PRIME MINISTER

UNIFORM BUSINESS RATE REVALUATION: TRANSITIONAL ARRANGEMENTS

You will recall that the outline approach for transitional arrangements for the uniform business rate was settled in the spring. The key point on which you insisted was that there had to be a balanced position, with gains and losses balancing out overall. Now that we have figures available from the Inland Revenue survey, we need to settle the details for when the new system is introduced in 1990.

Mr. Ridley's minute of 29 November sets out his proposals. They key elements are:

- A limit on annual rate bill increases of 20 per cent in real terms for five years, but with a lower limit of 15 per cent for small business properties.

- Balancing this limit on losers by a limit on rate bill reductions for gainers. But this would not apply for small busineses. The annual limit for larger properties would be 10 per cent in real terms.

- Giving no commitment at this stage whether transitional arrangements will be extended after the initial five year period.

- Exempting altogether very small properties, like AA boxes, which are not really businesses at all.

- Publishing a summary of the Inland Revenue survey.

I imagine you will, however, want to look at the detail of Mr. Ridley's paper, including the tables at the back showing the results of the Inland Revenue survey. This brings out that changes in rateable value are even more widely dispersed than had been expected, and are skewed - which is why, for revenue neutrality, a 20 per cent limit on losers equates to a 10 per cent limit on gainers.

Mr. Walker, in his minute of 7 December (Flag B), proposes similar arrangements for Wales, save that revenue neutrality in the Welsh context points to an annual limit of 12 per cent (rather than 10 per cent) on gainers to match the 20 per cent limit on losers. Arrangements for Scotland will be handled separately by Malcolm Ridkind.

The Chancellor's minute of 7 December (Flag C) raises four doubts about Mr. Ridley's proposals:

(i) He argues that it would be wrong to remove any transitional limit on gains for small businesses. Instead he suggests that the concession for small properties in the case of gainers should parallel that for losers: large business gainers should have a limit of 11 per cent (against Mr. Ridley's 10 per cent) and small business gainers a limit of 16 per cent. I think there is a good deal to be said for this change.

(ii) He suggests being a little more forthcoming about the possibility of some sort of transitional arrangements extending beyond the fifth year, but without any commitment to a particular scheme. I am not sure there is much to be said for this instead of sticking to Mr. Ridley's proposal of promising to consider the position when we can forecast the results of the 1995 revaluation.

(iii) There are some further detailed points still to be resolved between the Treasury and DoE - I imagine you will want them to sort these out.

(iv) The Chancellor wants to resist publishing an edited version of the Inland Revenue survey at this stage.

He is worried that this could lead to publicity being given to selective examples of particular big losers. You will want to consider this point. The counter argument is that, by not publishing anything, the speculation will be that the Government wishes to hide the results. That could be even more damaging.

Content to agree Mr. Ridley's package subject to:

- Accepting the Chancellor's first point about introducing a limit for small business gainers? Yes MT

- Rejecting the Chancellor's second point concerning what is said about transition beyond the fifth year, and his fourth point about resisting publication of the Inland Revenue survey?

- Leaving the Treasury and DoE to sort the other detailed issues (the Chancellor's third point)? Yes MT

Transition - because in most the point at * on p.2 of Mr. Ridley's minute - I prefer the Chancellor's approach

PRC6.

PAUL GRAY

9 December 1988

With regard to publishing - clearly it is only a matter of timing - if we can justifiably hold it, well and good. It looks as if it will have to be published in the summer MT

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