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PS / Secretary of State for Trade and Industry

*4* June 1984

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Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
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G/L.

*Please type note + 2 and  
return to me.*

*AD 4/6.*

*Dear Andrew,*

US PROPOSALS TO LIMIT TAX BENEFITS ON LUXURY CARS

...

As requested in your letter of 4 June, I enclose a note which might be handed over to one of the White House staff in the margins of tomorrow's bilateral discussions with President Reagan on the above subject.

2 I am sending a copy of this letter and enclosure to Peter Ricketts at the Foreign Office and David Peretz at the Treasury.

*Yours ever,  
Ruth*

RUTH THOMPSON  
Private Secretary

Encl



AIDE MEMOIRE

HMG are greatly concerned at legislative proposals now before Congress to limit the tax benefits on passenger cars used for business. The provisions of a bill adopted by the House of Representatives would set the limit at \$21,000; under a similar bill adopted by the Senate the limit would be set at \$15,000.

Whether or not these provisions are protectionist in intent, it is quite certain that they would be discriminatory in effect. Almost all cars costing over \$21,000 are imported. Most such cars are exported to the United States from the United Kingdom and the FRG. Even the lower limit of \$15,000 exceeds the average retail price of a US car. It follows that, in either case, the greater potential loss of tax benefits would bear more heavily upon imported cars.

HMG understand that the US Treasury Department has opposed the provisions on grounds of tax policy, preferring stricter rules for personal use of business assets generally, which, in addition, would be free of objection on grounds of discrimination.

HMG would welcome advice on the steps which the US Administration proposes to take to secure amendments to the bills to remove their discriminatory provisions.

USA : Econ<sup>c</sup> Sit.