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From the Private Secretary

24 June 1986

The Prime Minister was grateful for the report given in your letter to Mark Addison of 23 June about unpaid National Insurance contributions and PAYE in respect of work carried out on the Falkland Islands.

I am copying this letter to Vivien Life in the Financial Secretary to the Treasury's office.

(DAVID NORGORVE)

Giles Denham, Esq.,
Department of Health and Social Security.

COMMERCIAL IN CONFIDENCE

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From the Secretary of State for Social Services

1. JF to see
2. ✓ CDP CDP 23/6
3. Prime Minister 2

DLW
23/6.

Mark Addison Esq
Private Secretary
10 Downing Street

23 June 1986

MS

Dear Mark

My Secretary of State has asked me to report on the possibility of a very considerable debt of unpaid National Insurance Contributions (NICs) by Laing/Mowlem/ARC Joint Venture Ltd in respect of the people they have employed constructing the new Falkland Islands airport.

In June 1983 John Laing International Ltd wrote to this Department on behalf of the Joint Venture then newly established as a Jersey registered company enquiring about liability for NICs. Following legal advice, we replied in August 1983 to the effect that because the Joint Venture appeared to have no place of business in Great Britain it would have no liability to pay Class 1 NICs in respect of the UK nationals it proposed to employ in the Falklands.

In 1985 however the Inland Revenue contacted us to say that the Joint Venture were using premises in Surbiton which might amount to a place of business. A joint visit by Revenue and DHSS staff last month produced evidence which our lawyers advise confirms that the Surbiton office is indeed a place of business. This means that despite its registration in Jersey the Company is liable to pay Class 1 NICs which, including arrears, are certain to run into millions of pounds.

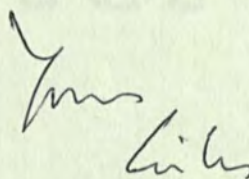
Because the Joint Venture Company has a presence in the UK it has an obligation to operate PAYE. If, as we earlier understood to the case, all the employees concerned had remained outside the UK for at least 12 months no tax would have been due. However the investigation revealed that some 25 per cent of the workers in the original contract did not last out the 12 months abroad necessary for them to get for 100 per cent foreign earning tax deduction. It was also discovered that contracts are now for less than 12 months. Some PAYE is therefore due and is recoverable from the Company.

E.R.

In September 1984 (following exchanges in the House and a PQ the previous March) the Financial Secretary wrote to Tam Dalyell to assure him that on the evidence then available the contracts of the employees concerned all exceeded 12 months and that they would therefore have no UK tax liability. Information now available indicates liability in some cases.

The next stage is for the investigating team to try to reach agreement with the Joint Venture on the existence of a place of business, and hence on the existence of NIC liability and on the amounts of NIC and tax unpaid. So far the Joint Venture have cooperated fully but if the debt proves to be as large as we expect there may be high level representations and publicity. Tam Dalyell may seek to exploit this - particularly because another construction consortium (Wimpey/Taylor Woodrow) engaged in the Falklands appear to be in a very similar position. Investigations of this other instance are about to begin. I will let you know if there are further developments in either case likely to arouse public and political interest.

The Financial Secretary is aware of this report to you: I am copying this letter to Vivien Life in his office.



GILES DENHAM
Private Secretary