

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

i) Social Security Reviews

The Prime Minister will no doubt want to talk about the issues raised in his minute (Flag A).

- On what basis should SERPS be abolished? You will want to impress upon him your strongly held view that there must be a compulsory replacement.
- If there is a compulsory replacement, should enactment of abolition of SERPS and its implementation straddle the Election? What are the politics of this?
- How can the economic consequences of a large rise in compulsory savings be handled?

The objective is to bring this back to Cabinet next Thursday. DHSS and the Treasury are seeking to agree figures and set out the choices. They hope to complete this by close on Friday so that there can be a discussion of a small group before Cabinet early next week. I suggest inviting the Lord President, the Chancellor, the Secretary of State for Social Services, the Secretary of State for Trade and Industry and the Chief Whip.

Done ✓

ii) Late Payment of VAT

You expressed concern about this. The attached note (Flag B) sets out the issues. Not only did the Chancellor announce this in the Budget but there has been very extensive consultation which has led to modification of the original proposals.

iii) Tax Treatment of Donations to Charities

Sir Emmanuel Kaye has been pressing for changes to the tax rules under which a close company's covenanted payments to charity are apportioned to the company's shareholders. This particular case is now subject to judicial review and is therefore sub judice. The Chancellor argues against making any changes to the rules at present. (Flag C).

iv) Tax Treatment of the Arts and Heritage

Lord Gowrie raised this with you. He has now agreed with the Chief Secretary that there should be a review of the arrangements for acceptance in lieu of capital transfer tax. In return Lord Gowrie has agreed not to press for any further taxation changes for the heritage. (Flag D).

v) National Insurance Contributions

The Chancellor has produced a note (Flag E) explaining the new basis for NICs. He argues that constituting NICs on a threshold basis would be too expensive (paragraph 13) and marginal relief would be too complicated. He also argues that the new system gives substantial benefits to the lower paid (paragraphs 9 - 12), while the three separate steps are an improvement on the one big step (paragraphs 3 - 7).

Mr. King has also provided a note (Flag F) which indicates that there are a substantial number of employees with earnings close to the lower earnings limit. The data suggests some bunching just below the limit and a fall-off in numbers just above. This and other evidence points to some modest distortion of employment patterns by the limit.

vi) Local Government Finance

The Chancellor may express caution about promising too much too soon from the Review of Local Government Finance. In particular he may express doubts about whether the poll tax will stay the course.

vii) Washington Meetings

The Chancellor can report on the outcome of the meetings last week and their implications for next week's Economic Summit.

(viii) Priny Councilorship for Treasury Ministers
You may wish to explain your decision to be Chancellor.

AT

Andrew Turnbull

24 April 1985