



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

24 October 1984

Andrew Turnbull Esq
10 Downing Street
LONDON
SW1

Dear Andrew

**PARTNERSHIP TAXATION:
BASIS OF ASSESSMENT**

The Chancellor thought the Prime Minister should see a copy of the attached 1978 correspondence between Sir Geoffrey Howe and Denis Healey, the then Chancellor, before they discuss this matter tomorrow morning. I apologise for the quality of the copies.

*Yours ever
David*

D L C PERETZ
Principal Private Secretary

HOUSE OF COMMONS
LONDON SW1A 0AA

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	MIR LOVELL
	MIR MOSE

4th December, 1978

I have been studying the recommendations made in the Sixth Report from the Public Accounts Committee (Paragraph 60) to the effect that Schedule D tax assessments should be changed to a current year basis. I have, of course, also seen the Treasury Minute in reply, to the effect that the Board of Inland Revenue are continuing to study possible ways of putting this into effect.

You will appreciate that there is increasingly widespread concern amongst the self-employed at the prospect of this change. I should be most grateful if you could give me an indication of the Government's likely attitude to this proposal and also furnish some information which will help people in their consideration of the subject.

Am I right in thinking that about 2 million Schedule D taxpayers are likely to be affected by a change of this kind? The Committee's consideration of this subject originally arose from difficulties arising in connection with partnership accounts, a problem which it might be possible to deal with separately. Can you give me an idea of the (presumably much smaller) number of taxpayers who would be involved if any change was confined to partnerships?

I believe that the total revenue raised from Schedule D taxpayers is about £4,000 million pounds? It has been suggested that any change of the kind proposed would involve either the collection of that sum of money from Schedule D taxpayers twice over (subject to any spreading provisions) in one year, or a willingness by the Treasury to forego the same sum, by missing a year's revenue? I understand the second alternative was adopted in Ireland in 1962 and should be grateful if you could confirm that point. Perhaps you could let me have a note about the Irish experience, specifying the number of taxpayers involved, and the amount of revenue that was, as I understand it, foregone.

Do you know which other countries follow the present British pattern? And are there any other examples of countries (apart from Ireland) which have changed from one system to the other? What was the procedure followed in any such case of changeover?

Mr Coddett

cc. Chairman

Mr. Clegg

Mr. Gault

Mr. Hadden

Mr. Clegg

Mr. Gault

Mr. Hadden

Mr. Jones

Mr. Hadden

Mr. Jones

Mr. Clegg

Mr. Gault

Quite apart from any change in the basis of assessment, may I ask whether you are also contemplating any change in the pattern of payment? And particularly any change which might accelerate the weighted average date of payment of the tax?

My present impression is that a general change (as distinct from one confined to the partnership problem) would involve a substantial upheaval, particularly in tax expectations, for some 7 million taxpayers. The not dissimilar changes made in respect of companies in 1965 involved considerable difficulty (albeit for a smaller number of tax units), including very complex transitional provisions. Is it not the fact that both the Tucker Committee and the Royal Commission (which reported respectively in 1951 and 1955) concluded against any change in the basis of assessment of individual Schedule D taxpayers?

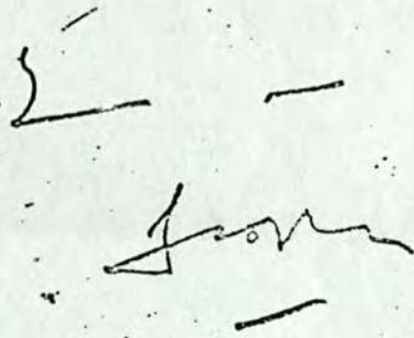
Does not this experience suggest that we should be very reluctant to contemplate yet another change for the sake of change?

Certainly, I should have thought, it would be most undesirable to proceed with any change of the kind suggested unless and until draft proposals (together with all their implications) had been fully considered by a Parliamentary Select Committee, of the kind which has in the past considered, for example, changes in Corporation Tax and your own Wealth Tax proposals. I should be very glad to know that you agree with this view.

Perhaps you could be kind enough to give me an indication of the present Government's plans on this entire front, together with an indication of the possible timing of any changes which you may have in mind.

In view of the widespread interest in this subject, I am releasing copies of this letter to the press.

The Rt. Hon. Denis Healey MBE MP
Chancellor of the Exchequer
The Treasury
Parliament Street
SW1





Treasury Chambers, Parliament Street, SW1P 3AG
OI-233 3000

5. January, 1979

Dear Geoffrey,

You wrote to me on 4th December about the recommendation made in the Sixth Report from the Public Accounts Committee that consideration should be given to switching Schedule D assessments from a previous year to a current year basis.

I think that any concern about this matter on the part of the self-employed is unnecessary. The Inland Revenue are carrying out a broad-based review of methods of tax assessment and collection generally, of which the examination of the possibility of a current year basis for Schedule D is just one aspect. So far as Schedule D is concerned, the review is still at an early stage.

The Government has undertaken this enquiry with an entirely open mind, without any commitment whatsoever to change, and we shall not be taking any decisions until in due course we have seen and considered the Inland Revenue's report. I am well aware of the importance of these matters to unincorporated businesses and the self-employed, and I can assure you that there is no question of our introducing fundamental changes in this area without full consultation beforehand with all interested parties.

The answers to the specific questions you put to me about the current year basis are as follows:

- i. There are about 2 million assessments a year to tax under Cases I and II of Schedule D. Of these, about 400,000 relate to partnerships (covering 900,000 or so individual partners).

iii.

The Rt. Hon. Sir Geoffrey Howe, QC., MP



ii. The latest available figure of the annual yield from Cases I and II of Schedule D is around £m1,200 (not £m4,000 as you suggest).

iii. It has always been recognised that there are a number of very real problems in moving to a current year basis, and those of the transition for existing businesses and the question of when tax is payable will be considered in the Inland Revenue's review. I cannot see, however, that it would be possible in moving to any new system to require businesses to pay two years' tax in a single year.

iv. I think you may have misunderstood what happened in the Irish Republic. They have always been on a previous year basis. In 1962, a Commission there advised against a switch to a current year basis, but recommended a change to the individual assessment of partners (which was subsequently implemented).

v. Most other countries seem to operate a current year basis, even though tax may be payable after the end of the year. None seem recently to have made a change from the previous year basis.

vi. The Tucker Committee did, as you say, come down against switching to a current year basis for Schedule D in 1951, and the 1955 Royal Commission accepted that conclusion for the taxation of those carrying on a trade either solely or in partnership.

Whether or not the basis of assessment for Schedule D is a suitable matter for a Select Committee is something that we can no doubt consider when the time comes. For the present, it is too early to say when the Government will be in a position to give its views on this matter, or even to issue some sort of discussion document. I envisage this review, however, as a contribution to the debate on the longer-term structure of the tax system, and clearly it is not something which should be rushed.

Since your letter to me was released to the press I am doing likewise with this reply.

(DENIS HEALEY)

24 OCT 1964

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