INSTITUTE OF DIRECTORS

PA Econ. Pol (1)

Director General
Walter Goldsmith

BY HAND

Told them no

Prime Minister

I am told they also want to press you to increase the £25,000 mortgage interest relief ceiling. *

Agree to see them?

No - they must go to the Chancellor, not

MCS 2/3

Michael Scholar Esq
Private Secretary to the Prime Minister
10 Downing Street
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2nd March 1983

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* perhaps now there is no point!

MCS 2/3

Dear Michael,

As we discussed on the telephone this morning, the Institute of Directors and The Retail Consortium would very much welcome the opportunity to see the Prime Minister in advance of this year's Budget.

The case which they would hope to have the opportunity to present is for significant increases in personal tax thresholds and allowences, which in the view of both organisations would help both industry and the retail sector. Industrialists are eager to see tax cuts of this type both to strengthen the UK home market and ease pressure on wage demands. Retailers are concerned that tax cuts are vital to boost retail demand which had fallen significantly after the encouraging rise resulting from lower interest rates and the abolition of higher purchase controls.

The proposed members of the delegation are Lord Taylor of Hadfield, Ronald Halstead and Sir Lawrence Barratt from the Institute's side, and Colin Patterson, Chairman of the Retail Consortium, Michael Sacher of Marks & Spencer and Leslie Porter of Tesco from the retailers together with Walter Goldsmith from this institute and Bob Lloyd-Jones, Director General of the The Retail Consortium.

We very much hope that the Prime Minister's diary might allow her to see this delegation, with its message which we hope she would find helpful. I should be very glad to hear from you whether this might be possible.

Yours sincerely,

Graham Mather

Graham Mather
Head of Policy Unit

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10 DOWNING STREET

From the Principal Private Secretary

8 February 1983

Dear John,

I am sorry not to have written to you before to congratulate you on your new appointment. I can now do so, having read the CBI's Budget Representations, which you sent to me with your letter of 26 January. I do not expect that you were able to have much to do with this set of representations, but you clearly have a high tradition to maintain, and I am sure that you will do so.

It would be useful if we could be in touch nearer the time about any ideas you have of ground which might be covered in the Prime Minister's April speech to the CBI. Perhaps we might have lunch together ?

Yours ever,

Robin Butler

J T Caff Esq.

AH

Econ Pol

Prime Minister

MS 23/2

ENGINEERING INDUSTRIES ASSOCIATION

MS

REPRESENTATIONS
TO THE
CHANCELLOR OF THE EXCHEQUER

BUDGET 1983

FEBRUARY 1983

ENGINEERING INDUSTRIES ASSOCIATION

REPRESENTATIONS TO THE CHANCELLOR OF THE EXCHEQUER

BUDGET 1983

1. INTRODUCTION

Consideration of the Green Paper on Corporation Tax is now well into the stage when thoughts must be in the chrysalis form before translation into action. There is even more need to simplify the tax system as a whole, and the Association feels that now is the time to look at the whole structure of taxation. The present system has grown up from the last effort at consolidation in the Income and Corporation Taxes Act 1970, which over the years is rapidly approaching a point of complexity which is as unnecessary as it is incomprehensible.

The keynote is simplicity, with a corresponding restraining hand on the Inland Revenue practice of weaving the most simple language into the most complicated web of anti-avoidance devices. For example, the Association has had the benefit of talks with members of the Department of Industry who have been most helpful throughout the year, as in previous years - leading to assurances that one scheme in particular, the Business Start-up Scheme, was straightforward as far as the tax rules go. Yet as late as December 1982 a Member of Parliament MP Nicholas Baker is on record as saying that he would certainly like to see the rules eased up more. Other vital needs in the tax system must be (or remain)

- to aim for the stimulation of British Industry production for both home and export markets. Adequate investment/reinvestment in plant is vital to this aim, and this takes cash which is in short - or negative - supply to the small firm in particular.
- the introduction of a profits plough-back scheme as suggested in paragraph 5.2 of our 1982 Representations where we noted comments from the Report of the Select Committee on Corporation Tax and pointed out that other countries, in particular Japan, Germany, France and the United States have built into their economies an adequate plough-back of profits for investment in new competitive plant and machinery. British Industry must have a similar facility if it is to survive against the onslaught of cheaper foreign imports.
- the acceptance that there should be some form of POSITIVE incentive through the tax system of allowances to encourage the purchase of British made goods, in particular plant and vehicles.

2. SMALL ENGINEERING FIRMS INVESTMENT SCHEME (SEFIS)

The introduction of SEFIS following the Association's representations on the Budget 1982 was most welcome. A sure sign of its popularity and need was the speed with which the scheme was taken up, closing after only two months of its inception. We are, however, concerned that there is apparently no intention to renew this scheme. The Secretary of State for Industry, Mr Patrick Jenkin, was kind enough to spare the time to attend the last Council meeting of the EIA on 9 December 1982.

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He accepted that SEFIS had been popular and it had achieved its aim but he made no promises about future schemes such as SEFIS.

Mr John Bolton, President of the Association, pointed out that billions of pounds were to be spent on supporting people but much needed aid such as SEFIS was measured in millions only, despite the fact that capital investment would create sources of much-needed new cash inflow. No only would this be an investment in the revival of British Industry but would foster the creation of real jobs and help put this country back on a competitive basis.

The Government has certainly introduced a number of successful schemes designed to help the small company during its term of office, yet EIA membership has again fallen drastically since the last budget. In 1981 the Association lost five times the number of member firms (representing 50,000 employees) over the previous year. In 1982 we have lost a further 493 member firms representing a further 30,000 employees. Can this go on much longer and remain compatible with Government's oft-repeated acknowledgment of the vital role of the small firm in British Industry?

The Association repeats its urgent message that more investment help is needed, and quickly, if we are to survive, and our members not to join the statistics of 'the billions of pounds spent on supporting people and not jobs'.

Surely a scheme such as SEFIS is a must towards the reversal of this downward trend.

3. THE LOAN GUARANTEE SCHEME

The President, Mr John Bolton, raised the subject of the Loan Guarantee Scheme with Mr Jenkin, particularly in view of lower interest rates . This too, has been a successful scheme, and we are glad to learn that it is to continue. One bank's contribution to the scheme had created 5,500 jobs, and 8,000 businesses had received loans totalling £250 million; 44% of these in the engineering sector.

Mr MacGregor has followed up his statement in the House on European Community loans for small businesses with the signing of an agreement with ICFC for loans at attractive rates of interest to small and medium-sized companies in Britain, ranging from £15,000 to £250,000. The interest charge of 11½% at present includes a charge for exchange risk cover.

The Association welcomes this move. Many firms in EIA have invested heavily in expansion, putting up new buildings and buying new machines for increased production and efficiency, only to face crippling interest charges. The drop in the original Loan Guarantee Scheme is a help here but members have asked us "Would it not be sound planning to create a special funding for small companies to borrow at a low rate (5% was mentioned) with a term of repayment on the lines of a proper mortgage, with the usual mortgage securities?".

This proposal does have its attractions, and would be a major step in the right direction in implementing our proposals last year under the heading 'Investment Grants in Industry' and 'Small Companies.'

Cash flow would be eased with a lower interest rate, and the scheme could go one stage further to ensure a plough-back of profits that, as an overall package, should go far to reverse the present dismal downward spiral of efficiency and competitiveness into the first signs of a breakthrough into an upwards spiral.

4. IMPORT SUBSTITUTION

last year the Association made a strong case for a move towards import substitution and correlating creation/preservation of jobs.

The Economic Progress Report for December 1982 tells us that imports of manufactures have grown three times as fast as exports, and that 'part of the rise in import penetration in manufacturing in recent years can be attributed to the loss of competitiveness since 1979.' It is this loss of competitiveness that MUST be halted and reversed if many more British firms are to be saved from going under.

The creation of jobs is important, and the recent television programme on the Japanese setting up a 'Video in the UK' plant carried with it the creation of new jobs in Telford. However, the question was asked, and is one that we all must be asking every day, "is this a genuine attempt to set up in the UK instead of exporting from Japan, or is it a token to head off mounting Japanese imports into UK? More new jobs could be created in Telford and multiplied all over the country by more energetic and rewarding schemes like SEFIS and the Loan Guarantee Scheme.

Government must be aware that this is so!

5. VALUE ADDED TAX

VAT itself is now the most complicated (indeed the most unnecessarily complicated) of any single tax. In last year's Budget Representation we urged that the time has come for the codification and simplification of VAT, and we repeat this plea.

Other urgent changes needed are:

- VAT should not be chargeable between registered traders. A great deal of unnecessary work and expense could be cut out by this change.

- There should be a much higher minimum turnover level for compulsory registration for VAT. Last year we suggested £100,000 - even this low figure entails a turnover of less than £2,000 a week and would relieve only the smallest of small firms and traders.

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- VAT relief for bad debts needs to be extended from its present very limited base. The accountancy profession has made detailed submissions on this need, and we suggest that this relief could be policed by the accountancy profession in the same way that bad debts are handled for corporation tax purposes.

6. ENERGY COSTS

The members of EIA express their real concern about the high energy costs in this country. These energy costs, as you are aware, do greatly affect the price of materials and very obviously over the last few years have assisted particularly this country's competitors, it being found that machined items could be imported cheaper than the actual material can be bought in this country.

We are not suggesting that there should be a Government subsidy on energy but are expressly critical of the "hidden taxation on industry" created by national government policy that nationalised industries must charge to create prices well above an economic price and reasonable profit as illustrated by the high profits published by the gas industry. The Government's policy of fixing monopolistic prices rather than leaving the nationalised industries to fix their prices according to market forces and normal commercial practice are greatly detrimental to our industry.

7. MISCELLANEOUS

We repeat our assertions that:

- the investment income surcharge is a positive disincentive to investment and should be abolished.

- the national insurance contributions are a burden to the smaller employers in particular, and even the 'limited increase' to employers is an added burden.

- the cost of administering Stamp duty is out of all proportion to the income derived, and should be abolished.

- we note that the 'petrol and other fuel benefits' charged to directors and higher paid employees as from 6 April 1983 have no provision for tapering relief. It seems to be unnecessarily harsh that if petrol or other fuel is provided for private motoring and this is not refunded by the employee entirely, then the full scale benefit will apply. Is it really Government's intention that a 'partial refund' (even of 99%) will NOT affect the imposition of the <u>full</u> scale benefit?.

WTW/jv/18283.