

CCP/GT

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Malcolm Rifkind QC MP  
 Secretary of State for Scotland  
 Scottish Office  
 Dover House  
 Whitehall  
 London  
 SW1

NBRN

Dear Secretary of State,

20 June 1986

*attached*

**E(LF)86(1) OPERATION OF THE COMMUNITY CHARGE:  
 TIED HOUSES**

There is one point that I was only able to mention briefly at our meeting of E(LF) yesterday morning, and on which I said I would contact you directly, in relation to paras 58 - 60 of the paper.

As explained there, where an employer provides his employee with accommodation and pays the rates these are normally a taxable benefit, liable to income tax in the hands of the employee just like his other remuneration. But there are some special exceptions to this, including certain cases where the employee is required by his employer to live in tied accommodation, and the question raised by E(LF)86(1) was whether this special treatment in respect of rates should carry over in comparable cases where the employer in future pays the community charge. As the paper noted, this is ultimately a question for the Chancellor to decide in the context of his overall responsibility for income tax.

Though at first blush the suggestion of special treatment might not seem unreasonable, there are strong tax policy arguments against it, since the community charge will be something quite different from rates.

The present special exemption from income tax on the benefit in the case of rates had been justified mainly on grounds of the need to protect employees who are required for the better performance of their duties to live on premises provided by their employer, and who might consequently be obliged to live in higher rated property than they themselves would otherwise have chosen. By definition, however, the community charge will be a "personal" liability, unrelated to the property, and these grounds for special treatment will cease to exist. I can see no justification for allowing certain groups favourable treatment for no other reason than that they got this in the past in respect of rates. It

CONFIDENTIAL

CONFIDENTIAL

would be unfair to those who did not benefit. And to exempt a small number of people on these grounds would undermine the accountability arguments for the community charge.

There is another worry, to do with setting awkward precedents. In the case of rates it is possible (just about) to hold the line at exemption for some employees, but not others. It would be that much more difficult to do this in the case of the community charge precisely because the charge will be more obviously a "personal" liability, unrelated either to the property or to any requirement of the employment. (The connection with the requirements of the employment would be all the more remote if relief extended to payment by the employer of the charge in respect of some or all members of the employee's household). If, therefore, employees were to be exempted in respect of one such obviously "personal" kind of liability, where this is met by his employer, the pressure would be that much greater - and that much more difficult to resist - similarly to exempt the benefit in all kinds of other situations where an employer might meet the pecuniary liability of his employee (e.g. paying his personal telephone bill). I therefore think we must reject this particular option.

An alternative - mentioned in the paper - might be to exempt the individuals concerned from the community charge itself in these cases. However, this would not be consistent with the need to keep the number of exemptions to the absolute minimum. I believe that the right way forward is to follow the logic of the community charge, as a personal tax, and to allow no relief to the individuals concerned in these cases.

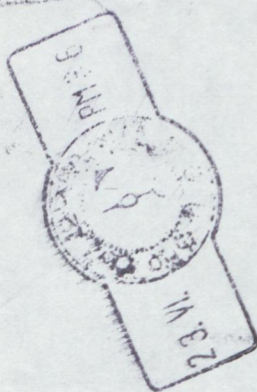
I am copying this letter to members of E(LF) and to Sir Robert Armstrong.

Yours sincerely,

John Luther

pp JOHN MacGREGOR

(Seen and approved by the  
Chief Secretary and signed in  
his absence)



CONFIDENTIAL

CBG



SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Llinell Union)

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)

*Oddi wrth Ysgrifennydd Gwladol Cymru*

The Rt Hon Nicholas Edwards MP

*From The Secretary of State for Wales*

9 July 1986

CONFIDENTIAL

NBPN

**E(LF)86(1): OPERATION OF THE COMMUNITY CHARGE: TIED HOUSES**

You copied to me your letter of 20 June to Malcolm Rifkind.

The philosophy of the Green Paper is that the community charge should apply to as many people as possible. Living in tied accommodation does not seem to me adequate grounds for a dispensation. I, therefore, agree with you that such tenants should be liable to pay the community charge.

Whether or not they should still receive some tax concession seems less clear cut. The present relief applies to the whole rates bill. It is, therefore, something rather more generous than just an acknowledgement of the above average costs arising from living in a particular property. It could be argued that this is as justified under the personal community charge as it was under the property-based rates. Moreover, there will still be additional costs arising from moves between areas - the clergyman who is transferred from rural Wales to London for example.

Perhaps the best approach would be to assume for the present there will not be any tax exemption but to leave open the possibility of reviewing this if the employers involved and/or their employees put forward a sufficiently strong case during consultation. Part of that case would, of course, involve demonstrating how the line could be held at exemptions from community charge for the existing beneficiaries and their spouses without spilling over to other people or other personal bills.

/ I am copying this letter to members of E(LF) and to Sir Robert Armstrong.

The Rt Hon John MacGregor OBE MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

Rating of Local Gov

A4

