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CONFIDENTIAL

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John Whittingdale Esq
Political Secretary
10 Downing Street
LONDON SW1

Dear John

I attach a summary of those of the Government's tax reform measures which have had a bearing on farming.

Part I lists measures of specific concern to smaller farmers.

Part II lists measures of a more general nature.

I have not sought to brief on this year's forestry reforms, but will do so if you would like a Treasury angle on the subject.

P J Cropper

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I MEASURES FOR SMALL FARMERS - SPECIFIC

(The dates refer to the Budget in which the measure was introduced.)

INHERITANCE TAX

1. Agricultural Relief for let land introduced at 20% (1981) and increased to 30% (1983).
2. Instalment Relief: period over which tax on agricultural assets can be paid without incurring interest extended from 8 to 10 years (1983).
3. Scottish Farming Tenancies (1981): this removed the possibility in most cases of a charge on the value of Scottish farming tenancies: put them on the same basis as tenancies in England and Wales.

CAPITAL GAINS TAX

4. Milk and potato quotas (1988): rollover relief - deferral of tax charge where proceeds from disposal of certain assets used to acquire other assets - extended (1988) to milk quotas and potato quotas. Particularly useful for farmers wishing to move to a larger farm or to diversify.
5. Extension of Relief for Small Part-disposals (1986). Relief allows trader to sell a small portion of land without facing immediate tax charge. Extended (1986) - specifically with farmers in mind - to cover sales where value of land sold not more than 20% of total holding or £20,000.

INCOME TAX

6. Herd Basis Election (1984): fresh opportunity given to farmers to elect for special tax treatment for livestock kept for breeding purposes. Enables livestock to be sold without incurring income tax charge.

7. Furnished Holiday Lettings (1984): allows landlords of furnished holiday lettings to claim deductions available to traders. Helps farmers who wish to diversify into providing holiday accommodation.

II GENERAL MEASURES

1. INHERITANCE TAX

- immediate charges on lifetime gifts abolished (1986): enables farmers and others to handover businesses to next generation completely free of tax.
- threshold raised from £25,000 to £110,000.
- rates of tax reduced successively to new single rate of 40%.
- even for transfers on or within 7 years of death, effective rate of tax on most businesses less than 20%: one of the lowest rates in major western countries.

2. CAPITAL GAINS TAX

- holdover relief (1986) enables farm land and other assets to be gifted from one generation to the next without charge (charge deferred until donee disposes of asset).
- extension of retirement relief (1984, 1985, 1987 and 1988).
- indexation (1982 and 1985) and rebasing (1988): combined effect means that only real, post-1982 gains are now taxable.

3. INCOME TAX

- basic rate reduced from 33% to 25%; all upper rates abolished except 40%.
- 50% relief on Class 4 National Insurance Contributions paid by self-employed (1984).

- relief for business expenditure incurred before a business begins to trade (1980, extended into 1982).
- relief for contributions by business to approved Local Enterprise Agencies.

4. CORPORATION TAX

- small companies Corporation Tax applicable to farming businesses carried on with incorporation reduced progressively from 42% to 25%.

STATISTICS DIVISION

FROM: R J EASON
DATE: 10 MAY 1988

West Wing Somerset House

cc. PS/Chancellor
PS/FST
Mr Ford HMT
Mr Tyrie HMT
Mr Calder
Mr Mace
Miss White
PS/IRMISS SIMPSON
HM TREASURY

TAX PAYMENTS - SCOTLAND

Number 10 have asked for estimates of tax payments by the average Scotsman under 1979 levels of taxation.


Based on the regional analysis of the 1987 New Earnings Survey, we estimate that average male earnings in Scotland in 1988-89 are £234.40 per week compared with £244.70 for GB as a whole. (The New Earnings Survey does not include Northern Ireland.)

The income tax and NIC positions for the proposed 1988-89 tax regimes and the 1978-79 tax regime indexed to 1988-89 are as follows.

	Scotland			Great Britain		
	income tax	NIC ⁽¹⁾	total	income tax	NIC ⁽¹⁾	total
1978-79 Indexed	53.71	15.24	68.95	57.11	15.91	73.02
1988-89	38.91	21.10	60.01	41.49	22.02	63.51
Reduction	14.80	-5.86	8.94	15.62	-6.11	9.51

(1)contracted in

Thus the Scotsman would have to pay £14.80 per week extra income tax under the 1978-79 tax rates and allowances indexed for inflation, reducing to £8.94 if we allow for increases in NIC rates. Figures for Great Britain as a whole are slightly larger.



R J EASON