interest during a specified period the income from which during the period would have been greater had it accrued from day to day.
- (6) The Board may serve further notices until the particulars given are complete to their satisfaction and, if not satisfied, may estimate the amount to be deemed part of the individual's total income hereunder.

1. In this Schedule -

(a) "Day of absence" means a day of absence from the United Kingdom; a day at the end of which a person is in the United Kingdom is not such a day.

(b) "Qualifying period" means a period which as to at least five-sixths comprises days of absence and which contains no period of more than 62 consecutive days none of which is a day of absence.

(c) A "qualifying day" in relation to an employment is a day of absence which -

(i) is substantially devoted to the performance outside the United Kingdom of the duties of that or of that and another or other employments; or

(ii) is one of at least seven consecutive days on which the person is absent from the United Kingdom in order to perform such duties as aforesaid and which (considered as a whole) are substantially devoted thereto; or

(iii) is one on which the person concerned is travelling in or for the purpose of performing such duties as aforesaid.

(d) "Deductions" are deductions to be made in charging emoluments under Case I of Schedule E for a year of assessment being emoluments eligible for relief under paragraph 5 and net of capital allowances and the deductions mentioned in paragraph 5 of Schedule 2 to the Finance Act, 1974.

(e) "Employment" includes "office".

Long absences

2. Where the duties of an employment are performed wholly or partly outside the United Kingdom in the course of a qualifying period of at least 365 days there shall be a 100% deduction from the emoluments attributable to that period or such part thereof as falls within the year of assessment. Such emoluments shall include those for a period of leave immediately following the qualifying period but not so as to change the year of assessment to which emoluments relate.

Short or intermittent absences

3. Where there are at least 30 qualifying days in the year of assessment, whether in relation to that or any other employment, there shall be a deduction of one-quarter from the emoluments attributable to duties of an employment performed wholly or partly outside the United Kingdom.

Foreign employments

4. Where the duties of an employment with a person, body of persons or partnership resident outside, and not resident in, the United Kingdom are performed wholly abroad there shall be a deduction of one-quarter.

Emoluments eligible for relief

5. (1) For the purposes of this paragraph an employment is associated with another if they are with the same person or with persons associated with each other, and persons are associated if, applying Section 302 of the Taxes Act in the case of companies, and Section 534 in the case of an individual or partnership (whether or not in relation to a company) one controls the other or both are under the control of the same person or persons so however that no individual is treated as being under another's control.

(2) Where in a year of assessment the duties of an employment ("the relevant employment") or an associated employment are not performed wholly outside the United Kingdom the emoluments of the relevant employment eligible for relief under paragraph 2 shall not exceed such proportion of the aggregate emoluments from the relevant and any associated employments as is reasonable having regard to the nature of and time devoted to the duties performed outside and in the United Kingdom respectively and to all other relevant circumstances.

(3) The emoluments eligible for relief under paragraphs 3 or 4 shall not exceed such proportion of the aggregate emoluments for the year of assessment from the relevant and associated employments as is reasonable applying the criteria mentioned in sub-paragraph (2) or, if higher, as is equal to the qualifying days in relation to the relevant employment in the year divided by the days in that year in which the relevant or an associated employment is held provided that any day which is a qualifying day in relation to more than one employment shall count as only a fraction of that day arrived at by dividing it equally between the different employments.

Supplementary

6. (1) There shall be treated as performed outside the United Kingdom -
 (a) Duties performed on a vessel or aircraft engaged on a journey or on part of a journey which begins or ends outside the United Kingdom (but excluding any part of a journey beginning and ending in the United Kingdom) and for this purpose any area designated under Section 1 (7) of the Continental Shelf Act shall be treated as part of the United Kingdom.

(b) Duties whose performance is merely incidental to the performance of United Kingdom duties where the employment is in substance one whose duties in the year fall to be performed in the United Kingdom.

(2) Section 184 (2) the Taxes Act (place of performance of offices and employments) shall not affect any question under paragraphs 1, 2 or 3 as to where duties are performed.

7. The same day may be taken into account for the purposes of paragraphs 1, 2 and 3 but not more than one deduction shall be allowed in respect of the same emoluments.

SCHEDULE 1

SECTION

RETURNS OF TOTAL INCOME

1. The amount of the profits or gains in respect of which the person in question has been, or is liable to be, assessed.
2. The amount of the rents, interest, annuities or other annual payments receivable under deduction of tax together with the amount of each payment and the name of the person by whom it is to be made.
3. The amount of any annuities or other annual payments (not being interest) to be made out of the property or property and gains assessed on the person in question distinguishing each source.
4. The net total income by reason of the foregoing.
5. Any tax which the person in question may be entitled to deduct, retain or charge against any other person.

OBSOLESCENT PROVISIONS SCHEDULE

1. The provisions of Section 15 in regard to apportionment shall apply to a dispute between claimants in regard to the child relief formerly provided by section 10 of the Taxes Act, 1970, as amended.
2. The provisions of section 21 (3) shall not affect premiums on policies taken out by teachers in schools known in 1918 as secondary schools pending the establishment of a pension scheme.



Chancellor of the Duchy of Lancaster

PRIME MINISTER

TAX REFORM - MR PETER ROWLAND

You are seeing Mr Peter Rowland on Tuesday.

1. Since the meeting you held on 14 December, I have discussed the matter with the Chancellor of the Exchequer and had a preliminary exploratory talk with Sir Lawrence Airey. The next step I gather will be for the Chancellor to produce his own survey of the field followed by a further discussion with yourself.
2. Immediately following the December meeting I wrote a Note setting out how I thought the problem should be tackled. A copy of this Note is attached. It was sent to the Chancellor of the Exchequer and First Parliamentary Counsel.
3. Conceptually there are three steps in the process of tax reform - I use the word "reform" in a wide and non-specific sense:

First	Structural Reform
Second	Improvement and simplification
Third	Consolidation

The task must be tackled in that order: it would be absurd to consolidate if one were then to tinker afterwards: and absurd to tinker if one were contemplating changing the basic structure.

4. The first step - so far as we are concerned - must therefore be the production of a survey showing the current state of play so that we can decide whether a particular tax or sector of a tax

falls into the first, second or third category set out above. This is what is now in hand.

5. So far as Mr Peter Rowland is concerned, his interest is in the second and third categories set out above - ie improvement and simplification, followed by consolidation. For budgetary reasons we cannot go too far into the first category - structural reform - with Mr Rowland and he may well disclaim any particular expertise in this field anyway. But the fact that structural reform is contemplated is public knowledge - a Green Paper has been published on the Corporation Tax, another Green Paper on the Taxation of husband and wife, consultative documents on groups and consortia, and on the stamp duties and others are in contemplation. So it would be perfectly proper if you felt it helpful to do so to tell Mr Rowland of our general approach to the whole subject of tax "reform" and indicate how the particular suggestions he has made dovetail into such a programme.
6. Looking further ahead it will be essential to draw up a proper plan of campaign if we are to achieve our objective. An integral part of this approach will be to identify the areas falling under categories two and three above. This is vital also from Quintin Hailsham's point of view because his people need to dovetail their work on consolidation with the work undertaken elsewhere on improvement and simplification. The main burden of the work on improvement and simplification will fall on the Inland Revenue and Parliamentary Counsel and we will need to provide the resources to do it. It will be essential to tackle this job in a determined and systematic manner. It is no good leaving it to people to pick up in their spare time. I would think that once we identify the areas in which we propose working and the order in which we propose working on them, it would be most valuable to enlist Mr Rowland's further help. You may feel it would help to talk to Mr Rowland on these lines.

A.C.

A C

13 January 1984



Chancellor of the Duchy of Lancaster

THE TAXATION STUDY: THE APPROACH TO THE PROBLEM

1. The study is broadening out to cover the whole of the Inland Revenue field, not just the income tax field in which Mr Rowland was interested.
2. In these circumstances it is essential to draw up a plan for a systematic approach.

The first thing is to divide the field up into a number of relatively self-contained sectors. Each tax - income tax, corporation tax, capital gains tax and so on - will constitute a sector. But many of these can no doubt be sub-divided further into sections which could be studied separately.

3. The action which can be taken would fall under the broad headings -
 - (1) Structural reform
 - (2) Improvement or simplification falling short of structural reform
 - (3) Consolidation.

Structural Reform

4. The first question which needs to be asked is whether we can dispense with the tax altogether. The development land tax is an obvious example. The capital transfer tax is another candidate - if we could only find the money - although in real terms capital transfer tax is yielding less and less as the years go by.

5. Short of abolition, is there any sector of the tax which could be cut out altogether? An example here is the stock relief which with the demise of inflation becomes unnecessary and unjustified.
6. Additionally plans are already afoot to restructure some of the taxes. Corporation Tax is an example. Where this is so, the obvious need is to press ahead with this: the process of "improvement" and "consolidation" taking place simultaneously.

Improvement and simplification

7. This lay at the heart of Mr Rowland's approach. Here what we need to do is to work through each tax or section of a tax as it is selected for study to see what improvements and what measures of simplification are possible. The removal of "anomalies" is part of this process. This is likely to be the most time-consuming part of the whole exercise. This could also overlap the "excision" exercise suggested in paragraph 5 above.
8. One point we need to recognise is that the more obvious simplifications will be at the taxpayer's expense. The simple but unfortunate truth is that the barnacles which increasingly encrust the tax consist of reliefs introduced to meet the demands of this or that pressure group. If the tax is being reduced this may provide an opportunity of getting rid of them. So does major restructuring.

Consolidation

9. Logically this is the last step in the chain. In Parliamentary terms it is the simplest. It is impossible to generalize. Sometimes "improvement" and "consolidation" can be combined - at least when one is dealing with sections of taxes rather than complete taxes. In other instances the right course would be to make the changes in the Finance Bill first: and then consolidate separately afterwards.
10. Perhaps the first step of all would be to have a Note from the Inland Revenue setting out the present "state of play".

COCKFIELD

20 December 1983