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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Malcolm Rifkind QC MP
Secretary of State
Scottish Office
Dover House
Whitehall
LONDON SW1A 2AU

WBPN.

10TH April 1987

Dear Malcolm,

ABOLITION OF DOMESTIC RATES ETC (SCOTLAND) BILL: TIED HOUSES

Thank you for your letter of 31 March to Nigel Lawson, with the information that there have been representations by the NFUS and others urging tax concessions connected with the introduction of the community charge.

I understand that our officials have already been in touch over the detailed wording of your response to two amendments tabled by Lady Saltoun in the Lords, and I am content that officials should keep in touch if further briefing is needed.

In your letter you asked if you could explain during the House of Lords debates that employers should get tax deductions for payments towards an employee's community charge. The basic rule on business expenditure is that only expenses incurred wholly and exclusively for the purposes of the trade are tax-deductible. Payments made as part of an employee's remuneration package generally satisfy this test. Thus, where an employer undertook, as part of his contract of employment, to pay the employee's community charge, the payment would be deductible. Payments for a member of the employee's family, such as his wife, would also be deductible if they formed part of the contract. I should be happy for this to be spelled out in the Lords debates, on the lines agreed among officials.

As for the tax position of employees who have their community charge paid by their employer, I am in full agreement with the line you have been taking so far. All of an employee's emoluments from his employment (whether cash, benefits in kind or payments made to meet an employee's pecuniary liability) are chargeable to tax under Schedule E. This is an important provision : without it, employers could

LOCAL GOVT - Rating PT 6

pay employees indirectly, and tax free, in all kinds of ways. The present special tax exemption in respect of domestic rates for employees living in tied accommodation has been justified by the argument that an employee who is required to live in a particular house provided by his employer cannot choose to move into premises with a lower rateable value. This argument will no longer apply under the community charge, and the grounds for special treatment will disappear. It would therefore not be equitable to give favourable treatment to employees in tied houses simply because of what happened in the past in relation to a tax which was based on different principles.

A concession would therefore be wrong in principle, and could be repercussive and expensive, and I would not wish to consider one. You say that you may need to come back on the question of a tax concession if you face difficulties in the Lords. I agree that to transfer liability for the community charge from employees to employers would undermine much of its purpose. But an amendment to this effect - if one should be put forward - should therefore be resisted on its merits, and not by a potentially damaging concession on the tax side.

I am copying this letter to the Prime Minister, Willie Whitelaw, other members of E(LF), Michael Jopling and Sir Robert Armstrong.

Yours ever,

JOHN

JOHN MacGREGOR