



PAYMASTER GENERAL

Treasury Chambers, Parliament Street, SW1P 3AG

John Sawers Esq
Private Secretary to Mrs Lynda Chalker MP
Minister of State
Foreign and Commonwealth Office
Downing Street
LONDON SW1A 2AL

B/FST
B/EST
Sir P. Hilditch
Sir G. Little
Mr. Lavelle
Mr. Cassell
Mr. Scholz

Mr. Suckling
Mr. Edwards
Mr. Culpin
Mr. RKC Evans
Mr. Cropper
15 July 1987
Mr. Tynis
PS/C+E (+)
Mr. Wilmott -
(+ by fax)

Dear John

TAX APPROXIMATION: LORD COCKFIELD'S PROPOSALS

As you know, the -European Commission approved Lord Cockfield's package earlier today, and it has now been published. Apart from a few minor changes, it is much as we expected.

The Paymaster General has, with the Chancellor's agreement, made the following statement on the record on the proposals:

"Clearly, we have not yet seen the full proposals. But the Community cannot adopt them unless there is unanimous agreement. And there is no question of our accepting anything that conflicts with the pledges the Prime Minister has given on our zero rates.

Other countries are as sensitive as we are to changes in indirect taxation. So we will not be alone on the issue, and it is therefore difficult to see the Cockfield plan making much progress in its present form."

I am copying this letter to Charles Powell and Bernard Ingham at No 10, to the Private Secretaries of members of Cabinet and the Minister of State (Privy Council Office), and to Trevor Woolley and David Williamson (Cabinet Office).

Yours ever
Simon

S P JUDGE
Private Secretary

VAT ZERO RATES: GOVERNMENT PLEDGES

1. THE PRIME MINISTER

- i) Prime Minister's Questions, 30 April 1987: (OR Vol. 115, No. 99, Col. 409)

Mr Maples: Will my Right Hon. Friend..... assure the House that the Government have no plans to raise the rate of VAT to the 25 percent that was reached under the last Labour Government.

The Prime Minister: Yes, and there are no plans to put VAT on food, either.

- ii) Press Conference, 29 May 1987:

Q: The Chancellor earlier this week categorically ruled out the imposition of any VAT on food. Does this mean that the Government intend to veto plans to approximate VAT rates throughout the Community, or can you confirm now that you intend to widen the VAT base in Britain?

The Prime Minister: We would veto plans. Any changes in Community tax have to be by unanimous vote... We would veto plans to come under a Community VAT system. In other words we, ourselves, would use our vote to veto a change in those laws. I want our VAT to be decided by us..... if the Community came in with a Community law to change our capacity to zero rate what we want to zero rate - then we should use our veto against that.

(Final sentence reproduced in The Times, 30 May, and Accountancy Age, 4 June)

iii) BBC Radio 4 "World This Weekend", 31 May 1987:

"We will continue to have zero rating on food, that is quite crucial. The question then arises about electricity and gas, about fuel. It is not our intention to put VAT on those things".

iv) ITV "This Week", 4 June 1987:

"If anyone tried to put VAT on children's clothes and shoes they would never, never, get it through the House".

"I have undertaken not to do it [apply VAT] on food - that was right from the beginning, and on gas and electricity. No we haven't got any particular plans to do it on other things, but I'm not going to constrain a Chancellor of the Exchequer. I don't know what the circumstances will be of any particular Budget".

v) Prime Minister's Questions, 16 July 1987: (OR vol 119; No. 20 cols. 1273-1274)

Mr Higgins: Does my Right Hon. Friend agree that the VAT structure with a single positive rate and zero rating for essential items is better than anything else in Europe, and that if we were to harmonise at all, it should be on our basis?... would my Right Hon. Friend agree with me that the abolition of zero rating would not be acceptable to the House?

The Prime Minister: We have made that clear. We must be able to determine our own structure of VAT. A number of other countries also take the view that they must be free to determine their own structure, and they are just as much against the proposal as we are. The possibility of this going through is negligible.

- vi) **Prime Minister's Questions, 23 July 1987: (OR Vol 120, No 25, cols 482-483)**

Mr Meale: Will the Prime Minister extend her pledge and give a categoric guarantee that she will veto any attempt to introduce VAT on bus and rail fares or on newspapers?

The Prime Minister: He is probably referring to the proposal before the Commission that there should be some approximation of value added tax. That proposal could only be passed by unanimous vote of all countries. It is not a question of vetoing - we should vote against it. That is not a veto. It is a vote against. A veto is the phrase used for the Luxembourg compromise.

2. **THE PAYMASTER GENERAL**

- i) **Written answer, 3 April 1987: (OR Vol 113, No 87, col. 629)**

Dr Hampson asked the Chancellor of the Exchequer what representations he has received from the Library Association concerning the continuation of zero rating on books and other literature after the harmonisation of value added tax arrangements within the European Community; and what response he has made.

Mr Brooke: "....the proposals will require unanimous agreement. Questions concerning the VAT treatment of books and other literature will therefore remain wholly a matter for national decision and subject to full Parliamentary consideration".

- ii) **Treasury Questions, 9 July 1987: (OR Vol 119, No 15, cols 498-499)**

Mr Martyn Jones and **Mr Fatchett** asked the Chancellor if he had any plans to increase the value added tax base/extend the range of value added tax;

Mr Parry asked the Chancellor if he had any plans to impose value added tax on children's clothes;

Mr Brooke: My Right Hon. Friend has no such plans.

iii) **Written Answer, 9 July 1987: (OR Vol 119, No. 17, col. 256)**

Mr Wallace asked the Chancellor of the Exchequer if he has any plans to introduce value added tax on books; and if he will make a statement.

Mr Brooke: My Right Hon. Friend has no such plans.

iv) **Statement issued 15 July 1987:**

"Clearly, we have not yet seen the full proposals. But the Community cannot adopt them unless there is unanimous agreement. And there is no question of our accepting anything that conflicts with the pledges the Prime Minister has given on our zero rates.

Other countries are as sensitive as we are to changes in indirect taxation. So we will not be alone on the issue, and it is therefore difficult to see the Cockfield plan making much progress in its present form".

(Third sentence quoted in The Times, 16 July)

3. **THE LORD PRIVY SEAL**

i) **Prime Minister's Questions, 30 June 1987 (OR vol 118, No 8, col 370)**

Mr Hattersley: Will the Right Hon Gentleman repeat the assurances given by the Prime Minister during the general election campaign that the Government are opposed to the imposition of VAT on food, fuel, children's clothing, children's shoes, new building, books, periodicals and newspapers?

Mr Wakeham: I am happy to reaffirm what the Prime Minister said during the election campaign. The Prime Minister said that we have no intention of imposing VAT on food, gas, electricity, young children's clothes and shoes.

[later:]

.....I can assure the House that the undertaking that she gave during the general election campaign will be maintained.