



Treasury Chambers, Parliament Street, SW1P 3AG
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P R C Gray Esq
Private Secretary to
Prime Minister
10 Downing Street
LONDON
SW1

Dear Paul,

TAX RELIEF FOR RELOCATION

The Chancellor and Prime Minister discussed the Budget proposals on relocation expenses yesterday. In the light of that discussion, the Chancellor has asked me to write to you to set out some more of the details.

There are at present two extra statutory concessions in this area: the first gives tax relief for removals expenses paid by an employer; this applies to both new recruits and to existing employees. The second gives tax relief for employers' contributions to employees' additional on-going housing costs (eg mortgage payments, rent etc) where an employee is compulsorily moved by his employer to a more expensive housing area; this concession is available only to existing employees.

The Budget proposals are that the first of these reliefs, for removals expenses, should be placed on a proper statutory footing. And that the second relief, on additional housing costs, should be abolished. The effects of the housing cost relief is to reduce the market pressures on employers to relocate to lower cost areas, and to exacerbate (rather than alleviate) existing house price differentials. Removing the concession will produce an eventual yield of around £100 million a year, though anyone who has moved (or has entered into a commitment to move) before Budget day will continue to receive the relief.



The Civil Service is a
large employer and we must have
some in London i.e. in the Treasury and

Most public sector employees, other than those in the Civil Service, do not benefit from the present relief. Teachers, firemen, policemen etc are employed by individual local authorities. The relief is therefore not available when they move from one authority to another, since they are joining a new employer. The same applies to NHS employees employed by district or regional health authorities - though in the case of regional health authority employees it is conceivable that a few employees could benefit if they were to be compulsorily transferred to a higher housing cost area within the region's borders.

We shall be considering the implications for the Civil Service with departments after the Budget. We shall need to consider, among other things, whether payments should be grossed up to reflect the changed tax treatment and whether any additions to running costs would be justified.

The relief does not, as I have mentioned, apply to new employees. So abolishing the relief will not affect the tax treatment of housing cost allowances or other inducements to people to take up employment ("Golden Hellos" etc), which will all remain taxable.

The Chancellor hopes that, in the light of these points, the Prime Minister is content for these proposals to proceed.

Yours
Alex

A C S ALLAN
Principal Private Secretary

i.e. if under different
public sector employers - a
golden hello is in order
if under the same employer
help is cancelled.