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Treasury Chambers, Parliament Street, SW1P 3AG  
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11 May 1984

The Rt. Hon. Michael Jopling MP  
 Minister of Agriculture, Fisheries and Food

*John Michael*

**COMPETITION POLICY: TAXATION ASPECTS**

You wrote to me on 24 April, raising a number of questions about taxation policy.

On the extension of the VAT base, I appreciate the force of the points you make.

You also mention your concern that the abolition of stock relief in the Budget could damage the competitive position of the Scotch whisky industry. But I would stress the need to view my corporate tax reform package as a whole and on this basis it has been generally welcomed by industry and by the main representative bodies. Against the loss of stock relief we should therefore set other measures like the reduction in the rate of corporation tax to 35 per cent by 1986-87. The Scotch Whisky Association did not mention this in their memorandum but it was made possible only by the abolition of stock relief and the changes in capital allowances.

Nevertheless, you may like to know that my officials have arranged to see representatives of the Scotch Whisky Association shortly and I understand that someone from your department will be coming too. I can assure you that they will listen very carefully to what the industry have to say and I have asked them to give me a full report. But I must point out that the whisky industry is not alone in having to finance maturing stocks over an extended period. I did, as you know, take the problems facing the whisky industry into account in my duty decisions in the Budget and I think it is also fair to remind the industry of the action Geoffrey Howe took last year on duty deferment.

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 You also express some concern about the effect on agriculture of the phasing out of the first year allowance. I do not think any of us would want to maintain a system under which investment projects with extremely low, or even negative, pre-tax rates of return simply because of an excessive tax subsidy. I recognise, of course, that farmers who have not incorporated their businesses will not benefit directly from the reductions in the rates of corporation tax. They will, however, benefit from other changes such as the substantial increase in the income tax thresholds, the abolition of the National Insurance Surcharge and



Investment Income Surcharge and the capital taxation changes. Moreover, the possibility of incorporation is open to any farmers who consider that, in their own circumstances, the balance of advantage between corporate and unincorporated status has swung sufficiently following the Budget to justify the costs of a change.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

NIGEL LAWSON

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