



FROM: A J WALKER

INLAND REVENUE
CENTRAL DIVISION
SOMERSET HOUSE

ply

15 JULY 1985

Mr Savage
(Parliamentary Section)

SDP "GREEN PAPERS"

Taxation

You asked for briefing to pass to the Prime Minister's office on the SDP "Green Paper" on tax reform. The DHSS will brief the Prime Minister's office separately on the "Green Paper" on benefit reform.

Today's "Guardian" and "Times" give some details of the SDP proposals. Press Releases were apparently issued over the weekend, but the SDP office have told us that the "Green Papers" themselves are not due to be published until the end of the week. We are trying to obtain advance copies, and will provide further or revised briefing as necessary.

General line to take

The Chancellor of the Exchequer in his Budget announced the Government's own forthcoming proposals on personal taxation to be published later in the year in a "Green Paper". Do not want to pre-empt that.

cc PS/Chancellor

PS/Financial Secretary

Ms Holmans

Mr Halligan

Mr Cropper

Mr Culpin

Mr Isaac

Mr Battishill

Mr Painter

Mr Blythe

Mr Houghton

Mr Mace

Mr Morgan

Mr Martin

Mr Symons

Mr Walker

Press Office

PS/IR

As for the proposal for an "exemption of savings" tax (ie an expenditure tax as proposed in 1978 by Professor James Meade), the Government has considered that carefully on previous occasions, and, as we have made clear, concluded that it would be impractical.

Individual proposals

- i. Income tax should become an "exemption of savings" tax: ie an expenditure tax of the type proposed by Professor James Meade in a 1978 report for the Institute of Fiscal Studies. Savings and investments would be free of tax, but the realisation of savings or investments would be taxed as income.

Line to take:

Government is constantly pressed for stability in the tax system. We are prepared to consider the case for sensible reform (eg transferable personal tax allowances). But introducing an expenditure tax would mean major cost, upheaval and uncertainty - for taxpayers, employers, their advisers and the Government. Our priority is to reduce the burden of income tax, and to improve its structure where this is necessary.

- ii. Income tax and National Insurance Contributions should be integrated. The tax threshold would be reduced, and the NIC threshold increased.

Line to take

- i. The Green Paper on Personal Taxation will examine integrating income tax and employee NICs, and other options stopping short of full integration but which will bring the two closer together.

- ii. Any new system should preserve, in some form, the "contributory principle" for existing national insurance benefits.

iii. Abolition of married man's allowance

Line to take

The Government's proposals on personal taxation are to be published in a Green Paper later in the year. The SDP proposals would -

- i. reduce tax thresholds for all married couples and bring many couples into the tax net;
- ii. mean that the tax system would no longer take account of marriage nor recognise that often one partner is dependent on the other.

By contrast, the Government's proposals would substantially increase tax threshold for married couples where only one partner is in paid employment.

iv. Perks, especially company cars, should be taxed at their full value.

Line to take

Government policy is that employees should pay same tax, whether paid in cash or in kind. Although many believe company cars are still not taxed at full cost, policy of gradual but worthwhile progress better than one involving precipitate action.

v. Capital Transfer Tax should be converted into an inheritance tax.

Line to take

There are attractions in donee-based taxation. But a move to donee-based taxation would be very disruptive for donors, testators and their advisers. Even with penal tax rates, it would not stop many people leaving their money to their family, rather than spreading it more widely. And, for given tax rates, a donee-based tax would mean a lower yield and more bureaucracy.

... I attach annexes which give more details on each point.

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A J WALKER

Ps apologies for lateness. We were waiting for a contribution from DHSS which never, in the event, arrived.

PROPOSAL FOR AN EXPENDITURE TAX

Line to take

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Background

The Institute of Fiscal Studies set up a committee chaired by Professor James Meade to examine the structure and reform of direct taxation. This reported in 1978 and recommended the introduction of an expenditure tax.

Chancellor of the Exchequer said in 1984 Budget Speech:

"Some commentators have suggested that our entire income-based tax system should be replaced with an expenditure-based system. Even if a root-and-branch change of this kind were desirable, it would, I believe, be wholly impractical and unrealistic. But I do not believe we can afford to opt for the quiet life and do nothing. So I have chosen the middle way: to introduce reforms, some of them far-reaching, within the framework of our existing income-based system. I shall also be proposing transitional arrangements where I believe it fair and appropriate to do so."

Would an expenditure tax help small business and enterprise? No. Perfectly possible to give encouragement to enterprise and business within scope of present income tax system. Government has introduced a whole raft of measures to do this - eg highly successful Business Expansion Scheme - and is following this up with a concerted drive to lift the burden of unnecessary regulation from businesses.

INTEGRATION OF INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS

Line to Take

(i) The Green Paper will include a chapter examining the consequences of integrating income tax and employee NICs. It will also consider options stopping short of full integration but which will bring the two closer together.

(ii) Any new system should preserve, in some form, the "contributory principle" for existing national insurance benefits.

Background

The SDP propose fusing income tax and employee NICS into one charge at a basic rate of 39% levied on all income. (NICS are only charged on earnings between the lower and upper earnings limits - £35.50p to £265 per week). The result would be a higher tax burden on income other than earnings and on earnings between the end of the UEL and the start of the 40% tax band. The SDP suggest keeping the 30% rate for pensioners. Integration will be considered in the Green Paper and the response can rest on this and the importance of maintaining the contributory principle, whatever system is adopted. The advantages of fusion are simplicity, reduced administrative cost for the Government, and reduced employer compliance costs. The disadvantages are the increased burden on income other than from earnings and on some earnings, and ending NICS as a separate charge means finding a new qualifying test for existing national insurance benefits.

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Background

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SDP TAX PROPOSALS: ABOLITION OF MARRIED MAN'S ALLOWANCE

Background

1. SDP have proposed abolition of married man's tax allowance (£3,455 for 1985-86 compared with single allowance of £2,205). Husband and wife would each be given their own non-transferable single allowance. Revenue saved from abolition of married man's allowance (about £4 billion at 1985-86 income levels) would be used to provide new income support benefits to the low paid and to increase child benefit.

2. Government's proposals for a system of fully transferable allowances for husband and wife to replace present married man's allowance will be set out in a Green Paper to be published later in the year. In contrast to SDP proposals, fully transferable allowances would lead to substantial increase in the tax threshold for married couples where only one partner is in paid employment. This is much the largest group affected by the problems of the poverty and unemployment traps.

Points to make

- (i) SDP proposals would mean a large reduction in the tax threshold for all married couples (not just those where wife is in paid employment). As a result, several hundred thousand married couples would be brought into tax. All couples could find themselves paying up to £7.21 per week more in tax through the loss of the married man's allowance.
- (ii) SDP proposals would mean that tax system would no longer take account of marriage nor reflect the very wide variety of reasons (including disability and caring for children or elderly relatives) why one partner in a marriage may be dependent on the other. It is not sensible or practicable to seek to provide for all these different circumstances through the social security system.

(iii) By contrast, Government's proposals for a system of fully transferable allowances would lead to a substantial increase in the tax threshold for couples where only one partner is in paid employment. This is the largest group affected by the problems of poverty and unemployment traps. And the new system would continue to recognise that, at different times and for different reasons, one partner may be dependent on the other.

'Company cars and other perks would be taxed
at their full value'

Line to take

Government policy is that employees should pay same tax, whether remunerated in cash or in kind. Although many believe company cars are still not taxed at full cost, policy of gradual but worthwhile progress better than one involving precipitate action.

Points to make

Government's record excellent. Since 1979, car scales increased by over 100% (50% in real terms). Proposal to increase figures again from April 1986 by 10% - above rate of inflation.

Measuring benefits by value is difficult concept. Worth of facility to one person may be very different from worth to another.

Cost incurred by the provider has been the measure used in the tax system for many years. This represents extra payment provider could otherwise make in cash. In general, easy to establish.

Background

General principle that benefits in kind (perks) taxed on the higher-paid (those earning over £8,500, including expenses and benefits) and company directors on basis of cost to provider. This principle goes back to inception of taxation of benefits in kind in 1948.

In the case of provided cars, difficulties in establishing private and business mileage led to introduction of scale charge covering:

- (i) availability of car for private use (April 1977 by the then Labour Government);
- (ii) free fuel (April 1983).

Typically the car and car fuel charges for 1985/86 for a 1600cc car are:

		<u>Tax at 30%</u>	
		<u>Annual</u>	<u>Monthly</u>
Car scale charge	525	157.50	13.12
Car fuel scale charge	<u>525</u>	<u>157.50</u>	<u>13.12</u>
Total:	<u>£1,050</u>	<u>£315.00</u>	<u>£26.24</u>

where business mileages are between 2,500 and 18,000 a year.

SDP GREEN PAPER

Convert capital transfer tax into an inheritance tax.

Line to Take

There are attractions in donee-based taxation. But a move to donee-based taxation would be very disruptive for donors, testators and their advisers. Even with penal tax rates, it would not stop many people leaving their money to their family, rather than spreading it more widely. And, for given tax rates, a donee-based tax would mean a lower yield and more bureaucracy.

Background

The SDP proposal seemingly follows Liberal proposals discussed in recent Finance Bills. These would replace the present donor-based capital transfer tax with a tax cumulating gifts and inheritances received by each recipient in the whole of his or her lifetime. The aim would be to encourage donors to spread their wealth amongst many recipients.

If such a tax successfully encouraged redistribution, there would be more recipients, each with exemptions and a tax threshold, than there are donors. So there would be more record-keeping, unless exemptions were increased, and a lower yield, unless exemptions were cut and tax rates increased. In practice, most people could be expected to leave money to their families irrespective of the tax consequences.

2 HOME NEWS

Benefits changes would shift resources from rich to poor

SDP proposes tax-free savings to aid business

By John Caryl
Political Correspondent

The SDP yesterday published proposals to reform the taxation and benefits systems to shift resources from rich to poor and encourage savings, investment and the growth of small businesses.

A green paper on taxation, to be debated at the party's annual conference in Torquay, suggests that income tax should be transformed into an "exemption of savings tax". All savings and investments would be exempt from tax, but the sale or realisation of savings and investments would be taxable as income.

The idea, based on the idea of an expenditure tax proposed by the Meade Report, would allow for the eventual abolition of capital gains tax.

Investments in shares, savings schemes and small businesses would be tax deductible, just as mortgage interest and pensions schemes are now. But when these savings were drawn down and when houses, shares or other assets were sold, the proceeds would be regarded as income and would be taxed as earnings.

"Our reform will be a charter for enterprise," says the green paper, drawn up by an SDP working party chaired by Mr Dick Taverne, the former Lincoln MP who defected from Labour and is a founder of the Institute of Fiscal Studies.

"Most people will no doubt continue to make saving for a house and for a pension their top priorities. But that will be because these are good things to save for, not because of the tax advantages they attract." It was reasonable to expect that some savings now invested in houses or pensions would be put into more accessible forms, or into small businesses.

Other changes include the abolition of national insurance contributions, to be replaced by an integrated income tax with a standard rate of 39 per

cent (equivalent to the combined current rates of income tax and national insurance). The tax threshold will be lower than the present income tax threshold but substantially higher than the present national insurance threshold, which the SDP regards as a big advantage for the lower paid.

Men and women would be taxed separately and the married man's allowance would be phased out. Company cars and other perks would be taxed at their full value. Capital Transfer Tax would be turned into a more effective tax on the transfer and inheritance of wealth.

The tax proposals are accompanied by a separate paper on social security reform, which the SDP claims would abolish poverty and unemployment traps. Supplementary benefit, housing benefit, free school meals and Family Income Supplement would be replaced by a new Basic Benefit, payable through an integrated tax/benefit system.

The new benefit would redistribute income in favour of the poorest people, and would be funded principally through the phasing out of the married man's additional tax allowance. There would also be an immediate 24 per cent real terms increase in child benefit, bringing the weekly value to £8.50.

The SDP accepts that there is a problem about the eventual cost of the State Earnings Related Pension Scheme. It proposes a compromise, to increase basic pensions by 25 per cent at a cost of £4.5 billion, with £3.5 billion extra revenue coming from the abolition of contracting out of the state scheme and the remaining £1 billion from savings on means-tested benefits.

Fairness and Enterprise: tax reform proposals. Policy on Social Security Reform. Both published by SDP, 4 Cowley Street, London SW1.



AMAZING FACES: Paul McCartney (left) at Wembley and his performance. Joan Baez opens the American end of the

Meacher plans Labo with £3 billion boos

By David Hencke,
Social Services Correspondent

A Labour government would freeze health spending in London and the South-east while injecting extra money into the relatively deprived health services in the North and West. Mr Michael Meacher, the health spokesman, said yesterday.

Mr Meacher was commenting on an unpublished report prepared by Department of Health officials for Mr Norman Fowler, the Social Services Secretary.

The report shows that wide-



Communists expel Gill in Star purge

Irish... said: "I think it is evidence of a change of attitude and policy generally by comparison with what we have seen many times in the past."

He added: "The decisions taken by the Secretary of State based on police advice and the

in Portadown, at least 19 civilians were injured, and 37 arrested as police with riot equipment made baton charges into the scores of baying loyalist youths.

At least one policeman was seriously injured as the mob smashed plate glass windows

Battle of the Boyne 295 years ago.

The police yesterday reopened all entrances to Obins Street, where the Catholic population had been under siege for two days. Hundreds of troops were withdrawn and only a small police presence

has done it.

"What Douglas Hurd and the Chief Constable have done at the insistence of the Prime Minister means the police in Portadown are now going to find themselves the enemies of both loyalists and republicans."

private session of policy and a committee of which is chairman. committee has reports he was final approval to the event, September 1.

The committee composed of Lab only, but for the last Tuesday, a campaign was invitation.

Mr Bryan said sition councillor invited because interested in anything. He said the provide an oppo the council-funded deal with young together and of anyone who atten.

The proposal Mr Toby Eckerle tive Councillor leader of the oppo council.

He is angry t mittee is deali organization that ordered out of Party's headq Walworth Road, and is at present an internal party in

He said: "It is ordinary that a extremists, chased Labour Party head come a mile down obtain shelter fr Labour authority".

'Go-it-alone' over fig

Mr Denzil Dav defence spokesma day that Britain would be partners nation European fi that she would "go build her own agreement was not

He was com reports that the pro collapse because the West Germans deal which excludes

Court deals speed sale of BA

Continued from page 1

he has personally been offered in compensation, his priority still being to re-enter the aviation business.

He said yesterday: "There certainly is no question of me accepting any sum of money at this moment in time to be put out to grass."

Sir Freddie added that he still wants the truth to be told about his claim that airline and aviation companies conspired to drive him out of business.

British Airways indicated that its offer would not be conditional on him staying out of the aviation business. But Sir Freddie would find it difficult to stage a comeback because he would require a licence from the Civil Aviation Authority, and the agreement of travel agents to handle ticket sales.

The Association of British Travel Agents failed to support his attempt to get back in business in partnership with onrho after the collapse of kytrain.

The 2,300 former employees of Laker Airways are viewing settlement proposals to compensate them for the loss of their jobs with suspicion and caution.

Mr Alan Hellary, aged 61, Laker's flight operations manager, and a founder of the association of Laker Employees, said he will be discussing the matter further with lawyers.

He said: "I wasn't terribly excited by the news. We want compensation, in many cases a loss of career and loss of way of life."

"We are not like the ticket holders who were stranded. We've lost a great deal more."

may be modified

s, the members are likely to e a warning of the dangers in Heseltine's proposals. They also expected to criticize the port period of time allowed for consultation on them.

It would be no surprise if they

SDP would lift tax burden on savings

TIMES 15/11/85

By Philip Webster, Political Reporter

The Social Democratic Party yesterday proposed a radical restructuring of the income tax system under which all savings and investments would be free from tax but their sale or realization would be taxable as income.

The proposals, aimed at correcting the discrimination in the tax system against earners and taxing the owners of wealth more heavily, was in a package of reforms to the tax and benefit systems which also included the abolition of the present national insurance system, and the taxation of company perks, especially cars, at their full value.

The SDP's long-term new deal for savings would ultimately abolish the distinction between income and capital and make capital gains tax redundant.

Under a new "exemption of savings tax" small savers who invest in building societies, shares and their own businesses, would be treated in the same way as people who invest in pensions or the business expansion scheme who now get preferential treatment.

Spending from the sale of capital will be taxed as part of income, meaning that owners will no longer be treated more favourably than earners.

In its Green Paper *Fairness and enterprise: tax reform proposals* the SDP says that the present tax system is defective in the narrow and far from coherent definition of what is taxable income, and that exemptions have greatly eroded the tax base.

Tax rates would start at 39 per cent, the combined rate of income tax and insurance contributions. Men and women would be taxed separately.

It adds that the State Earnings-Related Pension scheme should be modified, to reduce its cost, rather than phased out

Sarah Hogg, page 13

Asian arrivals at Heathrow 'degraded'

The treatment of Asian visitors arriving at Heathrow Airport was now a "scandal" according to Mr Denis Howell, Labour MP for Birmingham, Small Heath.

He wrote to Mr Leon Brittan, Home Secretary: "You must accept full personal responsibility for the degrading treatment of people who are detained although not interviewed."

Last weekend, Mr Howell said he had to deal with 12 separate cases of visitors being held without questioning for between 9 and 24 hours before his intervention allowed them temporary entry.

He continued: "Almost all had relations in distress outside; and there is no doubt that the system at Heathrow has broken down. That is the view of senior immigration officers, to whom I spoke."

"It is a scandal and is causing intense resentment in the Asian community. Here are British citizens waiting for visitors for hours on end at Terminal three and they rightly say 'we are being degraded'."

Thames denies franchise threat in Dallas dispute

Mr Hugh Dundas, chairman of Thames Television, last night denied that the Independent Broadcasting Authority had ever threatened to withdraw the company's franchise because of the dispute with the BBC over the serialization of *Dallas*.

He also said "large parts of the United Kingdom" might not have seen *Dallas* because other ITV companies boycotted the series after Thames conducted the negotiations for the series by itself.

Dundas's statement came two days after the resignation of Mr Bryan Cowgill, Thames's managing director, who left after a dispute about his

purchase of the show's next series.

Mr Dundas said: "The contract to acquire *Dallas* for the whole of the UK was entered into on Thames's behalf without the knowledge or consent of the Thames board."

One of the key aspects of the contract was "the very onerous, open-ended commitment to go on buying the series indefinitely at substantially increased costs year by year, a matter which, in accordance with company practices, should have been subject to board agreement in advance."

The IBA had objected strongly to Thames's action.

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Times
15 VII 85

Mr Nigel Lawson's green paper on national taxation (promised this year) is likely to be the Government's last big move towards tax reform.

Believing as he does in the beneficial effects of competition, Mr Lawson should welcome the Social Democrats' (very green) tax plans published today. These make a kind of sweep over the tax terrain, including some exceedingly ambitious ideas for the treatment of savings, but focus in most detail on income tax.

The SDP favours complete fusion of income tax and employees' National Insurance. Mr Lawson seems already to have ruled this out. This reflects his boss's affection for "contributory" social security - even though every recent amendment to the benefits system has eroded this dubious principle further.

There are three real but surmountable objections to fusion. The first is that while the benefits system is no longer contributory, in the real sense of relating what you pay to what you get, eligibility for benefits does depend on a rudimentary National Insurance record. Some other test would have to be devised, otherwise, for example, every single person not actually in work would roll up for unemployment benefit.

The SDP green paper talks vaguely of a "work test", but the problem is a bit more complex than that. It can, however, be managed.

The second difficulty is that it would increase the tax paid by those not in work. Introducing a standard 39 per cent basic tax rate (the combination of present income tax and National Insurance) would place quite a heavy new burden on some not very rich people. The SDP attempts to duck this problem by mistakenly suggesting that pensioners should be exempt from the higher burden.

The precise purpose of fusing the two systems is to reduce the present tax surcharge on earnings. There is no reason why all those with some kind of income should not share the burden of supporting the sick and destitute. It may well make sense to cushion the blow to the retired by raising their tax thresholds, but it does not make sense to exempt them all.

The third difficulty, discussed much more intelligently in the SDP green paper, concerns this new tax threshold. At present, while you pay income tax only on that part of your income which is above the lower limit, one step across the lower limit for National Insurance renders you liable to pay it on all your earnings. This "trigger" system, Mr Lawson believes, is an advantage because it provides a cost-effective way of helping the lowest-paid. Raising the lower limit on National Insurance helps only those below the new limit - the rest pay as much as they did before.

This, however, is his mistake. For the trigger system creates a huge marginal tax rate at the entry point to National Insurance - Mr Lawson's attempts to smooth this out in the last Budget were well-intentioned, but unfortunately created a variety of new pressure points.

However, it remains true that the structure of income tax does not provide a cost-effective way of helping the lower-paid. Significantly, the SDP endorses the Government's present faith in higher income tax thresholds rather than lower income tax rates, which do very little for those just in the tax net. Even so, an increase in thresholds is costly because it helps all taxpayers - in hard cash, it gives most to those on the highest incomes. For example, the single person's allowance was raised in the Budget from £2,005 to £2,205; its value to the standard rate taxpayer went up from £602 to £662. To

Were National Insurance to be fused with income tax, the combined system would have to use a threshold, not a trigger. This would mean a substantial loss of National Insurance revenue, which in turn would mean a lower joint threshold than today's threshold for income tax. (The SDP, rather optimistically, calculates the threshold would have to drop by 5.5 per cent, roughly £110 a year for a single man). Since it would simultaneously become even more expensive to raise the threshold, fusion might seem to fossilize the tax structure.

Here the SDP has a smart answer, which is to change the nature of tax allowances, so that they provide a fixed reduction not in taxable income but in tax bills. This is equivalent to taxing all income, then cutting the bill by the same sum for everybody in a particular category: for example, in today's figures, a maximum of £662 for all single people.

The SDP has less-founded objections to the Chancellor's proposal to introduce single transferable tax allowances. There is, at least, agreement on the problem. The present system gives a gross advantage to couples who can both go out to work (and receive roughly two-and-a-half single tax allowances) compared with those of whom one stays at home (receiving only one-and-a-half allowances). The SDP proposes giving couples a single allowance each - the Chancellor proposes giving them a pair of single allowances, which each could transfer to the other.

This takes us right to the core of the argument over whether married couples should be treated as two unconnected individuals, or whether they should be viewed by the taxman as a single unit. The individual route is appealing particularly to women who have endured so many generations of financial subservience (the Inland Revenue still seems to have extreme difficulty in beginning a letter other than "Dear Sir"). It is a route which has led, on the one hand, to payment of tax-free child benefits to mothers, and on the other, to separate assessment for high-earning couples.

Unfortunately, it is an approach that has its limits. For it is still generally accepted that families have to be treated as a unit for social security, and the closer the two systems are brought to fusion the greater the difficulties in squeezing conflicting principles into a coherent framework. At the other end of the income scale, it is generally agreed that separate assessment for unearned income opens up too many opportunities for tax dodging. The SDP, which plumps for the separate route, finds itself in such difficulties at this point that it ends up proposing the thoroughly uneasy compromise that only the first £500 of unearned income should be separately assessed.

The Chancellor, implicitly, is proposing to go in treating the married couple as a single tax unit. The SDP points out that his proposals for transferable allowances would in practice result in a sharp cut in take-home pay for men whose wives had been at home but then decided to go out to work. But the other side of this coin is the help transferable allowances would provide for women who stop work to start a family, by permitting them to shift the tax allowance previously set against their earnings to the family's remaining source of income. The transferable tax allowance would also provide for a £1,150 increase in the tax threshold faced by the married man supporting a family on the dole, which would have a far more substantial impact on the "unemployment trap" than the dribs and drabs of increases that can be afforded by the Chancellor each spring.

Sarah Hogg
Economics Editor

Leading banks failed to respond to this or to further hints on Friday, reasoning that market interest rates and the lack of liquidity did not point to a cut.

Unless the clearing banks relent by cutting rates from 12.5 to 12 per cent early this week, the Bank may decide temporarily to announce its own minimum lending rate of 12 per cent. It last took this step in January, when it raised interest

Secret move for Lloyd's rescue of names

By Alison Eadie

Leading figures in the Lloyd's insurance market are exerting pressure on the Lloyd's authorities behind the scene to stage some sort of rescue for names in the former PCW syndicates.

They believe it is vital to clear the matter up so that Lloyd's can attempt to attract new names to take advantage of better trading opportunities.

Lloyd's has so far refused to consider a market rescue for names, who face losses of £130 million. Mr Peter Miller, Lloyd's chairman, told the annual meeting last month there could be no financial lifeboat.

Several important underwriting figures are, however, concerned at Lloyd's uncooperative stance, because it is unfair to the names and because of the long-term damage it could do to Lloyd's standing and future business. They are not willing to express their view publicly, because they are worried that a public confrontation might force Lloyd's into taking a harder line.

It would be difficult for Lloyd's now to back a form of market rescue without some loss of face. It would also be difficult to come up with an equitable formula, as a market rescue would involve all names shouldering some of the PCW losses at a time when many others have been hit by bad trading results.

Names on the former PCW syndicates - now renamed Richard Beckett - are victims of both a £40 million fraud and bad underwriting. They have been advised by a steering committee of names not to meet their losses by the July 31 deadline.

Further advice is expected this week from the names' solicitors, Ashurst Morris Crisp, on whether names should pass Lloyd's solvency test and so continue as underwriters.

Those who favour a market solution believe names should meet a substantial proportion of their losses, but be insured against any future deterioration of the losses.

THF considers the next step

Trusthouse Forte's lawyers are considering what steps to take after an offer to buy a crucial block of shares in the Savoy hotel group was turned down by the owner, the Savoy Educational Trust. The deal would have given THF control of the Savoy.

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