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10 DOWNING STREET

From the Private Secretary

4 June 1984

Dear Ruth,

US Proposal to Limit Tax Benefits on Company
Cars

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The Prime Minister has seen your letter to me of 1 June. She agrees that she should register her concern over this issue with the President but doubts whether, in the time available, it will be possible to raise this orally at the bilateral. She has agreed, however, that if a suitable note is prepared, it could be handed to the President's staff. I would be grateful if you could send us the text of such a note. The letters to Sir Austin Bide and Mr. Plastow have been sent, more or less as drafted by your Department.

I am copying this letter to David Peretz (HM Treasury) and Peter Ricketts (Foreign and Commonwealth Office).

Your sincerely
Andrew Turnbull

Andrew Turnbull

Miss Ruth Thompson
Department of Trade and Industry.

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Secretary of State for Trade and Industry

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4 June 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
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G/L.
*Please type note + 2 and
return to me.*
AA 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 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.

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cc: DTI
FCO
HMT

10 DOWNING STREET

THE PRIME MINISTER

4 June, 1984

Dear Mr. Plastow,

Thank you for your letter of 23 May about the effect that tax proposals now before the US Congress could have upon sales of Rolls Royce cars in the United States. I can well understand your concern.

We must of course be cautious in making representations to other Governments about matters of domestic taxation; and limits on tax benefits allowable on company cars are not exclusive to the USA. But we have every right to express objection to taxation proposals which would clearly discriminate against imported vehicles.

Both Norman Tebbit and Paul Channon have raised the issue with the US Administration in recent weeks; and we have of course supported other representations by the European Community. I hope, also, to have an opportunity to express these concerns during the London Summit next week.

Yours sincerely
Margaret Thatcher

D.A.S. Plastow, Esq.

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10 DOWNING STREET

THE PRIME MINISTER

4 June, 1984

Dear Sir Austin

Thank you for your letter of 24 May.

I well understand your concern about the impact the tax proposals now before Congress could have upon sales of Jaguar cars to the United States.

We must of course take care in making representations to other Governments about matters of domestic taxation; and limits on the tax benefits allowable on company cars are not exclusive to the USA. But there does seem to be at least a measure of protectionist feeling behind these proposals and we have every right to express objection to measures which would discriminate against imported vehicles.

The US Administration can have little doubt about HMG's views on the proposals. Both Norman Tebbit and Paul Channon have expressed our concern in recent weeks. I hope, also, to have an opportunity to reiterate this during the London Summit next week.

Yours sincerely
Margaret Thatcher

Sir Austin Bide

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cc: DTI
FCO
HMT

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PRIME MINISTER

cc Mr. Owen

US Proposals to Limit Tax Benefits on Company Cars

Mr. Plastow (Rolls Royce) and Sir Austin Bide (BL/Jaguar) have both written urging you to intervene with President Reagan about the tax proposals now before the US Congress. In the attached letter from DTI it is recommended that you should not send a message but should raise the matter in bilateral discussions with the President next week. I suspect that this item, though important for the companies, may not come high enough in your priorities to be raised orally during the discussions. Furthermore, if there is no notetaker it is not clear how far raising it orally will produce the desired result.

An alternative, hinted at in the letter, is that your interest should be made known to White House staff by handing them a note and making it clear that we expect a reply.

There are good reasons for not being too heavy handed:

- (i) This is not our highest priority in discussions with the US Administration and Congress on taxation. Both unitary taxation and the impact of Federal Excise Tax on insurance are more important.
- (ii) We should be encouraging the US Administration to raise more revenue by cutting down on unnecessarily generous allowances. Our interest is to see that this is done in a way which is not discriminatory.
- (iii) The taxation of car benefits as it relates to employees is similar in the US and the UK. The difference relates to the costs allowable to the company which are much more generous in the US.

/ Nevertheless,

Nevertheless, to keep faith with Jaguar and Rolls Royce we need to ensure that the legislation is not discriminatory.

Agree -

- (i) that a note be handed to President Reagan's staff with a request for a reply? *Yes not*

- (ii) you write to Sir Austin Bide and Mr. Plastow as drafted?

HT

1 June 1984



CC/NO

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Secretary of State for Trade and Industry

1 June 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Andrew,

US PROPOSALS TO LIMIT TAX BENEFITS ON COMPANY CARS

Thank you for your letters of 24 and 29 May.

2 The letters from Mr Plastow (Rolls Royce) and Sir Austin Bide (BL/Jaguar) urge the Prime Minister to intervene with President Reagan about tax proposals now before the US Congress. The proposals, which form part of a 1600-page Deficit Reduction Bill, would put a ceiling on the tax benefits allowable on the purchase and use for business purposes of cars. The House of Representatives has proposed a ceiling of \$21,000; the Senate a figure of \$15,000. A compromise will be sought in a House/Senate Conference early in June.

3 Rolls Royce and Jaguar are concerned at the adverse impact that a ceiling - which effectively discriminates against imported luxury cars - could have upon their US sales. A ceiling of \$21,000 would be particularly discriminatory since nine out of ten cars affected would be imports. Mercedes have been prominent in public lobbying against the proposals; and, earlier this month, Chancellor Kohl telephoned President Reagan on the issue.

4 For the UK, both my Secretary of State and the Minister for Trade have made representations at a high level in the US Administration. My Secretary of State put our point of view very clearly to Commerce Secretary Baldrige on 21 May. The European Community has expressed concern both to the US Administration and to members of Congress who are looking at the proposals, and we have associated ourselves with their representations.

5 The US Administration have made clear that they understand our concern and do not themselves favour the tax proposals. But the initiative now lies with Congress, and the influence of the Administration on the progress of the proposals is limited. There are also other bilateral issues (including at least one in the

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Deficit Reduction Bill itself) with the US where the implications for the UK could be even more serious. For these reasons, we would not recommend a formal message from the Prime Minister to President Reagan on the issue of tax benefits on luxury cars. In view of the importance of the matter to Rolls Royce and Jaguar, however, my Secretary of State believes the Prime Minister should seek an opportunity to raise the matter in bilateral discussions with the President during his visit to London next week. Suitable material has already been provided for inclusion in the bilateral briefing which the FCO is putting together. My Secretary of State has suggested that the Prime Minister should make sure the President's staff register her interest, and know that we expect an answer on the point.

6 Suggested replies to Mr Plastow and Sir Austin Bide accompany this letter.

7 I am copying this letter to David Peretz (HM Treasury) and Peter Ricketts (FCO). I understand that the Treasury will be advising separately on the current tax position in the UK and the US.

Yours ever,

RUTH THOMPSON
Private Secretary