

MEETING WITH THE CHANCELLOR, 1230 PM FRIDAY 20 JUNE

This is your weekly meeting, which had to be postponed.

The Chancellor wishes to raise the following:

I Money supply and public expenditure

He has already warned you that the CGBR for the first quarter is likely to be very large. He also mentioned that Mr. Pym has put in for an increase in the defence cash limit. (This is not strictly true: Mr. Pym's minute at Flag A says that defence spending will not go up in real terms by 3% "unless there is an increase in the cash limit". But the implication is pretty clear.)

II Composite rate for the building societies

The Chancellor has minuted you at Flag B. A decision is apparently required before you go to Venice on a new composite rate. Under existing law, the rate ought to be increased from 21% to about 24% - because the average tax liability of building society investors has increased since the rate was last set four years ago. But an increase of this magnitude would almost certainly result in the building societies either putting up the mortgage rate or having to offer investors a lower interest rate. The Chancellor is proposing that the composite rate should only go up to 22½% this year, but this will require legislation which needs to be introduced on Monday. (It seems extraordinary that we have not been given more notice of this.)

III Handling of economic strategy discussion in Cabinet on 3 July

Robert Armstrong has written to Douglas Wass about this (Flag C); the Chancellor wants to discuss further.

T.R.



Tim Hanpeter

Composite Rate: New Clause

You asked to see the actual legislation ~~in~~ which requires the composite rate arrangement between the inland revenue and the building societies to operate on a revenue-neutral basis.

The relevant lines are contained in ~~clause~~ section 343 of the ICTA, 1970 (copy attached).

Ritomi

20/6.

purposes of corporation tax in respect of chargeable gains as if the land and any related assets disposed of therewith (and each part of that land and those assets) were acquired from the party making the disposal for a consideration of such an amount as would secure that on the disposal neither a gain nor a loss accrued to that party.

In this section, "housing society" has the same meaning as in Part I of the Housing Act 1964, and "related assets" means, in relation to an acquisition of land by the Housing Corporation, assets acquired by the Corporation in accordance with the same scheme as that land, and in relation to a disposal of land by the Housing Corporation, assets held by the Corporation for the purposes of the same scheme as that land. 1964 c. 56.

**343.**—(1) The Board and any building society may, as respects any year of assessment, enter into arrangements whereby—

- (a) on such sums as may be determined in accordance with the arrangements the society is liable to account for and pay an amount representing income tax calculated in part at the standard rate and in part at a reduced rate which takes into account the operation of the subsequent provisions of this section; and
- (b) provision is made for any incidental or consequential matters,

and any such arrangements shall have effect notwithstanding anything in this Act:

Provided that in exercising their powers of entering into arrangements under this section, the Board shall at all times aim at securing that (if the amount so payable by the society under the arrangements is regarded as income tax for the year of assessment) the total income tax becoming payable to, and not becoming repayable by, the Crown is, when regard is had to the operation of the subsequent provisions of this section, as nearly as may be the same in the aggregate as it would have been if those powers had never been exercised.

(2) Where for any year of assessment a building society enters into arrangements under this section, dividends or interest payable in respect of shares in, or deposits with or loans to, the society shall be dealt with for the purposes of corporation tax as follows:—

- (a) in computing for any accounting period ending in the year of assessment the total profits of the society there shall be allowed as a deduction the actual amount



Tian Hakkester

For information

K.T.

With the Compliments

23/6.

of the

Chancellor of the Exchequer.

Treasury Chambers,  
Great George Street,  
S.W.1.

Chancellor

I hope this fits the bill: as you see, no mention of "periodic review." FST is correct.

~~SECRET~~

With copy  
C. H. de Waal  
20 Jun 80

RT 20/6.

FINANCE (NO. 2) BILL

Building societies

Mr John Biffen

To move the following Clause:-

'(1) In determining the reduced rate of tax by reference to which arrangements for any year of assessment are made under subsection (1) of section 343 of the Taxes Act (building societies) the Board shall, notwithstanding anything in the proviso to that subsection, leave out of account any information which is obtained by them after the beginning of that year other than information relating to changes in the rates of tax or personal reliefs for that year or to changes in the general level of incomes.

(2) This section has effect for the year 1980-81 and subsequent years of assessment.'

CF to note Original  
LAR



file JK5  
Hansig

10 DOWNING STREET

THE PRIME MINISTER

19 May 1980

Dear Mr Pascoe

Thank you for your letter of 14 May.

I was very sorry to hear that, as a result of Nigel Lawson's speech at Bournemouth, you were given the impression that we are trying to bully the building societies. If this was the impression, I can assure you that it has no part in our policies. We are all too aware of the great contribution which the building societies make, and we must cooperate with them. We are also well aware that building society rates are below the competing market rates, and this inevitably has meant a smaller inflow of funds than would be really ideal.

It is a matter of great concern to me that we have had to keep MLR up at 17 per cent for so many months, and I hope that it will be possible to reduce the rate before too long.

Yours sincerely

Margaret Thatcher

R.C. Pascoe, Esq.

LPO