

CF  
For the Chancellor  
only on Tues/Wed 14/15  
MCS 10/12



Prime Minister

Agree to discuss with

Treasury Chambers, Parliament Street, SW1P 3AG the chancellor  
01-233 3000

- at the next weekly

PRIME MINISTER

Yes  
not

meeting?

MCS 9/12

LIFE ASSURANCE PREMIUM RELIEF

William Rickett wrote to Jill Rutter on 24 November asking for a draft reply to the letter Bob McCrindle sent you on 22 November. Replying to his letter seems to me to raise two important issues of principle.

2. First, on substance. Ferdie Mount has recently been drawing attention to a number of our fundamental objectives in this area. At last week's meeting of the Family Policy Group we were clearly confronted with the huge cost of making any significant progress on tax thresholds. Yet that is only one of our objectives. We want to see a fall in the proportion of shares and other investments held by anonymous - often inefficient - investing institutions. We want instead to promote the wider spread of individual share ownership in all sections of the population. We want to create a greater sense of personal identification with the wealth-creating private sector.

3. With the help of Treasury colleagues, I have therefore been looking at all the possible long term tax reforms which would favour developments of this sort. One possible component of reform might be the phasing out of life assurance premium relief. For its effect is certainly contrary to our objectives. Its nominal cost is already some £600 million a year. And that figure is growing, on the basis of the present life assurance premium relief, by up to £70 million a year (By coincidence, that is about half the revenue cost of a one per cent increase across the board on tax thresholds.)



4. Phasing out life assurance relief is, of course, at this stage, no more than one possible candidate for inclusion in a possible package. Like everything else, as I fully appreciate, it raises its own political problems. That is why any change could only be considered as part of a wider package. But if we are ever to be able to construct such a thing, we must take care not to "give away" or concede in advance every possible revenue-increasing item for a package, the overall effect of which might be revenue-neutral or revenue-reducing.

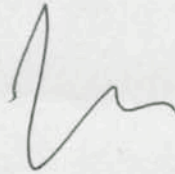
5. This means that I would not want now entirely to rule out abolition of life assurance premium relief, particularly in relation to what we might do after an election. At the same time, there should be no hint of such a move in the reply to Bob McCrindle. It would upset investors and insurance companies in a most unhelpful way.

6. This leads me to my second point - the general stance we should take in replying to letters of this sort. It was clearly quite right to squash the alarm created so mischievously by the Daily Express on mortgage interest relief. But I think we need to avoid going further down this road by establishing a principle that we do not give long term "blocking" pledges of this sort. Without this backbenchers will be encouraged by pressure groups to seek more and more commitments of the same kind. This would increasingly box us in when we are looking at policy options and restrict our freedom of manoeuvre. At the moment the sort of commitments being sought may seem individually to be fairly unexceptional, but if we show a readiness to respond the demands will inevitably escalate.

7. Bob McCrindle's letter provides an excellent opportunity to establish such a principle.



... 8. Perhaps I might have a word with you about this. In the  
meantime I attach a draft reply to McCrindle.



G.H.

8 December 1982