



QUEEN ANNE'S GATE LONDON SW1H 9AT

23 February 1988

*CC/SO*  
*MBM & this stage -*  
*RLC*  
*25/2*

Dear Nigel,

ITV LEVY FOR CONTRACT EXTENSION PERIOD

Thank you for your letter of ~~11~~<sup>11 Feb</sup> February. I agree that there is a good case for changing the present levy system for the period of the ITV contract extensions. That case has, of course, been further strengthened by the recent critical report by the National Audit Office, which we can expect to be amplified by the Public Accounts Committee. So long as we have a wholly profits-based levy it will be very difficult to address the Public Accounts Committee's concerns without either raising the basic levy rate - which would clearly run counter to the policy of bringing marginal tax rates down in the interests of encouraging efficiency within ITV - or increasing the levy rate on overseas profits - which would be represented as creating disincentives to exports.

My officials have accordingly already started work on an assessment of the options for changing the levy base to incorporate a revenue element. I think that we may need to consider for the contract extension period only levy arrangements which apply in part on profits and in part on revenue. My officials will be in touch with yours shortly to take this work forward. I understand that the IBA is due to offer the ITV companies their extended contracts in April, and we shall clearly need to work fast against this deadline. I agree with you, however, that provided we give notice to the companies before then of the revised levy arrangements which we propose to put in place, the changes themselves can be given effect in either broadcasting or finance legislation as convenient.

Subject to the outcome of work by officials it may be possible to settle this in correspondence without the need for a meeting.

I am copying this letter to the Prime Minister, the other members of MISC 128 and Sir Robin Butler.

*Lawson,*  
*Douglas,*

The Rt Hon Nigel Lawson, MP.

BROADCASTING: BSC Finance PT6.

