

PRIME MINISTER

THE BLUNT POUSSIN

You will remember that Lord Gowrie told you that the executors of Blunt's estate had offered the Government a Poussin 'Eliezer and Rebecca' in lieu of estate duty. The picture is valued at £350,000, and the OAL would have to pay £190,000 for it. But Lord Gowrie's letter said that there might be criticism that the Blunt estate was benefiting undeservedly if the Government accepted this picture in lieu of estate duty. We could not understand how the Government could be getting a picture below its market price and the Blunt estate could be benefiting at the same time.

My efforts to clear up the figures have provided the most marvellous illustration what happens when the Government gives a tax subsidy. It turns out that there are two alternatives:-

(a) The Poussin is sold on the open market, in which case the Government gets £200,000 of tax on the sale;

and

(b) The Government accepts the picture in lieu of estate duty, in which case the Government gets no tax and pays out £190,000.

So the real cost of the picture to the Government is the difference between these two alternatives - i.e. £390,000: the OAL had just 'ignored' the loss of £200,000 of duty.

So the question is whether the Government accepts the

No - I don't think
we should buy
it at this
price.
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picture in lieu of duty at a total cost of £390,000 - £40,000 above the market valuation: this £40,000 is the benefit to the Blunt estate of handing over the picture direct to the Government instead of selling it on the open market. Lord Gowrie does not feel unduly alarmed at the prospect of this particular painting being sold abroad, but since the present arrangements are that he only has to pay £190,000 from his vote for it he would like to acquire it for a national collection. What worries him is that the Blunt estate would benefit to the tune of £40,000.

To my mind, this episode illustrates that the present arrangements give the Office of Arts and Libraries an incentive to buy pictures for the nation, because they have to meet from their vote much less than the real cost to the taxpayer. You may think that this needs looking at. But the particular question here is: do you think that this picture should be accepted from the Blunt estate, at a cost to Lord Gowrie's vote of £190,000 but at a total cost to the taxpayer of £390,000.

F. K. R. B.

17 May, 1984



If we receive the picture for less than the market price, it would mean that the Blunt estate is better off than it is.

OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-233 8610

From the Minister for the Arts

26 April 1984

Robin Butler Esq
Principal Private Secretary
10 Downing Street

Prime Minister

Neither Andrew nor I can follow the economics of this, and this letter arrived too late for me to be able to contact anyone who can unravel it.

Dear Robin,

OFFER IN LIEU OF TAX BY THE ESTATE OF THE LATE ANTHONY BLUNT
POUSSIN: ELEIZER AND REBECCA

It is not clear either how "the Blunt estate is benefiting undeservedly" or "the nation is saving this picture at below market price". All that appears to be happening is that tax is being paid in kind rather than money. If you would like, we will explain this point and put it back to you with a better explanation.

Lord Gowrie thinks the Prime Minister should be aware that the executors of the estate of the late Professor Blunt have formally offered to the Government in lieu of tax the Poussin "Eleizer and Rebecca", at a market valuation of £350,000. In view of the sensitive nature of this offer both Lord Gowrie and Mr MacFarlane, as the heritage Ministers concerned with acceptances in lieu of tax, would welcome the Prime Minister's views.

The offer is a straightforward one: under capital transfer tax arrangements, a work of art can be offered in lieu of tax by the executors of the estate. It is probable in this case that the picture would meet all the usual "heritage" requirements for acceptance in lieu in this way, though expert advice (which is usual in these cases) has not yet been sought. If the picture were accepted the net cost to the Government, which would be paid over to the Inland Revenue from OAL and DOE vote provision for acceptances in lieu, would be about £190,000. The picture would then be allocated to a public institution.

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Lord Gowrie feels that the political arguments for accepting such a painting are fairly evenly balanced. If it is acquired in lieu the Government could face substantial objections from individuals and sections of the media that the Blunt estate was benefiting undeservedly. On the other hand if the picture is rejected it will almost certainly be sold on the open market for a high price and be likely to go abroad (perhaps to the Getty Museum), in which case the heritage interests will express public concern.

Lord Gowrie does not feel unduly alarmed at the prospect of this particular painting going abroad. He must add, however, that in the ordinary way of business the benefit to the nation of saving this picture at well below market price would lead him to accept it, particularly as it can be afforded within his vote for these purposes. The issue therefore turns on Blunt. He would welcome the Prime Minister's views as to whether there would be political difficulties for the Government in accepting this particular painting.

I am sending a copy of this letter to the Private Secretaries to Lord Whitelaw and Mr Macfarlane.

Yours sincerely,
Mary Brown.

MRS M E BROWN
Private Secretary



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CHRISTIES

PHOTOGRAPHED BY A. C. COSTER

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OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-233 8610

From the Minister for the Arts

31 May 1984

Robin Butler Esq
Principal Private Secretary
10 Downing Street
LONDON SW1

Dear Robin,

OFFER IN LIEU OF TAX: POUSSIN'S 'ELIEZER AND REBECCA'

Thank you for your letter of 18th May. We are instructing the Capital Taxes Office to refuse the offer in lieu of tax of the Poussin from Professor Blunt's estate.

The disposal of the picture will now be a matter purely for the Trustees. It will be open to them to sell it, either on the open market or by a private treaty sale to a public museum or gallery. Private treaty sales are tax exempt and the vendor receives a *douceur* of 25% of the notional tax saved. We will of course let you know if we hear that such a sale is in the offing: but there is no direct Government involvement in such cases, and no payment from Government Votes.

Yours sincerely,

Mary Brown

MRS M E BROWN
Private Secretary

SECURITY: BLUNT : PTZ



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RAM

C. DOE
CO.
fin Sec/Hmt

10 DOWNING STREET

From the Principal Private Secretary

18 May, 1984

OFFER IN LIEU OF TAX BY THE ESTATE OF THE LATE ANTHONY
BLUNT: POUSSIN'S 'ELIEZER AND REBECCA'

The Prime Minister has now further considered the question in Lord Gowrie's letter of 26 April. Her view is that, since Lord Gowrie does not feel unduly alarmed at the prospect of this particular painting going abroad and since the acceptance in lieu arrangements involve paying a douceur to the Blunt estate to induce the executors to offer the picture in lieu of tax, the Government should not accept this particular painting.

I am copying this letter to those who have the earlier correspondence.

FRBS

Mrs. Mary Brown,
Office of Arts and Libraries.

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10 DOWNING STREET

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cc: FSI
RTA
McFarlane.

From the Private Secretary

17 May, 1984

Dear Mary,

Many thanks for your further letter of 16 May and for being so patient.

I think that we are now agreed about the facts. We have two practical courses to choose between:-

(a) Market Sale: effect on the Government - plus £200,000

(b) Acceptance in lieu: effect on the Government - minus £190,000 plus the acquisition of the Poussin.

The difference in hard cash between (a) and (b) is £390,000 offset by the acquisition of the Poussin.

I am now putting the papers again to the Prime Minister.

I am copying this letter to those who have the earlier correspondence.

Yours ever,

Robin Butler

Mrs. M.E. Brown,
Office of Arts and Libraries

RAMAAP



OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-233 8610

From the Minister for the Arts

16 May 1984

Robin Butler Esq
10 Downing Street

Dear Robin,

Thank you for your letter of 11 May about the Blunt Poussin.

By virtue of the Finance Act 1976, s78(4), the acceptance of an exempted picture is not a chargeable event for tax purposes: therefore no tax arises and none is foregone. Only if sold on the market does the picture become a taxable item, in which case there would be around £200,000 tax to pay. The financial options are:

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|-------------------------|--|
| (a) market sale: | loss to HMG of picture,
gain of c£200,000 in tax |
| (b) acceptance in lieu: | gain of picture by public
collection, value £350,000,
at special price of £190,000
(paid to Revenue and offset
against estate liability) |

The transaction under (b) is tax exempt and the total cost to the taxpayer cannot therefore be increased by adding the tax arising from a non-existent open market sale.

I am copying this letter to the recipients of yours.

Yours sincerely,

Mary

MRS M E BROWN
Private Secretary

Security: Blunt Az



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10 DOWNING STREET

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From the Principal Private Secretary

11 May 1984

Dear Mary,

Thank you for Paul Cann's letter of 8 May with its clear explanation of the acceptance in lieu of tax rules.

I am extremely sorry to delay this matter by coming back to you. But before I put this decision to the Prime Minister again, I want to make sure that I do not mislead her.

Lord Gowrie's letter of 26 April says that "the net cost to the Government, which would be paid to the Inland Revenue from OAL and DOE vote provision for acceptances in lieu would be about £190,000". Later the letter refers to "the benefit to the nation of saving this picture at well below market price" (my underlining).

Is that correct? Paul Cann's letter of 8 May and the leaflet enclosed with it say that, if accepted in lieu, the Poussin would be exempt from tax. If so, surely the total cost to the Government is the £190,000 paid by OAL and DOE to the Inland Revenue and credited against the duty on the rest of the estate plus the duty of £200,000 foregone on the picture itself, i.e. £390,000. The statement in Lord Gowrie's letter appears to refer only to the amount paid from OAL and DOE votes and to ignore the duty foregone on the picture.

I feel it necessary to be clear on this point since the balance of considerations is changed a bit if the total cost to the taxpayer is £390,000 rather than £190,000.

I am copying this letter to recipients of the earlier correspondence.

Yours ever,

Mrs. Mary Brown,
Office of Arts and Libraries.

Robin Butler

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OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-233 8610

From the Minister for the Arts

8 May 1984

Robin Butler Esq
10 Downing Street

Dear Robin,

OFFER IN LIEU OF TAX BY THE ESTATE OF THE LATE ANTHONY BLUNT:
POUSSIN'S ELIEZER AND REBECCA

You asked for some additional information about the tax implications of accepting this picture, about which we have consulted the Inland Revenue. The position is as follows.

(a) The total value of the estate is £850,000. We have not been able to establish the tax liability on this because, under the Inland Revenue's confidentiality rules, such details are not disclosed to either officials or Ministers.

(b) If the Poussin were to be sold on the open market (at an estimated price of £350,000) the executors' tax liability on such a disposal would be based on the rate obtaining at the date of death. Again we do not have Revenue information, but on our own rough calculations this would probably mean a tax payment by the executors of around £200,000, leaving a net gain to the estate of £150,000. But the picture could well be lost to this country by being sold to a foreign buyer.

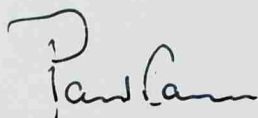
(c) Alternatively, the Poussin may be accepted in lieu of tax, in which case the picture itself is by statute exempt from tax. Under these arrangements the Government gains a £350,000 picture for a special price of approximately £190,000 which is paid over to the Revenue (not to the executors) from the acceptance in lieu and offset against the total tax liability of the estate. This special price is arrived at by working out the net price that the executors would expect to receive after deduction of the tax arising from a sale on the open market, to which is then added an amount (known as the *douceur*) equal to one quarter of the hypothetical tax liability on such a disposal.

The inducement offered to the executors by the Government in order to secure the picture for the nation is equal to one quarter of the tax the executors would have to pay if

they dispose of the Poussin on the open market at the agreed valuation. The acceptance in lieu of tax arrangement reduces the risk of losing the picture to an overseas buyer, and secures it for an appropriate public institution which might otherwise have to pay the full price realised in the open market.

I am copying this letter to the Private Secretaries to the Financial Secretary, Mr Macfarlane and Sir Robert Armstrong.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'P L Cann'. The signature is written in dark ink on a light-colored paper.

P L CANN
Assistant Private Secretary

SUMMARY
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Part 2



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10 DOWNING STREET

Mrs. Brown has agreed to
send a child's guide to
tax calculations.

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