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24 October 1984

MR TURNBULL

PARTNERSHIP TAXATION

As this subject may be discussed between the Prime Minister and the Chancellor tomorrow, a little more background information may be helpful.

Late in 1982, Nicholas Ridley at Treasury announced a review of Schedule D and the proposed issue of a consultation document.

The Revenue submitted a draft of this document, which included a discussion of a change to a current-year basis of assessment, late in 1983. This was turned down by Treasury Ministers in mid-1984, following which it was decided to issue the consultation document on partnership taxation, based on the continuance of the preceding-year basis.

Now that they have decided that they do not want to move to a current-year basis at the moment, it would be difficult to revive the project at an early stage, as the 1983 document would, in the view of the Revenue, "need to be looked at again fairly carefully". On the other hand, planning of important tax changes takes a long time if the necessary consultation process is to be followed, and it is probable

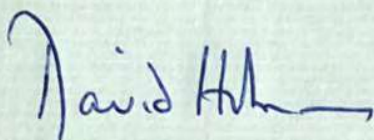
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that current-year assessment would be a necessary step in introducing computerisation of Schedule D.

Significant changes in Schedule D were introduced in the Finance Act 1984, but plans for further simplification - such as the introduction of a current-year basis - will need to be progressed, having regard particularly to the long timescale and the effect of the programme on computerisation.

As advised previously, we should not seek to prevent the consultative document going out, as it has been announced and is a response to PAC comment. But the general policy for Schedule D reform is of much greater importance. The Chancellor will argue that there is strong political opposition to current-year assessment: many partnerships benefit from paying tax on the lower figures of the previous year. He is right that any changes may arouse considerable fears and opposition; but simplification always does entail losers as well as winners. Its reception will depend on how fairly the changeover is accomplished.



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