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PART A

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PART A

1984 BUDGET
REPRESENTATIONS A - B

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PART A

Budget regs NDW.

ASP

Alliance of Small Firms and Self-Employed People Ltd.

42 Vine Road,
East Molesey,
Surrey KT8 9LF
Telephone: 01-979 2293

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The Rt.Hon.Nigel Lawson, M.P.,
Chancellor of the Exchequer,
The Treasury,
Parliament Street,
London SW1P 3HE

1 February 1984

Dear Chancellor,

ECONOMIC RECOVERY THROUGH ENCOURAGING INDEPENDENCE

We attach our submission for the Budget and 1984 Finance Bill. It is based on a major piece of research which we have undertaken as the result of a growing number of complaints from our members concerning the activities and attitudes of the Inland Revenue.

We deal first with the problems that are being created by reclassification and with the way in which both the Revenue and the DHSS deny people the right to work for themselves. And we have sought to demonstrate that, contrary to general belief, the self-employed enjoy no particular tax advantages.

We are told by members who are employers that they are being increasingly harassed over the operation of PAYE, especially in relation to employees whose earnings are below the tax threshold. We have, therefore, made a number of proposals for changes in the administration of PAYE which would help to overcome some of the unnecessary and artificial barriers to employment and self-employment.

In our view and that of our members, there is an urgent need to alter the present negative attitude of the Inland Revenue towards business, and especially towards sole traders and partnerships, and to return to every taxpayer the responsibility for declaring his own earnings.

We believe that our proposals, if adopted, would increase self-reliance and encourage people to move away from dependence on the State and we trust that our submission will be borne in mind by Ministers when considering future government policy.

Yours sincerely,

Teresa Gorman.

(Mrs) Teresa Gorman
Chairman

Directors: Gordon Bridgman, Teresa Gorman, Daphne Macara, Alan Peacock
Registered Office: 42 Vine Road, East Molesey, Surrey KT8 9LF. Registered in England No. 1409450

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and Self-Employed People Ltd.

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East Molesey,
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ECONOMIC RECOVERY THROUGH ENCOURAGING INDEPENDENCE

SUBMISSION TO THE CHANCELLOR OF THE EXCHEQUER FOR THE 1984 BUDGET & FINANCE BILL

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Directors: Gordon Bridgman, Teresa Gorman, Daphne Macara, Alan Peacock
Registered Office: 42 Vine Road, East Molesey, Surrey KT8 9LF. Registered in England No. 1409450

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SUMMARY OF OUR PROPOSALS

CLASSIFYING PEOPLE AS SELF-EMPLOYED

Since 1979, 107,000 people formerly accepted as self-employed have been reclassified and must now be treated as employees by the firms to which they supply their services.

It is totally unacceptable that the Government should encourage the Inland Revenue to take from any individual his right to work for himself and force him into a subservient position for reasons of administrative convenience based on an outdated criteria.

> **We propose that** any person providing services as a contractor, sub-contractor or freelance should be entitled to be paid gross provided that he shows on his invoice his Schedule D reference number and the address of his tax office or includes these particulars on his invoice if required to do so by a client.

Our evidence is contained in **PARTS I** and **II** of this submission and
Our detailed proposals are on Page 1.

THE TAXATION OF SELF-EMPLOYED PEOPLE

The tax advantages enjoyed by self-employed people are mainly, illusory, owing more to deeply rooted prejudices and trade union mythology than to reality.

Because they are not permitted to retain profits in the business against a downturn in trade but must pay tax on the whole of the difference between income and business expenditure, the self-employed find it almost impossible to put by sufficient to cover their expenses during non-earning periods or to finance expansion or the purchase of new plant or equipment.

> **We propose that** sole traders and partnerships should be allowed to average profits over five years or alternatively carry profits forward as they do at present in respect of losses.

Our evidence is contained in **PARTS III** and **IV** of this submission and
Our detailed proposals are on Page 3.

REDUCING COMPLIANCE COSTS

Compliance costs bear more heavily on small firms and self-employed people than on larger companies and any steps that can be taken to ease this burden would greatly enhance their chances of survival.

SUMMARY OF OUR PROPOSALS

Estimated Assessment

Few Schedule D taxpayers who do their own accounts without the assistance of an accountant are aware that Tax Inspectors start sending out Estimated Assessments early in August. This means that unless they submit their accounts by the end of July they are likely to be faced with a 'guesstimate' against which they will probably need to appeal, involving both themselves and the Revenue in costly and unnecessary correspondence.

> **We propose that** far more publicity be given to the date after which an estimated assessment is likely to be received, and that no estimated assessment should be sent earlier than six months after the end of the taxpayer's financial year.

Small Business Allowance

A self-employed person, sometimes working alone, sometimes the proprietor of a small firm, but always under constant pressure due to the requirements of his business, often finds that producing detailed accounts under several headings takes an excessive amount of time in relation to the amount of tax relief that will be due.

> **We propose that** instead of submitting detailed annual accounts, a self-employed person should be able to claim a Small Business Allowance which will replace claims for minor items of business expenditure. If he considers that the expenditure he has incurred exceeded the Small Business Allowance he will be able to present his accounts in the usual way.

Our evidence is contained in **PART IV** of this submission and
Our detailed proposals are on Pages 4 and 5.

SCHEDULE D ASSESSMENTS FOR CONTROLLING DIRECTORS

Because they are termed 'office holders' the fees of directors are treated as 'employment income' on which they must pay national insurance contributions as both employer and an employee of the company. This means that a controlling director who draws a salary of £12,000 from his own company must pay £2000 in national insurance contributions alone.

> **We propose that** full-time working directors who alone or in conjunction with relations or associates hold at least 85% of the ordinary share capital of the company should be free to adopt self-employed status if they wish to do so.

Our evidence is contained in **PART V** of this submission and
Our detailed proposals are on Page 6

SUMMARY OF OUR PROPOSALS

OPERATING PAYE

It is rarely appreciated that the operation of PAYE can be quite daunting to employers in small firms, some two-thirds of whom do the PAYE themselves. New employers especially are overwhelmed by the paperwork and many are simply not prepared to take on an employee because of the work involved.

> **We propose that** the Simplified PAYE system which is used by employers of domestic staff should be available to any employer with no more than five employees.

The Inland Revenue is currently combing back through PAYE records in order to check that the correct amount of tax was deducted. During the present tax year employers have been receiving demands in respect of 'underdeductions' in the tax year 1980-81. Digging back into three year old records in the hope of disproving these claims would cost so much that instead they pay up, resentfully.

> **We propose that** no claim in respect of alleged underdeductions of PAYE should be made later than 5 April of the year following the year in which the return was made. The Revenue should be required to drop all claims for underdeductions prior to 6 April 1982 and to claim for underdeductions in 1982-83 no later than 5 April this year.

Employers are sometimes called upon to refund overpaid taxes to new employees. This can cause considerable embarrassment in very small firms, and most especially where a new firm is taking on its first employee.

> **We propose that** any refund due to a new employee should be made at the discretion of the employer who will have the right to request that repayment be made by the Tax Office.

Our evidence is contained in **PART VI** of this submission and
Our detailed proposals are on Pages 7, 8 and 9.

RETURN OF EARNINGS FOR CASUAL WORKERS

Although a casual or part-time worker earning less than the PAYE threshold of £34 per week is not liable to tax, rules brought in by the Inland Revnue in 1981 make their employers liable if they are unable to produce, on demand, Form P46 signed by each such employee certifying that he has no other, main job.

SUMMARY OF OUR PROPOSALS

We propose that Form P46 should be withdrawn and replaced by a 'Return of Earnings' which the employer must hand to any worker not on PAYE when he makes the first payment to him. This will place, on the worker, the responsibility for declaring earnings not subject to PAYE and will relieve the employer of the responsibility for the tax of employees, who have no tax liability in respect of their employment by him.

Our evidence is contained in **PART VII** of this submission and
Our detailed proposals are on Page 10.

INTRODUCTION OF SELF-ASSESSMENT

Successive governments have countenanced the growth in the black economy by their failure to introduce an annual return of income for every UK resident. This has meant that workers taxed under PAYE, and others unknown to the Revenue, are under no compulsion to declare any untaxed income.

We propose that urgent consideration should be given to the introduction of a form of self-asessment in order to return to every taxpayer responsibility for declaring his own earnings.

Our evidence is contained in **PART VIII** of this submission and
Our detailed proposals are on Page 12.

INTRODUCTION OF A TAX CREDIT SYSTEM

The black economy is growing because a growing number of people with small incomes believe, rightly, that they are too heavily taxed. Thirty years ago a married man would only pay tax if he earned about two-thirds of national average earnings. Today he starts to pay tax when he earns less than a third and will frequently receive State benefits equal to or exceeding, the tax he pays.

We propose that the government should introduce, without delay, the Tax Credit System which former Chancellor Anthony Barber presented to Parliament in 1972. The cost, £2 billion, would be some £14 billion less than the cost of returning personal allowances to two-thirds of average earnings and Tax Credits would finally dispose of the absurd system which the Prime Minister recently described as: "Taking money out of one pocket and stuffing it in the other."

Our evidence is contained in **PART IX** of this submission and
Our detailed proposals are on Page 13.

PART I : SELF-EMPLOYMENT IN THE UNITED KINGDOM

1. Although successive Chancellors have encouraged self-employment and the birth and growth of new firms with all manner of fiscal and financial inducements, the United Kingdom still has a far lower proportion of self-employed than any other country in the European Community.

2. The percentage of employers, self-employed and family workers is lower in the United Kingdom than in any other EEC country, ranging from 28.7% and 28.5% respectively in Italy and Ireland down to 14.6% and 14.2% respectively in the Netherlands and Luxembourg; the UK trailing behind with only 7.7%.*

3. Out of total populations of 55.5 million, 62 million and 52 million respectively, Italy has 5.7 million employers, self-employed and family workers; Germany and France have 3.7 million each, whilst the United Kingdom with a total population of 56 million has only 1.9 million.* (2.3 million December 1983: Hansard Vol.51 Col.563)

4. Yet since early 1982, the Inland Revenue has been engaged in redefining the boundaries between employment and self-employment, especially in the service industries, and interpreting regulations made under the **Finance (No.2) Act 1975** and the **Social Security Act 1975** in a way which is is particularly damaging to those who are providing independent services to commerce and industry.

5. During the recent Adjournment Debate on Small Businesses Mr Michael Grylls said: "Japan has twice our population and five times as many small firms. West Germany has roughly the same population as Britain but has 40% more small firms. We must not be complacent. Small businesses want change but change that is aimed at what they need rather than what politicians, civil servants and the Inland Revenue want."

6. We do not think that Ministers can distance themselves from the Revenue's policy of actively preventing people from becoming self-employed which surely runs counter to the Government's stated aim of encouraging self-employment and new businesses.

7. The growth industries on which the country depends to provide new jobs are to be found for the most part in the service sector, especially in services to businesses which need a flexible work force and cannot to keep permanent staff on the books who are not fully employed.

8. It would be deplorable if any action by the Revenue were to stifle this growing service sector because of a misguided belief that these firms had been established for the sole purpose of taking advantage of alleged tax advantages.

9. A State cannot truly be called free if it takes away from an individual the right to work for himself and forces him into a subservient position purely for reasons of administrative convenience.

---

* Contained in replies to Parliamentary Questions by the then Parliamentary Under Secretary of State DHSS (Mrs Lynda Chalker) 3 March 1981 Vol.1000 Col.89 and 17 March 1981 Vol.1 Col.72.

In each case 'employers and family workers' are as defined in 'Labour Force: Basic Statistics of the Community' (reference year 1977)

PART I : SELF-EMPLOYMENT IN THE UNITED KINGDOM

10. The Tripartite Steering Group on Work Satisfaction, part of the Department of Employment's Work Research Unit, said in its 1982 Report that: 'The need for future flexibility will demand not only the creation of solutions which are technically sound but which take account of the quality of working life and the aims, aspirations and talents of the people involved.'

11. The report went on to say that two contrasting views of people were becoming apparent. One appeared to see people as objects: phrases such as 'head count' were used; collective words like 'work force' and 'management' were adopted; individuality was deliberately lost.

12. The other view saw people as agents to get things done by use of initiative, creativity and skill.

13. We are told that the self-employed lose the 'protection' of employment legislation, but that protection is of very little value to them if the only alternative is to be unemployed.

14. Speaking in London last October at a seminar on the Department of Industry's Office and Service Industries Scheme, Norman Lamont, then Minister of State for Industry, said it was now increasingly realised that manufacturing industry was not the only engine of economic growth and that the importance of the service sector to the UK economy was increasing.

15. Between 1971 and 1980 service employment had risen by almost 12% to 13 million whilst manufacturing employment during the same period fell by over 15% to 8.9 million.

16. All the more reason, one would think, for every encouragement to be given to those who are providing services whether with or without employees.

17. If ten people can become self-supporting by providing badly needed services either to business firms or to private individuals this is the equivalent of one person employing nine others in his small business.

18. Some may not earn sufficient to pay very much tax but at least they are a positive and not a negative figure in the nation's books.

19. In 'The Right Approach' published by the Conservative party in 1976 we read: "The obsession with equality has created a tax system that penalises skill and enterprise".

20. We find it increasingly difficult to understand why that same party, now it is in government, should deliberately encourage the Inland Revenue in its measures to squeeze self-employment out of the system. The self-employed should be seen here, as in the United States, as an asset, not a liability.

21. The Revenue is almost alone in believing that fewer people paying tax under Schedule D (as self-employed) will mean more paying tax under Schedule E (as employees).

PART I : SELF-EMPLOYMENT IN THE UNITED KINGDOM

22. The reality of the situation is that the costs and risks attendant upon employing people are now so great that only a small percentage of those firms currently using the services of self-employed contractors will be willing to take them on their staff as permanent employees.

23. The results of a recent questionnaire* concerning temporary and contract work revealed that 62.2% of companies using such staff would not be able to afford permanent staff to replace the specialists they currently used on a temporary basis, and 57.1% of the companies questioned claimed that they would not even be able to find permanent employees to replace their temporary and contract workers.

24. Employers are sometimes accused of wishing to use the services of self-employed contractors in order to avoid employers' national insurance contributions, unionisation, unfair dismissal claims, redundancy payments and the operation of PAYE.

25. If the contractor is prepared to pay his own national insurance contributions and settle his own tax; does not want to join a union; and prefers the freedom of work when and for whom he pleases rather than demand a contract of employment for the rest of his working life, why then should the State interfere in what should be a contract freely entered into by both parties.

26. Perhaps the Government should bear in mind what the Duke of Edinburgh said back in 1981: "If you really come to think of it, there is really no obligation on anyone to employ other people."

* Action Committee on the EEC Draft Directive concerning Temporary Work April 1983

PART I : SELF-EMPLOYMENT IN THE UNITED KINGDOM

THE SELF-EMPLOYED AND THE BLACK ECONOMY

27. The black economy is, in the main, the preserve of moonlighting employees who may describe themselves as self-employed for the purpose of their extra-mural activities but whose 'self-employed' income is just 'a little on the side'. They argue that they are paying a hefty amount of tax through PAYE and are entitled to keep the whole of whatever they make in their spare time.

28. But people who are genuinely employed and offering services to householders are regarded with particular suspicion by the Inland Revenue and certain practices appear to be deeply ingrained in current mythology as 'tax dodges' although, as we show below, they are often nothing of the sort.

29. No Value Added Tax: Since March 1982 the threshold for VAT registration has been £6000 a quarter. How many tradesmen, working on their own (especially those just starting to work for themselves) would turn over anything like that amount?

30. If he has arranged that the client himself should purchase the necessary materials (often essential where a new business does not have the capital to finance a job), he would have to work 6-days a week for the whole 13-weeks and charge £75 a day for his labour before becoming liable to register for VAT.

31. Telephone numbers only: Traditionally self-employed people, apart from those in retail trades, have started businesses from their own homes, in back rooms, garages and garden sheds, only taking business premises when they had established themselves and were confident of being able to pay ongoing charges for rent, rates and other overheads.

32. Because of high business rents and rates and the time and cost of travelling to work more people than ever are working from home, including accountants, consultants, designers and word processor operators as well as builders, decorators, plumbers and other tradesmen.

33. They do not want people calling on them unannounced; do not want their neighbours to know too much about their business affairs; do not want their landlord to know (especially if the landlord is the local authority with bye-laws against running a business from Council property); and especially do not want the Planning Department to know (because they have invariably failed to apply for change of use - and probably wouldn't have got it anyway).

34. Cash at the Door: The minutes of evidence taken before the Public Accounts Committee 12th Report 1980-81 Session record that the late Robert Taylor MP said: "In some sort of areas, particularly window-cleaning where certain individuals go from door to door, clean windows and just charge cash, it is obviously unlikely that the full return is being made."

35. But later in the same Session Sir Lawrence Airey, Chairman of the Board of Inland Revenue, said: "I would not like it to be thought, incidentally, that everyone who pays a window-cleaner, or anyone else, cash, is necessarily paying it into the black economy.

36. "For all I know - and I hope it is the case - my window-cleaner is a law-abiding citizen, paying his tax like everyone else. I understand him not wanting to accept cheques at the front door and I think it reasonable for him to expect to be paid cash on the spot."

PART II : WHY NOT SELF-EMPLOYMENT?

CRITERIA FOR ESTABLISHING SELF-EMPLOYED STATUS

1. In the Courts, the view as to what constitutes a 'master-servant' relationship has been the subject of many judgments over the years. In 1968, giving judgment in Ready Mixed Concrete (South East) Ltd v Minister of Pensions and National Insurance, Mr Justice MacKenna said:

2. "If a man's activities have the character of a business, and if the question is whether he is carrying on that business for himself or for another, it must be relevant to consider which of the two owns the assets (the ownership of the tools) and which bears the financial risk (the chance of profit, the risk of loss).

3. "He who owns the assets and bears the risks is unlikely to be acting as a servant. If the man performing the service must provide the means of performance at his own expense and accept payment by results, he will own the assets, bear the risks and be to that extent unlike a servant."

4. But in 1978, giving judgment in Massey v Crown Life Assurance Co., the then Master of the Rolls, Lord Denning, said it seemed to him that: "When it is a situation which is in doubt or ambiguous, so that it can be brought under one relationship or the other, it is open to the parties by agreement to stipulate what the legal situation between them shall be."

5. The criteria used by the Inland Revenue when challenging 'a contract for services' fall under some eight headings which we list below. It will be seen that each is open to more than one interpretation, a state of affairs bound to lead to misunderstandings, injustice, and possibly to protracted and expensive litigation.

CONTRACT 'FOR SERVICES' OR 'OF SERVICE'

6. Reference is continually made to 'a contract for services' (self-employed) as opposed to 'a contract of service' (employee). But regardless of any agreement that may be reached between the parties it is, in the end, the interpretation which the Tax Inspector and the DHSS put on the terms and conditions under which those services are supplied that will decide the issue.

7. In a letter to us dated 11 November 1979, the then Parliamentary Under Secretary of State at the DHSS, Mrs Lynda Chalker, wrote:

> 'The common law definition of a person under a contract of service is one of the most difficult legal concepts to explain in language which can be applied to a given case with any degree of certainty.
>
> 'The weight to be given to the various factors is a matter of judgment and the nature of a contractual relationship may be finely balanced. A ruling given by an official of the Department is an informed administrative opinion and is open to challenge by any persons interested (that is, with a direct financial interest in the matter).'

8. It is clearly unsatisfactory that the firm requiring the service and the individual prepared to provide it on a self-employed basis should be unable to rely upon any agreement made between them which would appear to any reasonable person to conform to the requirements for 'a contract for services'.

PART II : WHY NOT SELF-EMPLOYMENT?

SUPERVISION AND DIRECTION

9. This, more than any other test, is the one most open to argument because of the different interpretations which may be applied. We find it quite remarkable that an actor, for example, should be readily accepted by the Revenue as self-employed, and is specifically excluded from the provisions of the **Finance (No.2) Act 1975 Section 38(5)(a)** (see paras 42-51) despite his being clearly subject to the control and direction of his producer or director; whereas a demonstrator is to be treated as an employee.

MORE THAN ONE SOURCE OF INCOME

10. A freelance researcher, indexer or editor may work exclusively for one firm (at a time) in that firm's library or elsewhere on their premises; a consultant may work exclusively for one company (at a time) and have the facility of an office on its premises which will enable him to be on the spot to interview employees, and look at work practices; and an accountant, book-keeper or wages clerk may visit a firm at regular intervals which may be once a week, once a month or once a quarter, to write up its books.

11. Each of these individuals may be genuinely self-employed, attempting to provide a flexible service to commerce and industry. That they provide services to just one or two firms, work on clients' premises and use clients' equipment is no reason for denying them the self-employed status to which they should be entitled.

OWNERSHIP OF TOOLS

12. In the past a freelance secretary or typist would generally take her own portable typewriter with her when working on a client's premises. With infinitely more sophisticated and expensive equipment in use in many offices this is no longer practicable and she, and of course the freelance computer operator or programmer, or word processing operator, will now frequently use the client's equipment.

13. Motor mechanics, carpenters and many other tradesmen traditionally own their own tools yet may still be employees.

CONTROL

14. A self-employed individual will be free to come and go as he chooses (although he may be required to carry the work out on those days and at those times the firm is open for business); take meals, breaks and holidays as and when he chooses; invoice the firm for work done at the end of specified periods (although interim payments may be made) or when the job has been completed.

15. A firm will control an employee by requiring him to work at specified times; take meal breaks, time-off and holidays only at times convenient to the employer and agreed with him beforehand; pay for the employee's service at regular intervals at a rate set out in his terms of employment regardless of the amount of work actually undertaken.

16. The introduction of Flexitime, however, throws doubts on the validity of even this criterion.

PART II : WHY NOT SELF-EMPLOYMENT?

CARRYING OUT SERVICES IN PERSON

17. Whilst in many trades: (window cleaning, painting and decorating, typing and clerical services, for example) a substitute would probably be perfectly acceptable this is not likely to be the case where professional and more skilled services are involved.

18. The client of, say, a tax consultant, a secretary, or a designer would expect the personal services of a particular individual, not a substitute.

CHANCES MAKING A PROFIT, RISKS MAKING A LOSS

19. There are a great many occupations where this criterion would not apply. Many people who work from home (accountants, consultants, dressmakers, designers, freelance secretaries, writers and artists, and most tradesmen) with no staff, no stock, no special equipment to buy and no rent or other overheads for business premises, might well conduct their affairs so efficiently that they would rarely be in any danger of making a loss.

PART II : RECLASSIFICATION

20. Most of the publicity concerning the 107,000 people who have been reclassified as employees since 1979 has focused on particular sectors: notably the film, radio and television industries where 7,000 people, formerly accepted as self-employed must now be treated as employees.

21. Inspectors from the Inland Revenue Wages Audit Department have, however, also been attempting to re-classify individuals supplying services to individual firms, and freelances and contractors offering services to business and industry are being told that they will no longer be regarded as self-employed but must be treated as employees subject to PAYE and Class I National Insurance deductions.

22. The individual thus reclassified faces immediate deduction of Schedule E tax and Class I NI contributions despite the fact that he probably has outstanding commitments for Schedule D tax, may be paying premiums for a self-employed pension or buying a vehicle or equipment for use in his business, and is likely to have unpaid bills for expenditure incurred for the purposes of his business.

23. He is, in fact, in a very much worse position than a sub-contractor in the construction industry who, provided he has a clean tax record and can comply with the relevant regulations may have his 714 tax exemption certificate, continue to be treated as self-employed, and be paid gross.

24. Disruption of the individual's business is matched by the disruptive effect on the company to which he contracted his services and which must now apply PAYE and pay secondary NI contributions; an added expense which, in many cases, may threaten the financial viability of the firm.

25. Furthermore, the reluctant employer may be faced with an attempt by the Revenue to claw-back 'unpaid' Schedule E tax and the DHSS to claim 'unpaid' Class I NI contributions.

FORCING THE 'EMPLOYER' TO OPERATE PAYE

26. Moreover, it is not generally appreciated how complicated the PAYE system is, especially for someone who is not used to paperwork. A new employer who employs just one - perhaps part-time - worker subject to PAYE may well find the task beyond his capabilities, and even if he masters it, laborious and time consuming.

27. If he is then forced to employ a wages clerk or farm the job out to his accountant or an accountancy service the cost, together with his share of the National Insurance contributions, although tax deductible, may well make it more profitable to slow down his expansion and manage without the employee.

CASE NUMBER ONE

28. The accountant of one of our members, a Grower, received a letter last year from the Collector of Taxes (Audit) Guildford, stating that:

> "Persons claiming to be self-employed: In these cases, Mr C should ask the individual concerned for his Tax Office and Schedule D reference number. If this is not forthcoming the advice of the Tax District should be sought, before any payments are made without deduction of tax."

29. Wishing to make use of the services of three contractors our member obtained from two, a Pruning Specialist and a Decorator, the address of their Tax offices and their Schedule D reference numbers.

PART II : RECLASSIFICATION

30. Our member's accountant wrote to HM Inspector of Taxes, Horsham, on 10 March 1983, asking whether it would be in order to utilise the services of a Contract Fruitman (who was unable to supply his Schedule D number) without liability to deduct income tax from payments made to him. The reply, dated 28 April from HM Inspector of Taxes, Winchester, reads:

> "With reference to your letter of 30 March 1983 my Horsham colleague has now confirmed that Mr H is dealt with in that District as an 'Agricultural Contractor' therefore the question of deduction of tax by your client would not appear to arise as Mr H would not be included under the Construction Industry Scheme." (the underlining is ours)

THE HIGH COST OF ESTABLISHING SELF-EMPLOYED STATUS

31. The cost to the Revenue of conducting this unnecessary correspondence must have been considerable. The cost to our member who, because of pressure of work had to hand the matter over to his accountant to deal with, added greatly to the cost of the services, but would of course have been tax deductible.

32. Our own tax office tells us that in the past two months alone they have lost eight staff and would certainly not be prepared to deal with telephone queries on the self-employed status of anyone in their district. So far as postal enquiries are concerned they would be unlikely to answer any in under three months at the earliest.

33. The cost to the Revenue of taking taxpayers in and out of Schedules D and E must be enormous and can rarely be jusified by the additional revenue thus gained.

34. A simple form of self-assessment would render this unwieldy exercise obsolete, putting all earnings on an equal footing, regardless of their source, and placing on every taxpayer an obligation to complete and sign as true and correct, an annual declaration of income.

IS SELF-EMPLOYMENT ANTI-SOCIAL?

35. It is illogical that a person in business supplying services to another business should be unable to establish himself as self-employed simply because, in the early days especially, he may have only one or two clients. And it is totally unacceptable that a self-employed sub-contractor, duly paying his tax and National Insurance contributions, should be unable to obtain work until each firm to whom he offers his services obtains permission from the tax office before settling his invoice in full.

36. The client company, faced with such a hassle may, not unreasonably, prefer to contract the work to an established company and pay higher fees, or alternatively cut down on its activities, rather than indulge in months of argument with the Inland Revenue over the sub-contractor's tax status.

37. We do not believe it is Government's intention that a person attempting to set up his own business supplying a service to other businesses should face the possible handicap of reclassification.

38. A computer programmer, freelance secretary or book-keeper, lecturer or insurance salesman should be as free to opt for self-employment as a window cleaner or typewriter mechanic, and yet our members are finding that their status is being increasingly questioned.

PART II : RECLASSIFICATION

39. We feel that this situation has been brought about because of a mistaken belief on the part of the Revenue, and others, that an employee pays more tax and has fewer tax advantages than a self-employed person.

40. In this paper we endeavour to show that this is a faulty premise. We do not accept that these tax advantages exist. That being the case there is no reason why the Revenue should refuse to accept anyone as 'self-employed' provided he is making annual returns of his income and expenditure and paying his tax and National Insurance contributions.

41. We suggest that before any further reclassification, either of individuals or whole sectors, is embarked upon a costing unit be set up to examine the actual tax benefit of Schedule D and to balance any benefit that is revealed against the costs that would accrue to other Departments should the individual be forced out of self-employment onto supplementary benefit or into the black economy.

42. According to a reply given by the Financial Secretary last December to Mr Neil Hamilton (Hansard Vol.51. Col 381) reclassification is expected to yield some £5 million in revenue in 1983-84.

43. Although we do not wish it to be thought that we regard £5 million as an insignificant sum in itself, it is indeed a very insignificant percentage of amounts leaking out of the revenue in other directions.

44. Moreover, as the Financial Secretary stated that the great bulk related to income not previously declared to the Revenue, much of that £5 million is clearly a 'one-off' benefit which will drop out of the revenue in 1984-85.

NOTE: Our detailed proposals are on Page 1
Classifying People as Self-Employed

PART II : CORRELATION WITH SECTION 38

45. **Finance (No.2) Act 1975 Section 38** (Workers supplied through Agencies) provides that: 'Where an individual supplied through an agency to a client renders personal services to the client and is subject to supervision, direction or control, any remuneration received under the terms of a contract between the individual and the agency will be chargeable to tax under Schedule E.

CASE NUMBER TWO

46. One of our members who is an 'arranger of promotions' arranges for the supply of self-employed demonstrators which appears to us to fall squarely into **F(2)A 1975 Section 38(5)(a) (exceptions).** The fact that demonstrators are not specifically mentioned in the sub-section merely underlines how an injustice can be perpetrated because the draftsman was not fully aware of the various types of service it would have been appropriate to include.

47. These demonstrators, who never work on our member's premises and rarely if ever on his client's premises, are not subject to the right of supervision, direction or control for, as our member pointed out in a letter to the Tax Inspector in July 1978:

48. "The work is very sporadic, varies widely in its type - and is spread thinly over all parts of the country. Consequently we have to rely on 'independent contractors' who have the appropriate experience or qualifications and who do their work on their own initiative and responsibility.

49. "We have no training facilities nor instructional staff. An attempt by us - even if it were practically and financially viable - to step in and control the way in which the job is done would not be tolerated by our contractors who are for the most part actresses, models, dancers, etc."

50. "Moreover, the contract which is given to each of these demonstrators (see **Appendix B**) allows them to pass the engagement over to a substitute if they are unable to fulfil it themselves."

51. Despite this, another Inspector of Taxes wrote in May 1981: "It appears in fact that your company does nothing more than act as an agency supplying workers engaged in the sort of activity **Section 38 Finance Act (2) 1975** is designed to catch.

52. "The staff were rendering personal services to the client and, although the nature of the work would not allow for direct supervision, I think the briefing given to the workers and the fact that they were told which Stores to visit could be said to constitute direction or control."

53. But as our member pointed out in June 1982: "the Inland Revenue have overlooked the fact that even if we had deducted PAYE, they would have had to refund it in all but 3 out of 256 cases."

54. The above dispute, which is still continuing after some 10 years, should be sufficient to demonstrate that although every condition pointing to self-employment may appear to have been met it is, in the end, the interpretation which the Inspector chooses to put on the service that will be paramount. And the Revenue's interpretation all too frequently appears, as here, to conflict with commonsense and natural justice.

PART II : CORRELATION WITH NATIONAL INSURANCE

55. The zeal with which the Inland Revenue attempts to squeeze self-employment out of the system is unfortunately matched by the DHSS.

CASE NUMBER THREE

56. One of our members, attempting to set up a 'Nanny Service' found her first client, needing her services for 20 hours p.w. for a period of three months.

57. When our member told the DHSS she wanted to pay Class 2 NI contributions she was informed that she had to be treated as an employee and her client would have to apply PAYE.

58. The result was a badly needed service strangled at birth and another person registered as unemployed.

PAYING THEIR FAIR SHARE

59. The following is taken from Hansard 2 July 1981: "Mr D G Bevan asked the Secretary of State for Social services if he would arrange for the Government Actuary to recalculate the percentage requirement for the self-employed's National Insurance contribution so as to take fully into account the fact that the total Class I contribution upon which the former was based was split into approximately 60% tax deductible employer's and 40% tax paid employer's shares.

60. In reply, the then Parliamentary Under Secretary of State, Mrs Lynda Chalker said: "No. Contribution rates are calculated entirely by reference to national insurance factors such as the state of the national insurance fund and the benefits for which particular groups of contributors are eligible. To take account of tax considerations in determining the rates would result in arrangements less fair to all contributors then the present ones." (Hansard Vol.7 Col.488).

61. In 'The Self-Employed and National Insurance: A Discussion Document' published by the DHSS in 1980 we read that:

> ' ... both major parties in Parliament had agreed that 'new' national insurance should in principle be related to earnings. This would mean a good deal of redistribution - the better-off paying a larger share of benefits for the worse-off'.
>
> 'A way was found of making this principle apply to self-employed people too. It lay in the Class 4 contribution. We have seen that this is an earnings-related contribution which is paid on top of the flat-rate Class 2 contributions once profits or gains reach a certain level. Together these two produce about the right total income for benefits for the self-employed, and it means that people can start paying Class 4 contributions at a point quite a lot higher than the lower earnings limit for Class I'. (Paras 29/30)
>
> 'Self-employed earners ... do not have to pay Class 2 contributions if their earnings from self-employment in a tax year are less than a specified amount ... This amount is fixed so that a self-employed earner is no worse off than a Class I earner paying contributions at the lower earnings limit'. (Para 16)
>
> 'The upper limit for Class 4 is roughly the same as the upper earnings limit for Class I'. (Para 18)

PART II : CORRELATION WITH NATIONAL INSURANCE

62. In its Decision as to the admissibility of the case by the National Federation of Self-Employed against the United Kingdom in the matter of the Class 4 National Insurance Contribution, the European Commission of Human Rights stated that:

63. 'In a White Paper' of September 1971 called 'Strategy for Pensions' the Conservative Government set out their intention to replace the existing structure of graduated pension contributions by a scheme of fully earnings-related contributions.... As to the self-employed people the Government considered that for several reasons it was not practicable to set up a system of collecting fully earnings-related contributions serving as the basis of their entitlement to benefits.

'The contribution liability of the self-employed should therefore continue to be primarily flat-rate. However, reliance on flat-rate contributions meant that unless they could be set at a substantially higher level than before - with consequent hardship to those with small incomes - the contribution payable by the self-employed man with above average earnings would be much too low by comparison with the joint employee/employer contributions for employees with comparable earnings.

'The Government therefore proposed that, in addition to a flat-rate contribution at the present level, those self-employed people with earnings exceeding a certain amount should pay an earnings-related contribution of a certain percentage of the profits or gains within certain limits.

'These earnings-related contributions would be collected with Income tax and paid to the National Insurance Fund as a general contribution towards the cost of the scheme. This form of contribution would, however, not affect the self-employed person's benefit which would entirely depend on the flat-rate Class 2 contribution'.

64. The Commission noted that, as regards Class 4 Contributions: 'their purpose is to ensure that the self-employed as a whole pay a fair share of the costs of pensions and other national insurance benefits without the lower earners amongst them having to pay excessive high flat-rate Class 2 contributions'.

65. The Commission found that the Class 4 contribution was 'justified as being based on the legislator's appreciation of the way in which the costs of the national insurance scheme should be shared between the persons eligible to the different benefits available under the scheme'.

66. It follows from the above that the self-employed are indeed paying their fair share towards the cost of pensions and other State benefits even when the combined employee/employer contributions are taken into account.

67. In the circumstances we are unable to comprehend why the DHSS should make it increasingly difficult for certain categories of people to adopt self-employed status.

68. We do not accept that the DHSS should be permitted to take refuge in **The Social Security (Categorisation of Earners) Regulations 1978** or in legislation passed by previous Governments. People capable of, and prepared to, become self-employed should not be forced into unemployment because of laws which have no relevance today.

PART II : CORRELATION WITH SOCIAL SECURITY PROVISIONS

69. We are told (in a letter from the DHSS) that: "A person who is continuously engaged in self-employment on one day a week may not be regarded as available for work as an employee - because such work is normally on a weekly basis - by the independent adjudicating authorities".

70. "Someone in the process of setting himself up in business on his own account would not generally be regarded by the independent adjudicating authorities as available for other work. Unemployment benefit which is financed from the contributions of employed earners is not intended as a means of enabling people to set themselves up in self-employment".

ENTERPRISE ALLOWANCE

71. The Enterprise Allowance (in many ways one of the most innovative concessions the Government has introduced) is an acknowledgment that the unemployed, especially those who have been unemployed for some time, may continue to need State assistance until they can build up their own businesses.

72. Our principal objection to this, basically farsighted, scheme is that those who take advantage of it become mere 'remittance men' paid by the State to take themselves off the register of unemployed.

73. However, we do have other objections: primarily that the scheme is directed at what might be termed 'white collar' self-employment, and holds little attraction for 'blue collar' tradesmen.

74. The conditions attached to the Enterprise Allowance (specifically the £1000 capital required and the time limit of 12 months) make it an unsuitable vehicle for launching many blue collar workers into self-employment.

75. It has, especially, no relevance to the young unemployed who are most likely to see services needing little capital as the best way in which they can start working for themselves.

PAYING THEIR WAY

76. In the Discussion Document 'The Self-Employed and National Insurance' published by the DHSS in 1980 we read:

> 'A number of (self-employed) people who, for whatever reason, had not made adequate provision for themselves would, in the end, still have to be supported by the community'.

77. We do not accept that it is only the self-employed who would need further support. Many of those who have paid contributions as employees throughout their working lives need similar support. Indeed many of those who have never paid contributions at all are receiving the same support.

78. Of course the self-employed should pay their way. They already do so through their national insurance contributions as we have seen in the previous pages.

NOTE: Our detailed proposals are on Page 1: Classifying People as Self-Employed

APPENDIX A

CONTRACT FOR SERVICES No:

NAME _____ ADDRESS _____

_____

WE CONFIRM ACCEPTANCE RE: _____

AT _____ CONTACT/DEPT _____

FROM _____ TO _____ HOURS _____

YOUR FEE AS ARRANGED BY _____

WILL BE AT THE RATE OF _____ INCLUSIVE PER HOUR/DAY/WEEK

PLUS _____

SPECIAL COMMENTS _____

ALL SELF-EMPLOYED CONTRACTORS TO ARE ASSESSABLE ON SCHEDULE D TAX.
THEIR PAYMENTS ARE REPORTED ANNUALLY TO THE D.H.S.S. & INLAND REVENUE AS REQUIRED BY LAW.

Engagement is subject to twenty-four hours notice on either side. If you find you are unable to fulfill this engagement, or have sub-contracted it, you must notify immediately by telephone or telegram.

In the event of your services not being required on behalf of the client company through unforeseen circumstances, either before or during the period of your engagement, you will be notified immediately and we will do our best to offer alternative assignments, but no fee is payable if the work is not carried out for any reason.

As you are working independently on your own behalf and without supervision, it is essential that the highest standards of initiative are maintained without direction, otherwise it must be understood that the contract for services can be terminated at once.

Fees and expenses are paid by cheque monthly at the end of the engagement, providing the appropriate supporting documents have been received at offices within 4 days of completion of contract for services.

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PART III : THE TAXATION OF SELF-EMPLOYED PEOPLE

1. When we met the former Financial Secretary last July he said to us that 'everyone' wanted to be self-employed because of the 'tax advantages' of Schedule D. He specified these advantages as:

a. payment of tax in arrear due to preceding year assessment;
b. expenses that can be claimed;
c. capital allowances which are available; and
d. capital gains tax reliefs

2. We suggest that these tax advantages are mainly illusory, owing more to deeply rooted prejudices and trade union mythology than to reality. We have sought to illustrate this in the following paragraphs and in the Tables in **Appendix B.**

3. We spend a good deal of time talking to people who are thinking of becoming self-employed and can recall no one who put tax concessions amongst the reasons given. Indeed, a number had been under the impression that when they started their business they would cease to be eligible for personal allowance, mortgage interest relief, and so on.

PRECEDING YEAR ASSESSMENT

4. In a complex modern economy, no simple, single method of tax collection can adequately serve the needs of both Revenue and taxpayer. Different groups must pay their taxes in different ways, after different periods of time have elapsed sufficient to allow the collection of information necessary for the purpose of a proper assessment to tax.

5. It is understandable that the Inland Revenue should seek to enlarge that class of taxpayer which pays as it earns, from whom it costs the least to collect and which provides fewer problems by way of estimated assessments and accounts to be adjusted.

6. But if it is accepted that there must be different methods of collection for different classes of taxpayer, then it has to be accepted that, whereas some taxes will come in very quickly others are bound to arrive more slowly.

7. As Tax collection is a long-term exercise this is immaterial. Once the process is rolling the revenue will only be affected if the taxpayer becomes bankrupt. But as the Inland Revenue is, in such cases, a preferential creditor we suggest that the loss is likely to be minimal.

8. A business which sells goods or services for cash and on credit regards itself as having a single source of income and its annual accounts will not generally differentiate between the two sources. Although it must wait longer for payment from customers who buy on credit, few firms would be prepared to reduce the number of credit accounts, still less infer that those customers were any less worthy, honest or desirable than its cash customers.

9. Schedule D is not a black hole into which urgently needed revenue disappears forever.

BUSINESS EXPENDITURE

10. In order to produce goods for resale the manufacturer or craftsman must first acquire the raw materials; the retailer must stock his shelves; the caterer must purchase ingredients with which to prepare the meals he serves; and the builder must buy bricks and plaster and wood and paint.

PART III : THE TAXATION OF SELF-EMPLOYED PEOPLE

11. Some businesses will need plant or machinery, hand tools or office equipment. Others may require the services of sub-contractors, consultants, distributors, or management and business services.

12. Most will own or rent business premises; pay rates, insurance, telephone; use heat and light; run vans or lorries. Many will employ staff, advertise, incur costs for printing and stationery and for professional services.

13. All these items are generally accepted as either revenue or capital expenditure which can be legitimately set against business profits.

PREMISES

14. The employee works in premises provided and paid for by his employer. The company for which he works can set rent, rates and other overheads or industrial buildings allowance against its profits.

15. Payments for rent, rates and other overheads made by a self-employed person occupying commercial or industrial premises are also allowed without question.

16. The self-employed individual working from home who is able to set a percentage of his household overheads against his profits is at no greater advantage than the employee, moreover the amount that is allowable will be just a fraction of what could be claimed if business premises were occupied.

EMPLOYEES

17. A self-employed individual, whatever the nature of his business, must do for himself, or have done for him, a great number of tasks which, if he were an employee, would be performed by other employees in the same company or by contractors paid by the company.

18. The employee may be provided with a secretary or secretarial services, and almost certainly another member of the staff, an accountant or a bureau will be responsible for doing his PAYE and paying his wages.

19. Employees of the company will pack and dispatch orders; purchase plant and machinery and arrange for its servicing and repair; place advertising or mount promotional campaigns; see to the upkeep of the company's vehicles; make sure the company takes out insurance to cover the goods it manufactures or distributes and the people it employs.

20. Employees of the company will invoice customers; pay suppliers; bank receipts; chase up overdue accounts; reconcile bank statements; prepare budgets and cash flow forecasts; keep books of account; and get end of year accounts ready for the company's accountant to present to the Tax Inspector.

21. The time that is spent by the company's employees in providing these back-up services for other employees is paid for by the company and will be set against the company's profits, as will any payments made to outside contractors who may take over some of this work.

PART III : THE TAXATION OF SELF-EMPLOYED PEOPLE

22. The tax inspector will allow the wages paid to anyone employed at arms length by a self-employed person; it is only when the services of a wife or other close relative are concerned that payments may be disallowed or at least regarded with some suspicion.

23. There are, however, many perfectly valid reasons for employing a wife: her services can be dispensed with at a moment's notice; and she can be re-engaged at a moment's notice; if she is replaced by another employee she cannot claim unfair dismissal; she can be paid as little as the business can afford; or not at all if the business has cash flow problems.

24. And of course, quite reasonably, if someone has to be paid for working in the business it is sensible and prudent to keep the money in the family.

25. If a self-employed person employs his wife to undertake some of the tasks he would other be forced to do himself he is at no greater advantage then the employee for whom these tasks would be undertaken by another member of staff.

26. It should be appreciated, moreover, that were the business to employ someone at arms length the wage that would be tax deductible would most likely be far greater than that paid to the wife which, in many cases, would be deliberately kept below the PAYE and National Insurance contribution thresholds.

EXPENSES

27. **Section 189(1) of the Income & Corporation Taxes Act 1970** provides that a director or employee who is obliged to incur or defray expenses of travelling in order to do his job and the money is expended wholly, exclusively and necessarily in the performance of his duties, will not be assessed to tax on the amount of those expenses reimbursed by his employer.

28. **Section 130 of the Taxes Act** provides that only disbursements or expenses wholly and exclusively laid out or expended for the purposes of the trade, profession or vocation may be deducted from profits or gains chargeable to tax under Schedule D.

29. Purchase and running expenses of motor vehicles, travel and subsistence, entertainment of business customers and suppliers, living accommodation associated with work, membership of clubs, benefits in cash and kind - these are the items which give rise to the most frequent disputes, often due to genuine misunderstanding by the taxpayer as to what is and what is not allowable as a deduction from profits.

30. Moreover, although the tax laws are supposed to apply even-handedly as between all taxpayers, this is patently not the case when one taxpayer is a civil servant. We refer to the report: 'Expenses of Civil Servants raised to cover tax' (Daily Telegraph 10 February 1983) that the Treasury has agreed to increase long term lodging allowances by 30% to compensate for the tax that civil servants will pay in future.

Travelling and Subsistence

31. The employee travelling on business for his company is not expected to pay for his own travelling and subsistence; he has the right to claim these expenses from his employer unless the company itself chooses to pay the supplier direct.

PART III : THE TAXATION OF SELF-EMPLOYED PEOPLE

32. Travelling and subsistence are part of the expenditure which must be incurred if a job is to be carried out and customers or prospective customers visited, and the company itself will be able to claim these expenses as a deduction against profits.

33. The self-employed individual who travels from his place of business (whether or not that place is his own home) has, and should have, the right to a similar concession. To say that he should not have that right because his home is his place of work would effectively make it impossible for, for example, a consultant or designer whose place of business is his home and who has a client in, say, Saudi Arabia, to claim the expense of his journeys to and from that country.

34. It could be argued, moreover, that the self-employed person, because he has to pay those expenses out of his own pocket or even borrow from his bank to pay them, will be less generous with those expenses than would an employer.

What advantage?

35. Let us just see what this tax advantage looks like set against the profits of a basic rate Schedule D taxpayer who, on a business trip in July 1982 pays an hotel bill for £100.

36. His financial year ends 5 April 1983 and he submits his accounts to the Inspector and receives an assessment to tax payable in January and July 1984.

37. Had that hotel bill not qualified for tax relief his taxable profits would have been £10,100 and he would have paid £3,030 tax. The £100, however, reduced his profit to £10,000 and his tax to £3,000.

38. By laying out £100 in July 1982 he will pay £15 less tax in January 1984 than he would otherwise have paid, and £15 less in July 1984.

39. It is therefore two full years before he gains the 30% tax advantage which results from his expenditure of £100.

40. Indeed, it could be argued that he has made the revenue an interest-free loan of £30; half of which was repaid after 18-months, the final payment only being made after 2 full years had elapsed.

41. Now let us see what would have happened had he been an employee. Because he had been instructed by his company to incur the expenditure the £100 would have been instantly refunded (if indeed it had not been advanced to him beforehand).

42. His employer would then claim the expenditure as a deduction from the company's profits and if that company paid Corporation Tax at 52% the tax saved (and conversely lost to the revenue) would not be £30 but £52 and the company would get the tax relief nine months after the end of its accounting period, the normal due date for Corporation Tax.

43. The situation is only reversed if the self-employed person is paying tax at a higher rate and the company is paying the small companies Corporation Tax rate of 38%.

APPENDIX B

EXPENDITURE INCURRED FOR THE PURPOSES OF THE BUSINESS	SCHEDULE E TAXPAYER EXPENDITURE ALLOWABLE	EMPLOYER	SCHEDULE D TAXPAYER IN BUSINESS PREMISES	WORKING FROM HOME
Rent, rates, light and heat, insurance, repairs and maintenance of premises.	Percentage allowed if he is required by the terms of his employment to work from home	Allowable in full	Allowable in full	Percentage based on portion of premises used for business
Telephone	Percentage allowed if he is required to use his telephone for the purposes of company's business	Allowable in full	Allowable in full	Percentage based on amount of business use possibly reflecting turnover
Vehicles: capital cost of lorries, vans	Does not apply	Allowable under CAA 1968 Section 32 as amended	Allowable under CAA 1968 Section 32 as amended	
Vehicles: capital cost of motors	Does not apply	Allowable under CAA 1968 Section 32 as amended	Allowable to extent vehicle is used for business purposes	
Vehicles: running costs	Subject to ICTA 1970 Section 189 and FA 1981 Section 68/69 as amended	Allowable in full	Percentage allowable under ICTA 1970 Section 130 according to extent vehicle is used for business purposes	
Travel and Subsistence	Allowable in full when for purposes of firm's business. Reasonable day-to-day business expenses	As for Schedule E taxpayer	As for Schedule E taxpayer	
Wife: employment of	Subject to PAYE if she earns more than £1785 p.a.	Allowable if she actually works in the business and particulars are shown in the books	Pay deductible for tax purposes if the salary is actually paid to her and her contribution is worth the payment she receives	
Wife as director of partner	Subject to PAYE if she draws more than £1785 p.a.	Allowable in full	Drawings not deductible. She will be assessed to tax under Schedule D relevant to her share in the profits of the partnership	

APPENDIX B

EXPENDITURE INCURRED FOR THE PURPOSES OF THE BUSINESS	SCHEDULE E TAXPAYER EXPENDITURE ALLOWABLE	EMPLOYER	SCHEDULE D TAXPAYER IN BUSINESS PREMISES	WORKING FROM HOME
Entertaining UK clients or suppliers	Cost of own meal not assessable if met by employer	Not allowable	Now allowable	Not allowable
Living accommodation	Allowable subject to FA 1976 Sections 61-63 as amended and to FA 1983 S 21	Does not apply	Does not apply	Does not apply
Meals	Allowable if taken in canteen in which meals are provided for all staff	Allowable in full if canteen provided	Not allowable	Not allowable
Medical Insurance	No charge to tax if employee earns less than £8,500 incl. benefit	Allowable in full if firm has a scheme	Not allowable	Not allowable
Subsistence: short term Full time lorry drivers	Deduction allowed for extra expenses necessarily incurred in the performance of his duties	Allowable in full	Not allowable	Not allowable
Subsistence: short term Site-based staff in the construction industry	Allowable where the employer reimburses actual expenses incurred or pays a reasonable allowance	Allowable in full	Not allowable	Not allowable
Payments for loss of employment	Up to £25,000 tax free	Subject to 3 times amount of Statutory payment if business is discontinued	Does not apply	Does not apply
Meal Vouchers	Tax free up to 15p per day under an extra Statutory Concession	Allowable in full	Not allowable	Not allowable

PART IV : SOME DISADVANTAGES OF SELF-EMPLOYMENT

DIFFERENT TREATMENT OF SCHEDULE E AND SCHEDULE D TAXPAYERS

1. We were told (in a letter from Mrs Lynda Chalker when she was Parliamentary Under Secretary of State at the DHSS) that two people working alongside one-another and doing the same work should not be treated differently because one is taxed under Schedule D (as self-employed) and the other under Schedule E (as an employee); or because one has obtained work through an agency and the other is a permanent employee.

2. That this different treatment (which presumably means higher pay for the self-employed sub-contractor than the employee) is essential if the sub-contractor is not to be put at a considerable financial disadvantage is something that we hope to illustrate in the following paragraphs.

3. Misunderstanding regarding that supposed 'financial advantage' would be eradicated if the employee could be shown that, although he is free to spend every penny of his take-home pay as he chooses, the sub-contractor has to provide for a great deal more than his personal and household expenses.

4. The Schedule D taxpayer seeking an after-tax income equivalent to the Schedule E taxpayer's take-home pay would need to show a profit equal to the employee's gross pay in order to arrive at approximately the same spendable income after settling his tax and national insurance contributions alone.

5. Even if he provides a personal service on clients' premises and therefore has no rent, rates or wages to pay he will have expenses which the employee does not have.

6. HIS EARNINGS MUST INCLUDE those items that are included in the employee's gross wage: income tax and national insurance contributions; medical insurance (his business overheads must still be met even if he is too sick to work); premiums for a self-employed pension (because he only gets the basic State pension when he retires).

7. HE HAS TO ALLOW FOR BUSINESS OVERHEADS: Telephone; insurance; cost of running his car; professional fees; bank charges; servicing and replacement of tools and equipment; stationery and printing; postage; and books and publications if he needs them for the purposes of his business.

8. THE SUB-CONTRACTOR IS ONLY PAID for the hours he spends on the job, and because of the irregularity of contracts he must earn sufficient during the remainder of the year to see him through other non-earning periods; when he is sick or on holiday (including any public holiday) for example.

9. HE WILL NOT BE PAID for the time he spends dealing with everyday business matters: 'Phoning his agency or the client; going to the bank; reconciling his bank statements; keeping up-to-date with what is happening in his trade or profession; doing his accounts; budgets, cash flow forecasts and his VAT.

10. And if he makes mistakes or does slipshod or poor quality work he will have to do it all over again, without pay.

PART IV : SOME DISADVANTAGES OF SELF-EMPLOYMENT

PAPERWORK AND ACCOUNTS

11. This association is deeply concerned that new taxes and procedures (PAYE, VAT, SSP) are introduced without any regard to the ability of those who are expected to operate them or of the amount of time, and consequently the compliance costs that will be incurred.

12. With more and more people being encouraged to become self-employed, a good number (not necessarily only those in blue collar trades) will have no previous experience of paperwork and very few, in their early years at any rate, will feel they can afford the services of an accountant.

13. Although, in general, we consider it essential for a business to keep books of account and produce regular budgets and cash-flow forecasts, we make an exception on the case of the self-employed tradesman working by himself without employees and on clients' premises.

14. The more he can be free of the need to comply with requirements in respect of record keeping for tax and VAT purposes the more time he will have to work and look for more work, and the greater will be his chances of survival as a self-supporting, tax paying asset to the State.

VALUE ADDED TAX

15. A Survey of VAT by the Institute of Fiscal Studies, Bath University in 1976 (VAT: compliance cost to the independent retailer) revealed that the work involved can take a small firm anything up to six working weeks in a year.

16. Sir Douglas Lovelock himself, Chairman of HM Customs & Excise, said in evidence to the Public Accounts Committee 1981-82 Session (22nd Report Page 15): "We reckon that VAT itself is a tax which is far more complicated and wide reaching than any other".... "VAT is much harder to understand, more complicated, than any other tax our Department have had in the past."

INCOME TAX

17. In June 1980, Sir Lawrence Airey, Chairman of the Inland Revenue, told the Public Accounts Comittee that a spot check at 43 local tax offices had revealed that 27% of tax assessments were wrong. If those findings were typical of the 580 local PAYE offices it would mean the Inland Revenue was overcharging certain taxpayers by around £18 million and undercharging others by about £25 million.

18. In addition to the 27% of mistaken assessments there was a 12% error in a sample of 7000 codings and a 24% error on examinations by tax officers on 5000 tax returns.

19. "There is clearly something wrong," Sir Lawrence said. He thought that some, at least, of the high percentage of mistakes were due to pressures on staff during the previous year.

20. We only wish the same degree of sympathetic understanding could be extended to the Schedule D taxpayer who is often struggling to produce accounts, with an imperfect knowledge of bookkeeping and the tax system and under <u>constant</u> pressure due to the requirements of his business and the obligations placed on him by various Departments of State.

PART IV : SOME DISADVANTAGES OF SELF-EMPLOYMENT

21. According to a recent survey* rather more than one-third of the owners of small businesses are themselves responsible for preparing the necessary figures for the purposes of Income or Corporation Tax.

22. In his evidence to the Public Accounts Committee (1981-82 Session) Sir Lawrence said that assessments for 1981 examined by the Revenue for technical adjustments showed profits and losses in the computations in both directions. Those in favour of the Revenue totalled £1792 million and those in the taxpayer's favour totalled £151 million.

23. Where cases were examined in which, in the inspectors' judgment, there was a prima facie case for investigation, the results of a large sample (about 5,500) suggested that about 20% of accounts probably understated profits and about 40% almost certainly did not, with a grey area of about 40% in between.

24. Rt. Hon. Joel Barnett (Chairman): "So there is 20% (of accounts) where there is a high probability of under-statement?" Sir Lawrence Airey: "In the inspectors' judgment, yes." Chairman: "These would be small companies, I take it, would they?" Sir Lawrence: "These would be Schedule D cases." Chairman: "Small firms?" Sir Lawrence: "Yes. Average profits for those cases were of the order of £5000 to £6000 a year."

25. It will be seen from this that Lord Barnett (then Mr Joel Barnett) chose to put one interpretation on these figures (a high probability of 20% under-stated) when he could equally have put on them the opposite interpretation (a high probability of 40% not understated).

26. Furthermore, by applying the same percentages to the 'grey area' we arrive at the result, extended to all 5500 cases thought to be candidates for 'in-depth' investigation, to find that only one-third (1833) were 'probably' understated whilst two-thirds (3666) were almost certainly not understated.

BUSINESS PROFITS ARE ALSO WORKING CAPITAL

27. Sole Traders and Partnerships are not allowed to retain money in the business against a downturn in trade or to finance future expansion buy must pay tax on the whole of the difference between income and business expenditure.

28. The result is frequently a scramble towards the end of the financial year in order to reduce taxable profits by buying plant and equipnment, investing in property, or paying an additional premium into a pension scheme. Or perhaps, most nonsensical of all, taking advantage of the Business Expansion Scheme to invest in somebody else's business.

29. But profits made by a Schedule D taxpayer must do more than just provide him with a living. They are his working capital.

30. A self-employed married man with a dependant wife and business profits of £8710 p.a., the same as the average gross weekly earnings of men in all occupations in the year ended April 1983 (£167.50 p.w.) will pay total tax and national insurance contributions of £2312.63 (£1774.50 tax; £228.80 Class 2 NIC; £309.33 Class 4 NIC).

31. Leaving him with £123 per week which must not only cover his household and personal expenses as they did when he was an employee, but which must also provide him with the working capital with which to run his business.

PART IV : SOME DISADVANTAGES OF SELF-EMPLOYMENT

32. A self-employed person would have an incentive to leave profits in his business if they could be carried forward from a good year to help him should the following year be a bad one.

33. Instead of attempting to raise additional capital out of taxed profits or by taking out a high interest-bearing loan he would be able to plan his financial affairs more effectively and his business would have a considerably greater chance of survival.

PART IV : SOME DISADVANTAGES OF SELF-EMPLOYMENT

ESTIMATED ASSESSMENTS

34. Many Schedule D taxpayers end their financial year on 5 April. A great number of these find it impossible to complete their accounts for delivery to the Inspector within 4-months, by which time Tax offices have already begun sending out estimated assessments.

35. Whether or not the taxpayer has an accountant it is likely that he will be inclined to give priority to those activities likely to increase his turnover and produce profits, rather than spend time on finalising and filing his tax accounts.

36. Accountants are also under considerable pressure owing to constant changes in tax and company laws and they too will be hard put to complete, by early August, accounts for financial year ending after 31 December.

37. We are concerned at the time wasted by both Inland Revenue staff and taxpayers, in preparing estimated assessments, appealing against them, and handling the appeal.

38. We appreciate that (E) assessments are intended as 'frighteners' to encourage the filing of accounts but point out that the majority of people paying Schedule D tax and preparing their accounts without the assistance of an accountant are generally unaware that there is an 'unwritten' time limit after which they are liable to receive an estimated assessment.

CASE NUMBER FOUR

39. One of our members, whose financial year ends on 5 April sent her accounts to the Inspector by first class post on 13 August. One week later she received an estimated assessment dated 16 August and on phoning the tax office was told that an apeal would not be necessary.

40. A revised assessment dated 22 November and containing a number of errors was received on 26 November and on 6 December she submitted an appeal, together with her own estimate of the tax payable.

41. On 22 December she received another revised assessment dated 16 December in which only one of the errors had been corrected. And on 23 December she wrote again to the Inspector enclosing copies of her previous letter ad enclosure and pointing to the errors that were still contained in the latest assessment.

42. The matter has not yet been resolved, but already the cost to the Revenue (including two different demands from the Collector) must be considerable. Whilst the taxpayer (who does her own accounts and is therefore unable to claim any deduction in respect of time spent so fruitlessly) finds this yet a further restriction on her ability to work, make a profit and pay tax.

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* Forum of Private Business August 1983

NOTE: Our detailed proposals are on:
Page 3: Small Business Allowance
Page 4: Averaging Profits
Page 5: Avoiding Estimated Assessments

PART V : SELF-EMPLOYED DIRECTORS

1. Since 1975, directors of private companies have not had the option of being assessed to tax under Schedule D but, as 'office holders' have been subject to Schedule E tax and Class I National Insurance contributions.

2. The resultant costs (amounting to an additional £1200 p.a. in National Insurance contributions for a director earning £12,220 p.a. or more) weighs heavily on the director(s) of a small family company and it is difficult to see the justification for the double liability.

3. This association was told (in a letter from Mrs Lynda Chalker when she was Parliamentary Under Secretary for State at the DHSS) that the Inland Revenue had always regarded company directors as 'holders of an office' and so chargeable to tax under Schedule E; the **Social Security Act 1975** simply brought national insurance law into line, in accordance with the policy that, so far as possible, the national insurance category of earner and the Schedule under which income tax is charged should be aligned.

4. According to our dictionary 'office holder' is 'one who holds public office'. To apply this term to a director who may be either an employee or the owner of a company seems to be playing with words for the sake of establishing some wholly artificial status.

5. We understand that directors' fees are only treated as employment income in Canada, Norway, Sweden and the United Kingdom. They are not so treated in Argentina, Australia, Austria, Belgium, Brazil, Denmark, Finland, Greece, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, Portugal, Spain, Switzerland or the United States.

6. We refer also to **Part II** of this Submission **(Correlation with National Insurance Provisions)** and Mrs Chalker's reply to a Parliamentary Question, in which she said that contribution rates for the self-employed were calculated entirely by reference to national insurance factors such as the state of the national insurance fund and the benefits for which particular groups were eligible.

7. This being the case we are unable to comprehend why a director of his own company, provided he is prepared to forego his entitlement to unemployment benefit, should be subject to this heavy imposition when the benefits which he would be entitled to claim would be no more than those claimed by a self-employed person.

8. Whereas in 1983-84 the self-employed individual will pay a maximum of £745 in Class 2 and Class 4 NI contributions, a director of his own company drawing £12,220 or more will pay as both employee and 'office holder' a total of £2499, less corporation tax at 38%, leaving a total payment of £1967.

9. A working director who is the sole or a major shareholder in his own private company is essentially still self-employed because he is the company; it is his expertise and hard work on which the company depends and it is his money that is at risk.

NOTE: Our detailed proposals are on Page 6:
Schedule D Assessments for Controlling Directors

PART VI : PAY-AS-YOU-EARN

1. We do not believe it is ever sufficiently appreciated, if indeed it is appreciated at all, that the operation of PAYE can be quite daunting to employers in small firms and especially to new employers.

2. According to a recent survey*, in no fewer than 67% of all small firms the employer himself does the PAYE. Even those who employ a wages clerk (often part-time) would be unable to check that she herself fully understood the system.

3. Research carried out at Bath University in 1982 into the compliance costs of PAYE show that these costs bear proportionately more heavily on small businesses than on large ones. In 1981-82, say the authors of the study, the compliance cost/yield ratio varied from under 1% for the largest businesses to 33% for the smallest especially those with no more than 5 employees.

4. As might be expected, the authors found that experienced book-keepers were considerably faster at PAYE than other staff. The most debatable figure, they said, was the value put on his own time when the employer himself did the wages.

5. This too is no more than could be expected, for who is to say just how much the employer's time is worth or to what extent he might be increasing his firm's profits were he not burdened by unproductive paperwork.

6. In the House of Lords last November, Lord Maude of Stratford-on-Avon deplored the costs that rose so sharply when the small man became an unpaid tax and insurance collector for the Government and attacked the burden of paperwork which discouraged the self-employed craftsman from taking on his first employee.

7. In her research monograph 'The Moral Hazard of Social Benefits' (IEA 1982) Hermione Parker writes that:

> "Cumulative PAYE systems exist in Britain and Ireland only. When introduced during the Second World War the advantages may well have outweighed the disadvantages. But today taxpayers in many countries pay their tax on a regular weekly or monthly basis without having to endure the complexities of cumulative PAYE, and without any undue upheavals at the end of the a year."
>
> "A lasting solution to the unemployment and poverty traps," she goes on "is unlikely as long as cumulative PAYE continues and some benefit payments remain tax-free."

8. It would appear, therefore that employer, employee and the unemployed all suffer from the harmful effects of the PAYE system which is now actually damaging employment opportunities and should be replaced without delay by a system more acceptable to the small employer and less divisive as between employees and the self-employed.

CASE NUMBER FIVE

9. One of our members, a qualified motor mechanic, who had been working on his own for two years, recently decided to take on his first employee. After reading the various cards, forms and booklets which the Tax Office sent him, he decided the task was quite beyond him.

PART VI : PAY-AS-YOU-EARN

10. He phoned us and asked us if he could make the assistant 'go self-employed'; and when we answered "No" he said: "In that case he'll have to go. There's no way I'm going to get involved with all that stuff. I tried to work out what I should stop him and came up with five different answers."

11. We were able to put him in touch with a self-employed wages clerk who took over the PAYE for him. But as our member said: "By the time I've paid her and the national insurance I've laid out a tenner over what I reckoned I could afford. If he doesn't bring in at least £150 a week it's not worth the aggro."

CASE NUMBER SIX

12. A member who is the director of a security company with 45 employees tells us that the PAYE people are 2½ years behind with their accounts. He has just had a letter from them demanding £67 in respect of an error in 1980-81. And he must either spend hours trying to trace the error and argue with them about it, or pay up.

13. "The PAYE office uses us as their filing system," he says: "They appear to find it easier to demand, within 30-days, information they have already had but have mislaid than to spend their precious time looking for it in their own files."

CASE NUMBER SEVEN

14. Another member, director of a sheet metal company with 42 employees, complains: "We have collected hundreds of thousands of pounds on behalf of the Government. We therefore consider it iniquitous when we are called upon to pay:

> £99 income tax due to an error three years ago when none of the present staff or systems were here; (see **Appendix C**) and
>
> £37 in respect of an error that occurs in NHI probably once in every million employees. (see **Appendix D**)

It would be nice to have an employee who does nothing else but ensure that everything to do with taxation is checked, re-checked and checked again, but we cannot afford the luxury."

CASE NUMBER EIGHT

15. A very different complaint was made by another member, company secretary of a small garage with 5 employees who was instructed to pay out a refund of £953.54 to a new employee (see **Appendix E**)

16. Numerous telephone calls from Surrey to Shipley explaining that the company's average PAYE payment was only £500 per month (not due for 3-weeks) and that an unbudgeted payment of such a size would put the company's cash flow under great strain, were of no avail and the clerk insisted that Para 102 of the Employer's Guide to PAYE must be complied with. The result was that the company had to increase its overdraft to pay this refund.

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* Forum of Private Business August 1983

NOTE: Our detailed proposals are on
Page 7: Simplified PAYE for very small firms
Page 8: Errors discovered by PAYE Office
Page 9: Refund of Income Tax after First Pay Day

APPENDIX C

Inland Revenue
Collector of Taxes Sheffield South
2nd Floor 3-7 Holy Green Sheffield S1 3JT
Telephone Sheffield 0742-753171 ext 244

Your reference

Our reference

Date

Dear Sir

INCOME TAX – PAY AS YOU EARN AND
NATIONAL INSURANCE CONTRIBUTIONS
1980 /81

EMPLOYEE:

.....

I have been advised by HM Inspector of Taxes, Sheffield 2 District, that insufficient tax was deducted from the above-named employee during 1980 /81, as the employee was given the benefit of the budget increase basic allowance with effect from 6th April.

The additional tax due is shown below:-

Gross Pay	£ 6843-26
Tax Due (Week) (Month)	£ 1299-90
Code 220N	
Tax Paid	£ 1200-90
TAX NOW DUE:	£ 99-00

RECEIVED 24 JUN 1983

I request that you let me have an explanation as to how this incorrect deduction of tax occurred, together with a remittance in settlement of £ 99-00 within the next 10 days.

Yours faithfully

J Nathan

COLLECTOR OF TAXES

RECEIVED 24 JUN 1983

Department of Health and Social Security
Sorby House 44-62 Spital Hill Sheffield S4 7LE

Telephone Sheffield 71211 EXT 263

11 JUL 1983

Your reference

Our reference

Date

APPENDIX D

Dear Sir or Madam

Re: Ref: No:

Further to our telephone conversation of 2[illegible] 6 1983 regarding the above named. You deducted reduced rate contributions in 1980/1981 tax year but standard rate contributions were due. This is because prior to the 1980/1981 tax year did not pay any contributions for the last two tax years,i.e. 1978/79 and 19[illegible]80, and the regulations from 6 4 1978 state that a woman who does not pay contributions for two consecutive tax years loses her right to pay reduced rate contributions. A schedule of the amount underpaid totalling £37.64 and now due is shown below. Cheques and Postal Orders should be crossed and made payable to the Department of Health and Social Security. The enclosed leaflet NI 1 explains the position fully (please see page:5:).

SCHEDULE OF UNDERPAYMENT OF NIC 1980/1981

Tax Year	Cat.Letter	Total	E/E's Cont.	Arrears
1980/81	B	£124.47	£86.83	-
1980/81	A	£162.11	£53.49	£37.64

Yours faithfully

V Whittaker
for Manager

PART VII : TAXATION OF CASUAL AND PART-TIME WORKERS FORM P46

1. On 22 April 1981, Mr Michael Brown asked the Chancellor of the Exchequer what steps the Inland revenue had taken to recover missing tax in Fleet Street from the newspaper proprietors who had failed to deduct pay-as-you-earn from their payments to casual workers.

2. In reply, Mr Peter Rees, then Minister of State at the Treasury said: "None. **Regulation 50(1) Income Tax (Employments) Regulations 1973** provides that in cases of casual employment, and in any other case in which the Inland Revenue is of the opinion that deduction of tax by reference to the tax tables is impracticable, the normal PAYE rules do not operate. In such cases the regulations that provide for recovery of tax from the employer do not apply." (Hansard Vol.3 Col.340 27 April 1981)

3. On 6 April 1981 however, new regulations were introduced placing on the employer an obligation in respect of employees with earnings below the PAYE threshold.

4. It is no longer sufficient merely to record the name, address and payments made to such an employee. If he does not certify, on Form P46, that he has no other, main, job, the employer is obliged to deduct tax at the basic rate from any payment made to him.

5. If a Wages Audit Inspector finds that the employer cannot produce a P46, on demand, for every casual and part-time worker to whom more than £1 has been paid the employer will be liable to tax on the payments made on the assumption that the employee is receiving his allowances via some other employment.

6. Furthermore, payments may be 'grossed-up', meaning that for every £21 paid to the employee the employer will be assessed to tax on £30, regardless of whether or not the employee himself would have been liable to pay tax on those earnings.

HISTORY OF FORM P46 (1982)

7. Prior to April 1981, the only obligation on an employer in respect of a casual or part-time employee earning less than the PAYE threshold was to keep a record of his name, address and any payments made to him.

8. The employer was required to prepare Form P46 and send it to the Tax office only where the employee worked for him for more than one week, and:

i. had another job; or

ii. was paid more than the PAYE threshold and could not produce a P45

9. These requirements were generally understood by employers and gave rise to no particular problems or an excessive amount of paperwork.

10. In 1979, as part of its programme to promote efficiency and eliminate waste in administration, the Government initiated scrutinies (supervised by Ministers in consultation with Sir Derek Rayner) of specific functions and activities of Government departments.

11. One of these projects was an examination of how the Inland Revenue's PAYE system worked when an employee changed jobs. Recommendations, mainly involving changes in P46 procedures, were promoted as leading to increased efficiency within the PAYE movements system.

PART VII : TAXATION OF CASUAL AND PART-TIME WORKERS FORM P46

'CATCHING' THE EMPLOYER

12. This major change in regulations was introduced with the minimum amount of publicity in a way that can only be deplored by any fair minded person, and many employers (especially those who have no employees within the PAYE system) are still unaware of it.

13. It is difficult to draw any conclusion other than that the primary object of the P46 exercise is not so much to 'catch up' with the moonlighter as to 'catch' the employer, supposedly a man of substance - and extract from him an additional contribution to the Revenue which the casual worker, supposedly a man of straw - would be unable to provide.

NOTIFYING EMPLOYERS OF THE CHANGE

14. The Preface to the 'Employer's Guide to PAYE' (P7) paragraph 2 headed 'Changes effective from 6 April 1981' included the following: 'One change requires that employees whatever their rate of pay, who are employed for more than one week must be given the opportunity of signing a certificate appropriate to their circumstances.'

15. The 1983 edition of the 'Employer's Guide to PAYE', paragraph 97, states that where Form P45 is not produced and the period of employment is for more than one week, the employer should take the action referred to in para. 98. Paragraph 98 states that the employer should ask the employee to complete either Certificate A or Certificate B on the back of Form P46, obtain the employee's signature, and:

16. If pay is not more than the PAYE threshold and is also less than the NI contributions lower earnings limit the employer should retain the certified Form P46 and keep a record of the employee's name, address and amount of pay. A return of these details may be required by the Tax Office at the end of the year.

17. Although our dictionaries define 'should' as 'shall', and we appreciate that 'shall' is used in legislation as indicating a mandatory requirement this is not the generally accepted definition of the word 'should'.

18. We totally deplore, as misleading, its use in the context of the P46 requirements, especially in a publication where the word 'must' is frequently used. We have found that, without exception, the word 'must' is regarded as mandatory while 'should' is regarded as optional.

WHY PENALISE THE EMPLOYER?

19. As there is no obligation on the employee for tax on earnings below £34 p.w. we consider it iniquitous that the employer should be penalised if he fails to produce Form P46 for every casual or part-timer.

20. We do not believe this was the intention of the project officer who produced the Scrutiny Report and we would be very surprised if the Ministers who supervised the project were aware that the amended regulation was to be used in this way.

21. It is simply not good enough to insist that employers have a duty to know the law and that ignorance is no excuse. The volume of new employment, health and safety and company legislation and continual changes in Tax, VAT and Social Security regulations is now such that no small or medium sized employer can possibly assimilate it all.

PART VII : TAXATION OF CASUAL AND PART-TIME WORKERS FORM P46

22. In a small firm where the employer himself does the wages (in 67% of all small firms according to a recent survey) or possibly employs a part-time wages clerk, it is highly unlikely that either would read the preface, still less make a word by word examination of the old and new Guides to establish whether any action need be taken as a result of amended paragraphs.

23. Even in the larger company wages clerks rarely have time to read the Employers Guide page by page using it for reference only.

24. It should not be open to the Revenue to take advantage of an employer's ignorance of these amended regulations which were brought into operation without any of the publicity which should have attended such a major change in PAYE procedures.

25. A the very least the Blue Card (P8) should have contained a warning of the possible consequence should the employer fail to apply P46 regulations as required.

WORKING UNSOCIAL HOURS

26. Perhaps it is not sufficiently appreciated that certain jobs are extremely difficult to fill, and would not be filled at all were those undertaking them to lose 30% of their earnings.

27. The employer is caught between conflicting obligations. On one hand his need to provide the services his customers demand at a cost he can afford and at a price they are prepared to pay. On the other hand increasing demands by the Revenue which can jeopardise his ability to provide those services and so endanger the viability of his business.

28. We have members who are garage owners and must find forecourt attendants to work on Sunday mornings; members who own public houses and must find barmen to work on Saturday nights; members who are caterers and hotel keepers and must find restaurant and kitchen staff to work in the evenings and on public holidays. Many of them complain to us of the enormous difficulties they encounter when trying to recruit part-time staff to work unsocial hours.

CASE NUMBER NINE

29. One of our members who owns 24 launderettes employs cleaners in the evenings (including Saturday and Sunday evenings) all of whom are paid below NI contribution level. They are given two weeks paid holiday each year during whch time they must arrange for a friend to deputise for them. The total number employed including holiday reliefs is about 45.

30. Our member was not aware that new PAYE procedures had been introduced in 1981, ostensibly to save about 350 staff in tax offices and costs of some £2 million a year, and that under the new rules he was obliged to ensure that every employee earning less than the PAYE threshold sign a revised Form P46 (1982) **(see Appendix E).**

31. And that, moreover, if he was unable to produce the required forms on demand, the Tax Inspector could claim 30% tax which he will maintain should have been deducted (whether or not the employee would have been liable to pay tax); and what is more, all the wages paid would be grossed-up so that for every £21 the employee received he, the employer, would be assessed to tax on £30.

PART VII : TAXATION OF CASUAL AND PART-TIME WORKERS FORM P46

32. Our member did not know about Form P46 (1982) until he found out (the hard way, being told by an Inspector from the Wages Audit Department); and when he asked his cleaners to sign the certificate, half of them refused to do so and never came back to work again.

33. Although the cleaners themselves would probably not have been liable to pay tax on their earnings the employer is now told he must pay £7000, simply because he could not produce a signed Form P46 from each of them.

LOSS IS VIA THE SOCIAL SECURITY SYSTEM

34. We suggest that if there is, in fact, any balance of loss to the Revenue it is likely to be in respect of claims made for Family Income Supplement, rent and rates rebates or allowance for a dependant wife by way of Unemployment or Supplementary Benefit.

35. Although we can sympathise with those who attempt to raise their earnings (pathetically low after tax and national insurance contributions have been deducted) by doing some unrecorded work, we consider the policy of shifting the burden of enforcement and the penalties for evasion, on to the employer via Form P46 to be totally unacceptable.

36. We regard it as iniquitous that employers should be expected to police the Social Security system. And we commend the former Secretary of State for Employment for setting up Regional Benefit Investigation Teams to stop people claiming benefit when they are actually working.

WHO SHOULD POLICE THE SYSTEM?

37. We do not believe it is Government's intention that an employer should be 'caught' by the change in P46 regulations as they apply to casual and part-time employees earning less than £34 p.w. And we wish to draw attention to **The Income Tax (Employment) Regulations 1973 Regulation 8(2)** which provides that:

> 'The Inspector may determine that no tax shall be deducted from any emoluments if: (b) the Inspector is not satisfied that the emoluments will be chargeable to tax.'

38. Much publicity has been given to cuts in the numbers of Inland Revenue staff (some 1,000 between May 1979 and May 1983 and another 4,000 in the pipeline). We consider that these cuts can only be justified if there is a corresponding reduction in the Revenue's workload.

39. Instead, Inland Revenue staff (who alone have the necessary expertise and back-up facilities to deal with tax evasion) are reduced in number whilst employers, deeply resentful of unwelcome and unheralded increases in their obligations, must spend time they can ill afford attempting to police an unpoliceable system, only to be heavily penalised should they misread or misunderstand the new rules.

40. When the Keith Committee proposals to tax casual workers at source was debated in the Upper Chamber, Lord Houghton, himself a former General Secretary of the Inland Revenue Staff Federation said: "This just shows that the tax threshold is so low that the trawl for the small fish can become either impractical or ridiculous."

NOTE: Our detailed proposals are on Page 10:
Return of Earnings for Casual and Part-Time Workers

PART VIII : SELF-ASSESSMENT

1. By their failure to introduce annual returns for all taxpayers successive governments have been responsible for encouraging the growth of the black economy, a significant part of which is accounted for by 'moonlighting' employees doing second jobs, or working on their own account without declaring their additional income to the Inspector.

2. In at least two years out of every three the employee taxed through PAYE is under no compulsion to declare any additional income; nor is he subject to any penalty should he fail to declare earnings from any casual or spare time employment, the penalty falling instead upon the employer.

3. Although the former Chairman of the Board of Inland Revenue, Sir William Pile, conceded that the 'crude collection cost' of income tax is almost three times as high in the United Kingdom as in the USA he argued that much of the cost of self-assessment was transferred from the Internal Revenue Service to the taxpayer.

4. What Sir William failed to point out was that not only is the American Income Tax return comparatively simple to understand but that if the taxpayer needs help in completing it a 'preparer' will do so for him for as little as $20.

5. In the United States, 105 million annual returns are handled by about 85,000 staff in the Internal Revenue Service, whilst here in the UK, 70,000 Inland Revenue staff are needed to deal with a quarter of that number.

6. In 'Self-Assessment for Income Tax' (Heinemann 1977) Barr, James and Prest showed that 1.3 Inland Revenue staff were employed in the UK to deal with every 1000 returns against 1.0 in Sweden, 0.7 in Canada and 0.3 in the United States.

7. Administrative costs too were far higher in the UK being 1.71% of tax collected; considerably above Sweden 1%, Canada 0.91% and the USA 0.48%.

8. It is apparent, therefore, that the cumulative PAYE system, introduced during the last war in order to bring in revenue more speedily, is by no means the most efficient system of tax gathering that could be devised.

9. Although we appreciate that a pilot study into the feasibility of self-assessment is already taking place we feel it should not be overlooked that the ability to answer a question correctly depends to a great extent on the clarity with which the question is put.

10. If a form is filled in incorrectly it is as likely as not to be the fault of those who designed it and drafted the accompanying instructions.

11. With child allowance phased out and relief for life assurance premiums and mortgage interest now deducted at source, annual returns are already far easier to complete than they were five years ago.

12. Of course it will take time to educate the 20 million or so taxpayers, who have been cocooned in the PAYE system since 1944, to take responsibility for their own tax returns and to declare additional earnings not taxed under PAYE.

PART VIII : SELF-ASSESSMENT

13. But to assume that the British taxpayer is less honest, or less capable than the American of making a return of his own income, is to show a degree of contempt for the British public that we sincerely hope is not felt by either the Government or the Inland Revenue.

NOTE: Our detailed proposals are on
Page 12: Introduction of Self-Assessment

PART IX : THE BLACK ECONOMY

1. The black economy is growing because a growing number of people with low incomes believe, rightly, that they are taxed too heavily.

2. In his evidence to the Public Accounts Committee in May 1981, Sir Lawrence Airey, Chairman of the Inland Revenue, gave his 'quesstimate' of the tax loss due to the black economy as £4 billion.

3. Yet he does not actually suggest that the revenue would benefit by that amount were this underground economy to be wiped out overnight. Indeed he says that some of that £4 billion: "Is fairy gold in the sense that if you stretch your hand to collect it it will not be there."

4. That Sir Lawrence is fully aware of the reason for the growth of the black economy can be shown by his evidence to the PAC in May 1981:

5. "Speaking from memory, the tax threshold 30 years ago for a single man would have been of the order of two-thirds of national average earnings, whereas today it would be more like one-third. So you have obviously brought into tax a lot of people on substantially lower incomes than would have been the case then.

6. Going further back, it is even more true that before 1939 the only people paying income tax were people with, say, twice the national average earnings and upwards; in other words taxpayers were a minority of the population. This is true as a general phenomenon and does account for some of the incentive to avoid tax."

7. And in July 1983, when Mr Frank Field asked the Chancellor of the Exchequer what would be the cost of raising the tax threshold to 68% of average earnings for all working taxpayers, the then Financial Secretary, Mr Nicholas Ridley, said:

> "The cost of increasing the married man's allowance to 68% of average male earnings would be about £16 billion in a full year at 1983-84 levels of income. This assumes that the single person's allowance would be increased at the same time. The allowance levels would be: married £6,095; single and wife's earned income allowance £3,905."

8. In her research monograph 'The Moral Hazard of Social Benefits' (IEA 1982) Hermione Parker points out that the tax threshold for a married man with a wife not in paid work was 60% of average male earnings in 1950-51. By November 1981 his tax allowance of £41.25 was worth only 33% of estimated average male manual earnings and would have to be raised to nearly £76 (about £3900 p.a.) to restore the earlier position.

9. When national insurance contributions are added to income tax the position of the lower paid worker becomes even more acute. Currently starting at £32.50 per week (£1.50 below the tax threshold) and for which there is no equivalent to the Personal Allowance, contributions at 9% are payable on the whole of the earnings including the first £32.50.

10. In showing how tax on earnings has grown for those at the lower end of the earnings scale, Hermione Parker gives the example of a married man earnings three-quarters of national average male manual earnings whose tax and national insurance contributions increased from 6.5% in 1950 to 25% in 1981.

PART IX : THE BLACK ECONOMY

11. Take, for example, a General Assistant in the Food Trade who earns £67 per week (Wages Council rate November 1983). A single person will pay tax at 30% on approximately £33 (£9.90) and NIC on the whole of his pay at 9% (£6.03) leaving him with take-home pay of approximately £51. A married man will pay a total of £10 combined tax and NIC leaving £57 take-home pay (£6 to keep a dependant wife).

12. Family Income Supplement which can be claimed by either employed or self-employed people working full-time and bringing up children on low earnings, is payable where there is one child in the family and gross earnings are below £85.50 per week (approximately half the average gross weekly earnings of men in all occupations in the year ended April 1983).

13. The shop assistant earning £67 a week will pay, as we have seen, £10 a week combined tax and national insurance yet if he has one child he will be able to claim £9.25 a week FIS and the State will benefit to the tune of just 75p.

14. This money-go-round is not only costly but robs independent men of their pride in their work, demonstrating as it does their inability to support their families without handouts from the Welfare State.

15. When part of a man's earnings are taken from him by one government department (the Inland Revenue) and returned to him by another (the DHSS) the State not only robs him of his dignity but actually increases taxes in order to meet the cost of administering this absurd system.

COLLECTING TAXES DISPENSING BENEFITS

16. In his Budget Statement in March 1972, the then Chancellor of the Exchequer, Anthony Barber, announced proposals for a new tax credit system which would bring together large parts of the persnoal tax and social security systems.

17. In 'The Right Approach: A Statement of Conservative Aims' published in October 1976 we read: "We remain committed to the evolution of a satisfactory Tax Credit system."

18. And on 'Weekend World' 15 January this year, the Prime Minister talked to Brian Walden about: "Taking money out of one pocket and stuffing it into another" and said: "People don't like being treated as pawns of the State."

19. In 1972, the estimated cost of introducing a tax credit system (sometimes known as 'Negative Income Tax') was around £1,300 million. Today, according to the Chief Secretary, Peter Rees, speaking at the Consevative Party Conference, the cost has risen by some £700,000 to £2 billion and implementation cannot be considered in the short term.

20. And when, last October, Mr Robin Squire asked the Chancellor if he would take steps during the present Parliament to introduce a tax credit system, the Financial Secretary replied that their first priority must be to do what they could to increase tax thresholds.

21. But we have seen (para 7 above) that it would cost £16 billion to increase personal allowances to two-thirds of national average earnings thereby taking some 6 million people out of the social security system and an unknown number out of the black economy.

22. At £2 billion, therefore, the Tax Credit System appears to be a cheap option, the cost of which cannot be quantified in cash terms alone but which would, if implemented, radically change the circumstances, and attitudes, of a significant section of the population.

NOTE: Our detailed proposals are on
Page 13: Introduction of Tax Credit System

CLASSIFYING PEOPLE AS SELF-EMPLOYED

A. Any person providing services as a contractor, sub-contractor or freelance whether to a business or to a private individual will be entitled to be paid gross by the person to whom he supplies the service provided that:

a. he shows on his invoice his Schedule D reference number and the address of his Tax Office; or

b. he includes his Schedule D reference number and the address of his Tax Office on his invoice if required to do so by a client.

B. Where an invoice is submitted containing such particulars the person receiving the service will be entitled to treat the supplier as a self-employed person from whose invoice no Schedule E tax or Class I National Insurance contributions should be deducted.

C. If the person supplying the service fails to show this information on his invoice any business to which he supplies his services will be entitled to deduct tax, at a rate to be prescribed by Parliament, pending further evidence of his right to be paid gross.

D. If he shows on his invoice a Schedule D reference number to which he is not entitled similar penalties to those set out in Section 38 Finance Act 1972 will apply.

NOTES ON OUR PROPOSALS

i. Provision to enable payment to be made without deduction of tax is contained in the **Income Tax (Employment) Regulations 1973 Regulation 8(2)** which provides that:

> 'The Inspector may determine that no tax shall be deducted from any emoluments if: (a) the emoluments will be included in any assessment under Schedule D.'

ii. Para A requires a person providing services who wishes to be paid gross to show specified details on his invoice supporting his entitlement to be paid without deduction of tax or national insurance contributions.

iii. Para B entitles a person receiving services rendered by a self-employed person or a partnership to pay the amount invoiced without deductions, provided that specified details are included on the invoice.

iv. Para C entitles a business receiving services rendered by a self-employed person or a partnership to deduct tax and national insurance contributions pending confirmation that the supplier is entitled to be paid gross.

v. Para D imposes a penalty for furnishing or producing a document with intent to deceive, similar to the penalty imposed on a person who issues a tax invoice although not being registered for VAT.

(Refer Part II)

SMALL BUSINESS ALLOWANCE

A. Instead of submitting detailed annual accounts to the Inspector a self-employed person assessed to tax under Schedule D may claim a Small Business Allowance.

B. Small Business Allowance will be set annually at a rate to be announced by the Chancellor in his Budget Statement.

C. Small Business Allowance will replace claims for deductions of expenditure incurred for the purposes of his business, other than any item or items which amount to a significant percentage of business expenditure.

D. Should he consider that the expenditure he had incurred was in excess of the Small Business Allowance he may present his accounts in the usual way.

NOTES ON OUR PROPOSALS

i. Para A allows a self-employed person to claim Small Business Allowance instead of requiring him to account under separate headings, for expenditure incurred.

ii. Para B provides for a Small Business Allowance to be set at a rate which reflects the cost of providing a similar job for an employee.

iii. Part C allows any item or items of expenditure which represent a significant percentage of the total expenditure of the business (i.e. wages or payments to sub-contractors; rent of business premises; materials used in manufacture of goods, etc) to be accounted for separately and not included in Small Business Allowance.

vi. Para D provides that any person who has incurred expenditure in excess of Small Business Allowanmce may submit a detailed Profit and Loss Account in the usual way.

(Refer Part IV)

AVERAGING PROFITS

A. Allow profits to be carried forward for three years; or

B. Allow the averaging of profits over five years, including the two preceding and two succeeding years.

NOTES ON OUR PROPOSALS

i. Para A permits profits made by a sole trader or a partnership to be carried forward for three years.

ii. Para B permits the profits of a sole trader or partnership to be averaged over five years adjustments being made as necessary.

iii. Under the provisions of **Section 28 Finance Act 1978,** farmers (and fish farmers) may average their profits over two years if lower profits in one year vary by more than 30% of higher profits in a previous or succeeding year. Although any year's profits may be averaged only once a farmer may wait two years before making a claim.

iv. **Sections 389-392 Income & Corporation Taxes Act 1970** provide that the author of a literary, dramatic, musical or artistic work (i) on which he has been engaged for 12 months or more, or (ii) which is one of a number on which he was engaged for more than 12 months for the purposes of an exhibition to spread, over two to three years, any lump sum or periodical payment of royalties when he (a) receives a commission or fee for the work, or (b) assigns the copyright in whole or in part or grants any interest in the copyright by licence.

v. Income averaging in the United States allows an individual, including a self-employed individual, whose income in any year is greater than the average of his income for the past four years, to use an income averaging method.

(Refer Part IV)

AVOIDING ESTIMATED ASSESSMENTS

A. The date after which an estimated assessment may be expected should be widely publicised and reminders sent out by the Collector together with twice yearly payslips.

B. No estimated assessment should be dispatched by the Inspector before that date.

C. In respect of any person assessed to tax under Schedule D whose financial year ends between 31 December and 5 April, no estimated assessment should be sent to him by the Inspector earlier than six months after the end of his financial year.

NOTES ON OUR PROPOSALS

i. Paras A and B provide for the publication of a hitherto unpublicised date and seek to reduce the number of estimated assessments and consequently the number of appeals and revised assessments.

ii. Para C ensures that a Schedule D taxpayer whose financial year ends between the end of the calendar year and the end of the tax year is not put at a disadvantage in respect of the amount of time he has in which to complete and submit his accounts.

(Refer Part IV)

SCHEDULE D ASSESSMENTS FOR CONTROLLING DIRECTORS

A. A full-time working director who alone, or in conjunction with relatives or associates, owns more than 85% of the ordinary share capital of a private limited company may, if he so wishes, be treated as a self-employed person subject to assessment to tax under Schedule D.

B. If he is so treated he will be required to pay Class 2 national insurance contributions at a special rate which includes an additional contribution in return for which he will eligible for unemployment benefits; and

C. Will be required to pay Class 4 NIC where applicable.

D. The company of which he is a director will have no liability for secondary Class I contributions.

NOTES ON OUR PROPOSALS

i. Para A provides that a director who is the sole or principal shareholder in his own company may be treated as self-employed and will not be liable to tax under Schedule E (PAYE) or to Class I national insurance contributions.

ii. Para B is based on the special rules for Share Fishermen (a sea-going fisherman paid from a share of the profits from his boat).

iii. The Share Fisherman is classified as self-employed, assessed to tax under Schedule D and pays flat rate Class 2 contributions at a special rate, currently £7 per week (£2.60 p.w. more than the normal Class 2 NIC) which enables him to qualify for unemployment benefit.

iv. He pays Class 4 NIC currently 6.3% on profits above £3,800 up to and including £12,000.

iv. Para D exempts the company of which he is a director from liability to pay Employers' national insurance contributions.

(Refer Part V)

SIMPLIFIED PAYE FOR VERY SMALL FIRMS

A. The system which is available to private individuals employing domestic workers should be extended to individuals, firms and companies with no more than five full-time employees or an equivalent number of part-time employees.

NOTES ON OUR PROPOSALS

i. Para A exempts from the normal PAYE system the very small business in which the wages are most frequently done by the employer himself, and allows such employers to use the Simplified System which is already available to private individuals employing domestic workers.

ii. Simplified Tax Tables (P16) are prepared by the Board of Inland Revenue under Section 204 Income & Corporation Taxes Act 1970.

iii. A Simpified Deduction Card (P12) shows the free pay to which the employee is entitled and if this is equal to, or more than, the employee's earnings then no tax is due.

iv. Each quarter the employer is required to remit to the Collector of taxes any tax which has been deducted under PAYE together with whatever national insurance contributions are due.

(Refer Part VI)

ERRORS DISCOVERED BY THE PAYE OFFICE

A. Unless any error in an employer's deduction of tax and national insurance contributions is discovered before 5 April of the year following the year in which the return is made, payment of any under-deduction may be demanded only where fraud or wilful default are suspected.

NOTES ON OUR PROPOSALS

i. Para A provides that except in specified circumstances no demands may be made in respect of insufficient tax or national insurance deductions for errors which occurred in any year prior to the previous tax year.

ii. For example:

Under-deductions in 1980-81 would be out of time if not notified to the employer on or before 5 April 1982;

Under-deductions in 1981-82: on or before 5 April 1983;

Under-deductions in 1982-83: on or before 5 April 1984.

(Refer Part VI)

REFUND OF INCOME TAX AFTER FIRST PAY DAY

A. Any refund due to a new employee should be made at the discretion of the employer who may request the Tax Office to make the refund.

NOTES ON OUR PROPOSALS

i. Para A exempts an employer from liability to refund tax overpaid by a new employee in a previous employment. It ensures that no employer should be financially embarrassed by being obliged to pay any amount, however small, in respect of an over-deduction which occurred before the employee started to work for him.

ii. The Employer's Guide to PAYE para 101 states that: 'If the Tables show that a refund of tax not exceeding £50 is due to a new employee on his first pay day the refund may be made by the employer without the authority of the Tax Office. Where the refund will exceed £50, no amount should be refunded until the authority of the Tax Office has been obtained. This authority is not required if Form P6 for the new employee is received from the Tax Office before his first pay day.'

iii. Para 102 states that: 'Any refund or deduction which may become due on the second or subsequent pay days should be made whether or not authority has been received from the Tax Office to make a refund due on the first pay day.'

(Refer Part VI)

TAXATION OF CASUAL AND PART-TIME WORKERS

A. Withdraw Form P46 (1982).

B. Introduce a 'Return of Earnings', Form RE (1984).

C. When an employer makes the first payment of more than £4 to a new part-time or casual employee whose earnings are below the threshold for PAYE and National Insurance contributions he will be required, at the same time, to give him Form RE (1984) for which the employee will be required to sign.

D. The employer will be required to keep a record of the name, address and any payments made to each employee whose earnings exceed £4 in any week.

E. Form 38A (1982) 'Employer's Supplementary Return' should be withdrawn and replaced by Form 38B (1984) which will require an annual return of the name, address and payments made to each employee not liable to PAYE who earned more than £200 in the year and was employed at a rate exceeding £4 a week.

F. Employers outside the PAYE system should be exempt from the requirements detailed in Paras C-E above.

G. The employee will be required to submit his Return of Earnings at the end of the tax year in respect of any earnings not subject to PAYE.

H. Where such an employee is also a self-employed person submitting his accounts to the Inspector in the usual way such earnings should be totalled and shown as a separate item of income in his Profit and Loss Account.

NOTES ON OUR PROPOSALS

i. Paras A and B abolish Form P46 and replace it with a Return of Earnings, relieving the employer of any responsiblity respecting employees from whom he has no obligation to deduct tax or national insurance contributions.

ii. Para C returns the employer to the position he was in prior to April 1981.

iii. Form 38A (1982) requires the employer to make an annual return listing, for each employee not subject to PAYE who earned more than £100 a year and was employed at a rate exceeding £1 a week (£4 per month), his: name, address, NI number, description of job, period of employment and full amount of any payments made to him.

iv. Para D increases the earnings disregard to £4 bringing PAYE rules into line with Supplementary Benefit disregard, and relieves the employer from the requirement to submit the detailed information set out in (iii) above.

v. Para E exempts from the requirements of Paras C-E any employer who is outside the PAYE system because he has no employees with earnings subject to tax or national insurance contributions.

vi. This will ensure that the new employer and the very small firm, who receive no documentation from PAYE Offices and are therefore unaware of any obligation in respect of such employees, will incur no penalty for failing to take responsibility for the taxes of employees who have themselves no liability to tax in respect of their employment by him.

vii. Para F imposes upon the employee himself the obligation to declare any earnings not subject to PAYE and to make an annual return on a simple, single page 'Return of Earnings' in a form to be prescribed.

viii. Para G exempts a self-employed person already submitting his accounts to the Inspector from the requirement to submit a separate Return of Earnings.

(Refer Part VI)

THE INTRODUCTION OF SELF-ASSESSMENT

A. Urgent consideration should be given to introducing a form of self-assessment for all taxpayers.

NOTE ON OUR PROPOSALS

i. Para A urges the Government to treat the introduction of self-assessment as a matter of urgency.

ii. In the United States every resident must file an Individual Income Tax Return (Form 1040) annually, regardless of whether he is or is not liable to pay tax. People with a gross income below the tax threshold ($3300 for a single person and $5400 for a married couple in 1983) are excepted.

iii. The employee must give his employer an 'Employee's Withholding Certificate' (Form W-4) which advises the employer of the number of allowances which he is claiming. Each allowance reduces the amount to be withheld by about the same amount as a reduction of $1000 in his pay.

iv. In addition to self-assessment, therefore, the US has a system of self-coding which, if introduced in the UK would in itself lead to a substantial reduction of staff in the Inland Revenue.

v. Although it is claimed that the Inland Revenue will not be able to introduce self-assessment before 1988, now that the third stage of the computerisation is complete a start, at least, should be made to return to people on PAYE responsibility for declaring their own earnings.

(Refer Part VIII)

THE INTRODUCTION OF THE TAX CREDIT SYSTEM

A. We urge the Government to reconsider its priorities and to take steps to introduce a tax credit system without any further delay.

NOTES ON OUR PROPOSALS

i. The Green Paper (Cmnd 5116) pulished in October 1972 and presented to Parliament by the Chancellor of the Exchequer, Anthony Barber, and the then Secretary of State for Social Services, Sir Keith Joseph, referred to the complexities of PAYE which was complicated and difficult to understand.

ii. Under the tax credit system PAYE in its present form would go. Employers would deduct tax on a non-cumulative basis. If the tax credit exceeded tax at 30% the difference would be paid to the taxpayer. If tax exceeded credit the employer would be required to deduct the difference.

iii. Employees, pensioners, and people in receipt of other social security benefits would, receive tax credits which would replace personal allowances for themselves and their families.

iv. Para A urges the Government to introduce a tax credit system without any further delay

v. At an estimated £2 billion this would cost some £14 billion less than returning personal allowances to two-thirds of average earnings as they were in 1950.

(Refer Part IX)

IMMEDIATE

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NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM, HM TREASURY, AT 3.00 PM ON WEDNESDAY 1 FEBRUARY 1984

Those present:

Chancellor of the Exchequer	Mr Basnett)	
Chief Secretary	Mr Bickerstaffe)	
Financial Secretary	Mr Buckton)	
Sir P Middleton	Mr Daly)	
Sir T Burns	Mr Graham)	
Mr Monck	Mr Gill)	
Mr Battishill	Mr Jenkins)	
Mr Monger	Mr Sirs)	TUC
Mr Scholar	Mr Tuffin)	
Mr Kerr	Mr Murray)	
Mr Monaghan	Mr Lea)	
Mr Portillo	Mr Callaghan)	
	Mr Barber)	
	Mr Cave)	

MEETING WITH TUC'S ECONOMIC COMMITTEE: BUDGET REPRESENTATIONS

Opening the discussion, Mr Basnett reiterated the TUC's call for a more open and systematic consideration of the fiscal prospect through the publication by the Government of a Green Budget. He noted that the TUC's proposals this year had been more specifically targetted towards the Budget itself than in the traditional Economic Review. The TUC would, of course, continue to make representations within the NEDC and elsewhere on a wide range of industrial and trade issues. The Chancellor was aware of the TUC's considerable concern about public expenditure issues; they were drawing up their own list of priorities and hoped by this means to make an effective input into the PES process in due course. They were also interested in public expenditure in the longer-term and Mr Basnett referred to the exchange of letters between Mr Murray and the Chancellor on the possibility that the Government might publish a document on the subject. The TUC would welcome a public debate in which they would hope to play a full part.

2. Mr Basnett said that the TUC did not share the Government's confidence about the strength and durability of the economic recovery. They believed it would only be sustained if the members

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of the OECD were prepared to co-ordinate their policies. He noted that in their own Budget representations, the CBI had argued that the recovery could falter in the second half of 1984 and Mr Basnett suggested that the latest Industrial Trends Survey had not been particularly encouraging about either increased investment or capacity working. At that morning's meeting of the NEDC, he had not detected that the CBI were at all complacent about the recovery or the general economic prospect. Manufacturing industry was still only feebly recovering from the recession and unemployment was at best only levelling off. Well over one million of the population had now been out of work for over a year and increasing numbers were being driven into poverty, while the social services were being starved of vital resources. It was North Sea oil which was keeping the economy afloat. Manufacturing output was rising very slowly and for the first time there appeared to have been a £5 billion deficit in the UK's manufacturing trade. The current consumer boom was likely to run out of steam as the reduction in the savings ratio reached its limit. The TUC questioned whether industry would invest sufficiently to replace its existing fixed assets and doubted whether any real improvement would be secured on the supply side. They believed that the only way to achieve high growth and lower unemployment was to throw off the straitjacket of the MTFS and to expand the economy.

3. Turning to the TUC's specific proposals for taxes and benefits, Mr Basnett said that these had been directed towards the particular problems of the unemployed, women and families, pensioners and the low paid in order to close the gulf between the rich and poor in UK society. The TUC believed that the 1984 Budget must be designed to keep faith with those groups of the population who had suffered most from the recession. If the Government continued to give primacy to the MTFS, it could offer no hope for more jobs or greater equality but he suggested that the MTFS itself did not have to be totally inflexible.

4. In response to a question from the Chancellor, Mr Basnett confirmed that the TUC would be releasing his statement to the press following the meeting and that Mr Murray would be holding

a press conference. Although the TUC would tell the press the points they had put to the Chancellor, they would not comment on his reaction.

5. Elaborating on the TUC's proposals, Mr Murray said that seven million people, including one-third of all pensioners, were now living below the poverty line in Britain. Those least able to bear the burden had suffered most from the recession and the TUC's Budget representations had been drawn up with this thought very much in mind. For the unemployed, the TUC were recommending that long-term supplementary benefit rates should be extended to the long-term unemployed, on the lines recommended by the Social Security Advisory Committee. They believed more resources should be devoted to the Community Programme and that the Temporary Short Time Working Compensation Scheme should be extended. For women and families they had proposed an increase in child benefit and in the supplement paid to one-parent families, together with the introduction of Educational Maintenance Allowances for those who stayed at school after the age of 16. For the elderly, they believed there was a very strong case for increasing the single pension by £8.40 a week and the married couple's pension by £13.75. Finally, in order to help the low paid they recommended that thresholds and allowances should be raised 6 percentage points above the level required by indexation and that the recently announced cut in housing benefit should be restored. They regarded the reduction of £230 million as totally unacceptable, pointing out that it would affect many who had already suffered delays in receiving benefit as a result of administrative problems.

6. Mr Murray acknowledged that the TUC's approach to the low paid was in sharp contrast to that of those who advocated cuts in living standards in the name of "flexibility". The TUC believed that cutting wages would not lead to more jobs. Rather it would produce poverty and thus reduce demand in the economy. All the evidence from overseas suggested that higher competitiveness went hand in hand with higher living standards. The TUC agreed that their proposals

implied a small increase in the PSBR. They suggested this might be of the order of the previous year's overshoot which had been easily accommodated. They shared the CBI's view that such an increase in the PSBR would not produce higher interest rates or higher inflation. They also agreed with the CBI on the need for higher capital spending in the public sector and Mr Murray gave notice that the TUC would be returning to this point in the NEDC and other contexts later in the year. Overall, he believed their proposals were modest and weredirected towards meeting priority needs. He hoped that the nation would judge the Government by the extent to which it met its moral and political responsibility to protect those who had suffered most.

7. Responding to the TUC's points in turn, the Chancellor said that his predecessor had considered the proposal for a Green Budget very carefully and had taken an important step in that direction with his decision to publish an annual Autumn Statement. Sir Geoffrey Howe had believed that it would not be sensible to go any further and he himself shared that view. He suggested that he and the TUC were at one on the issue of long term public expenditure in the sense that he had already agreed it would be helpful if the Government could produce a document which would carry the debate a stage further. However, he could as yet give no more details, since he had not had an opportunity to discuss the document in detail with his colleagues. He did not share the TUC's fears about the secure foundation of the recovery but did share their concern about the level of unemployment which he regarded as profoundly unsatisfactory. The NEDC's investigation of where the new jobs would come from would be useful in this context. The Government remained committed to its Medium Term Financial Strategy. Had it not been, inflation would not have fallen as it had and the present sustained recovery would not have occurred.

8. Turning to housing benefit, the Chancellor referred to the enormous increase there had been in social security spending.

Housing benefit alone now cost £3¾ billion a year. The £¼ billion reduction which had recently been announced had been designed to meet the constraints within which the Government had to operate for the sake of the economy as a whole but had been carefully calculated to avoid falling on the most vulnerable. Thus very few pensioners would be affected by the changes and none of those on supplementary benefit. So far as pay was concerned, the Chancellor himself wanted to see real wages at their highest level sustainable and he pointed out that it was the aim of the Government's strategy to improve the performance of the economy and increase the welfare of the people. But there was plenty of evidence that excessive levels of pay raised unemployment above the level it would otherwise have reached. He noted the TUC's plea for higher capital spending in the public sector. The next Public Expenditure White Paper would set out the Government's plans on capital spending in greater detail than in the past. From this, the TUC would be able to see that despite some changes in composition, public sector capital spending had remained more or less constant in real terms since 1978-79, despite the depth of the recession through which the economy had passed.

9. Finally, the Chancellor suggested that the Government should not be judged by the contents of any individual Budget but by the performance of the UK economy over a number of years within a very difficult world context. He pointed out that the Government had succeeded in reducing inflation dramatically and had thereby provided the foundation for a sustained recovery. The UK's growth rate in 1983 had been the best of any EC country and, according to Commission and OECD forecasts, the same should be true for 1984 as well. Mr Murray commented that the Government would be judged not only by its economic performance (although that in itself could have been improved) but also by its social achievements

10. Mr Basnett welcomed the possibility that the Government would publish a document on long term public expenditure, although he agreed that the Government and TUC were likely to be on opposite sides of the debate. He disputed the Chancellor's analysis of the relationship between excessive pay settlements and higher unemployment.

Much depended on definitions but he pointed out that the public sector had itself been responsible for the growth of large areas of low pay.

11. Sir Terence Burns said that it was clear from the latest CBI survey that they had changed their view about the possibility that the recovery might falter in 1984. They now expected it to continue this year and perhaps into 1985. He acknowledged that the Treasury's own forecasts had tended to be more optimistic than most over the last 18 months but noted that most forecasts had in practice been shown to be too pessimistic about inflation and output over that period. Both consumer spending and fixed investment were continuing to rise so the economy seemed likely to grow by about 3 per cent in 1984. There was no sign as yet of any slackening in the recovery. Inflation had increased slightly in recent months, as the Government had predicted, but the rate should begin to fall again after reaching a peak in the spring.

12. Mr Lea questioned the Government's definition of a "sustainable" recovery. The TUC interpreted this as a rate of growth for the economy which would bring down the level of unemployment. If 3 per cent growth could not achieve any further reduction in unemployment, they doubted whether the present recovery was in fact sustainable. They were also extremely concerned about the alarming deterioration in Britain's trade performance in manufactures, against a background of declining oil revenues later in the decade and the need to finance long-term unemployment. Finally, Mr Lea referred to a study of comparative replacement ratios produced by the UN's Commission on Europe. This suggested that the UK suffered a greater loss of income than any other country so that if unemployment levelled off, we should be left with a very heavy public expenditure burden. The best solution was clearly to get more people back to work but, failing that, the TUC recommended the extension of long-term supplementary benefit rates to the long-term unemployed.

13. The Chancellor agreed on the need for more jobs and drew

attention to the considerable sums which the Government was spending on special employment measures. However, he did not share the TUC's concern about the trade deficit in manufactures. There had to be some counterpart to the UK's substantial export surplus in oil and its increased invisible earnings. The alternative to higher manufacturing imports was either a shift in the exchange rate or a heavy outflow of capital. He suspected that the TUC would not favour either option. Higher imports of manufactures would, by contrast, help to increase the standard of living in the UK and, through the provision of more efficient machinery, enable British industry to become more competitive. Mr Lea suggested that the TUC's concern was based on a more dynamic view of the economy and Mr Basnett drew attention to the implications for jobs of a decline in manufacturing. However, the Chancellor pointed out that over the past year the economy had expanded at a rate of 3 per cent but had still run a balance of payments surplus of £2 billion.

14. In conclusion, the Chancellor thanked the Economic Committee for their representations to which he and his colleagues had listened attentively.

15. The meeting closed at 4.00 pm.

Mom

MISS M O'MARA

2 February 1984

Distribution:

Ministers and officials present
Mr Folger
Mr Hall
Ms Goodman
Ms Seamer

Assoc of B.C. of C.

cc. PPS
Financial Secretary
Economic Secretary
Minister of State
Mr Allen
Mr Ridley
Mr Griffiths
Sir Peter Middleton
Mr Cassell
Mr Monger
Mr Lankester
PS/Inland Revenue
PS/Customs & Excise
Mr Portillo

ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE: BUDGET REPRESENTATIONS

NOTE OF A LUNCH AT THE CAFE ROYAL ON 30 JANUARY 1984

Present: Chief Secretary
Mr Viggers MP
Mr Green (IR)
Mr Gieve
ABCC – Mr J G Ackers, Mr W A Newsome, Mr B Sutherland, Mr D Buxton, Mr A Devaney, Mr McPherson, Mr Marshall, Mr Toms, Mr Nicholson

The lunch had been arranged in place of a formal meeting at the Treasury and Mr Ackers, Chairman of the ABCC's Economic and Industrial Committee, and the other representatives pursued a number of the recommendations in their budget reps.

2. By way of introduction, Mr Ackers said that in their view two or three years of sustained growth was vital to the future of the economy (and to reducing the burden of public expenditure). It was with that in mind that their first recommendation was a reduction in business taxation. That should have top priority. Reductions in income tax were also highly desirable but it was important not to buy them at the cost, for example, of distorting energy prices. Finally, in order to sustain expansion, there should be no hasty measures to curb the present beneficial monetary expansion. The Chief Secretary said that he shared many of the ABCC's views and aim. In particular the control of public expenditure was a vital pre-condition of tax reductions and economic growth. In that context he commended the Government's rate-capping proposals. Turning to energy prices, he emphasised that these were set at a level which avoided taxation but also which did not involve a subsidy.

3. In further discussion the following main points were made by the ABCC's representatives.

a) Mr Acken said that criticism of energy prices arose mainly from companies which were able to make international comparisons. It was vital to interpret the principle of long-term economic pricing with great care.

b) He added that the Association supported rate-capping. In the absence of a close link between voters and those who paid local authority taxes a continuing move towards centralisation seemed inevitable.

c) Mr Marshall said that despite some progress in the last year or two, the competitiveness of manufacturing industry in particular was still not what it should be. The future movement of wages was vital to improving the position. It was therefore essential that public sector wages should be held down. In particular, hourly rates in the public sector should not be raised to match weekly earnings in the private sector that had increased as a result of extra hours worked. Mr Sutherland added that it was important to concentrate not on productivity as such but on unit costs and that included overheads and taxes.

d) Mr McPherson urged the Government to take a lead in getting away from annual pay settlements. In Japan three year settlements were common. Even where a price had to be paid to achieve a three year settlement, the greater certainty was usually worth it.

e) Mr Acken said that although the service sector was important it would be foolish to look to it to take up the slack as oil production declined. A regeneration of manufacturing industry was therefore most important. At present training by industry, for example, was still declining despite the Government's measures. This was because of the poor profitability of much industry. One measure that would help would be to move towards a Japanese system for subsidising industrial R&D. Even more important was the exchange rate and business costs. Mr Toms argued that the fall of sterling should not have been halted in 1981 by higher interest rates. Mr Nicholson expressed concern at the worsening manufacturing trade

balance and noted that this could have severe regional implications. A reduction in business taxation was needed to give manufacturing industry the message that Government noticed and cared about their position.

f) Mr Toms reverted to energy prices and suggested that in a few years the French might be able to undercut the UK electricity boards and provide electricity in Britain. He urged the Government, incidentally, not to abolish the CEGB.

g) Mr McPherson argued that social legislation often imposed great costs on business. It would be helpful if this cost could be estimated and published when Bills were introduced. He gave as an example the activities of Health and Safety Executive. Business found itself importing products from Holland simply because the production methods used there were not permitted in the UK. Another example the proposals to improve the position of early leavers in pension schemes which might cost 1 to 2% of payroll in extra contributions.

h) Mr McPherson continued that it was vital for the next Budget to be set in the context of a four year plan not only for the fiscal and monetary aggregates but for unemployment and reform of the tax system. Those steps should be taken now to preclude for example the introduction of negative income tax.

i) Mr McPherson and Mr Sutherland both said that they would be content with a modest and continuing increase in the levels of VAT to make way for reductions in business and personal taxation.

4. Replying briefly to the various comments, the Chief Secretary thanked the ABCC for both their general and technical representations and said they would be studied with care. He hoped that the public sector would continue to set a good example on pay but noted that it was a two way operation and it was up to private sector employers to hold down settlements there too. He saw the charm of settlements lasting more than one year although they would be

difficult to introduce. He did not think the adverse manufacturing trade balance was important in itself. To a great extent it was the inevitable consequence of the increased production of North Sea Oil. However the Government has certainly not "written off" manufacturing industry and they recognise the importance of keeping down the burden of tax on business. He was interested by the suggestion that indirect taxes should be increased to make way for reductions in direct taxes. Finally he fully agreed with the case for setting the Budget in a long term context.

JG

JOHN GIEVE

cc. PPS
Financial Secretary
Economic Secretary
Minister of State
Mr Allen
Mr Ridley
Mr Griffiths
Sir Peter Middleton
Mr Cassell
Mr Monger
Mr Lankester
PS/Inland Revenue
PS/Customs & Excise
Mr Portillo

The Association of
British Chambers of Commerce
Sovereign House, 212a Shaftesbury Avenue
London WC2H 8EW
Telephone: 01-240 5831/6

DIRECTOR-GENERAL: W.A. NEWSOME

The Rt Hon Nigel Lawson MP,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
LONDON SW1P 3AG

Action FST

19 January 1984

Dear Chancellor,

On behalf of our member Chambers of Commerce, I enclose the ABCC's representations for the 1984 Budget.

At the opening of the paper, we review the present economic situation and the prospects for the next few years. We express concern at the trend over the past year in the figures on external trade, particularly the declining surplus on visible trade balance and and the substantial deficit, for the first time in 400 years, in trade in manufactures. A central theme of our representations, therefore, is that Government and industry should give the highest priority to working together, in the context of a coherent industrial policy, to reduce business costs. It is no coincidence that this particular item features strongly in this year's representations, as for previous years.

We are, indeed, concerned that the Government's efforts over the past few year, to reduce the PSBR, and fund the increased spending caused by the recession and increases in the defence budget, should have involved such tax and other financial burdens on business.

The forecasts, whether from our own Chambers of Commerce or other sources, remain confident for 1984. If Britain can obtain 3% annual growth on average over the next 4 years, with inflation remaining below 7%, this achievement may well rank with that of Lord Butler's Chancellorship in the early 1950s. There appears however, to be some concern over a slowing down of growth for 1985 and beyond. Our Budget Representations are therefore also directed to sustaining growth beyond 1984, and to this end, we urge that there should be no hasty measures to curb what appears, on a careful examination of the figures over the past 6 months, to be a modest monetary expansion which has undoubtedly contributed to the improvement in output during 1983.

Finally, our approach is based on the clear assumption that the Government will continue to ensure only modest increases in wages and salaries in the public sector. Firm action here, serves to restrain public sector spending overall and to present a compelling example to the private sector, and we recognise and applaud the success in this field over the past 3 years.

Yours sincerely,

David Nicolson

Sir David Nicolson
President

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Mr Griffiths
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1984 — A BUDGET FOR GROWTH?

The 1984 Budget Representations of
The Association of British Chambers of Commerce

The Economic Situation and Prospects

1983 was characterised by three main developments, two favourable and one less so. Growth of output was higher than had been forecast; the inflation rate came down to its lowest for 13 years and, despite fears of a rise towards double figures, stayed well down; but there have been worrying trends in the balance of non-oil trade, owing to a tendency for the continuing boom in domestic consumption to draw in imports at a disturbing rate, unmatched by the trend in exports. A current account surplus of £6½bn in 1981 has sharply declined to a surplus (at an annual rate) of £1½bn over the first three quarters of 1983, despite an improvement of about £3bn in the oil balance. The deterioration in the current account balance that was becoming alarming in the second quarter of 1983 (a deficit of £171m for the quarter) has been reversed by a significant improvement on trade in invisibles, but a **deficit** of £468m on visible trade in the 6 months June-November 1983 contrasts with a **surplus** of £1818m in the last 6 months of 1982. Trade in manufactures has moved from a **surplus** of over £2400m in 1982 to a **deficit** of over £1600m in the first three quarters of 1983.

This has served to illustrate and emphasise the decline in manufacturing industry capacity in Britain. Further, if the trend in general trade continues, a balance of payments crisis clearly threatens in the medium term, even before revenue from North Sea oil is significantly diminished (it is expected to start declining from 1986). The trend in trade in manufactures has grim implications for surviving manufacturing industry on which all parts of Britain depend for wealth creation and jobs..

However, the Chancellor's judgement will be made in the light of the forecasts for all the above three economic factors, and the most important of the three, although clearly influenced by the prospects for inflation and trade, is output. The latest forecasts, as summarised in The Economist of 7 January 1984, suggest growth of between 2 and 3% in 1984 (similar to 1983). The latest Chamber of Commerce surveys to be published (West Midlands, East Midlands and Merseyside) show the best returns and prospects on domestic and export trade for well over a year and very considerable confidence for the future. The West Midlands survey shows that the number of firms which have increased their workforce has doubled over the year to 32% of respondents. The good news from Merseyside, after a year of relative gloom there while the national picture brightened, is especially pleasing.

If Britain can obtain 3% annual growth over the next 4 years, with inflation remaining below 7%, this achievement may well rank with that of Lord Butler's Chancellorship in the early 1950s. The medium term forecasts, however, are not as cheerful as those for 1984. Consumer spending has been the driving force behind the recovery so far. The removal of hire purchase controls and the easier terms available for borrowing on mortgage caused personal expenditure on durables, including cars, to be 22% higher in the first half of 1983 than in 1981. Lower inflation and rising real incomes contributed to this, together with a falling savings rate (8.7% of incomes were saved in the first half of 1983, compared with 15.6% in the second half of 1980). Further stimulus from still lower savings is unlikely. With the consumer boom thus expected to decline over the next year or so, the hopes for growth in late 1984 and 1985 depend on increases in exports and private capital investment. Improving world trade, Britain's greater competitiveness, higher profits and generally improving business confidence indicate that exports and investment should increase. Few forecasts, however, expect these two factors to maintain growth at 3%: the estimates so far for 1985 suggest growth of below 2%.

Even if there were to be growth of 3% for the next 4 years, unemployment will not decline significantly. It will, however, remain a **social** and **regional** problem.

£1.50

ABCC

The Association of
British Chambers of Commerce
Sovereign House, 212a Shaftesbury Avenue
London WC2H 8EW, Telephone: 01-240 5831/6

to be met by social measures of relief, by changes in working practices, and by a more effective regional policy as set out in the ABCC's publication "Fair Deal for the Regions" (November 1983). If, however, the rate of growth declines to below 2%, unemployment will inexorably rise towards 4 million.

Budget Objectives

The present recovery has thus not happened by accident; it owes a considerable amount to Govenment policy. As the ABCC pointed out in its policy paper 'Going for Growth' (published in October 1983), recovery in the UK followed a period of remarkable monetary expansion: "real" money supply rose by 7% in the year to May 1983. The even greater monetary expansion in the USA has had even more dramatic effects on the American growth rate, and thus on the world economy.

As strongly argued in "Going for Growth", the highest priority for Britain is to ensure that the present recovery from the worst recession in 50 years is sustained through 1984 and beyond. International factors are often decisive in determining domestic rates of growth, but, as was made clear in the Chancellor's Autumn Statement of 17 November, the prospects for the world economy in 1984 are good. What is essential, therefore, is that measures taken by the British Government ensure that British industry and commerce are able to exploit to the full the opportunities now available, and maintain their competitive position when and if a further slowing down of world trade expansion occurs.

To this end, the 1984 Budget should pursue, in a balanced and coherent sense, the following objectives mostly foreshadowed in "Going for Growth":—

1. Avoid any hasty measures to curb the present beneficial monetary expansion. Britain's PSBR, as a proportion of GDP, is still one of the lowest in the industrialised world. As the OECD have argued, the world recession increased this ratio as social security spending rose and tax revenues fell. Indeed, a large part, if not all, the present deficit is accounted for by the recession. Our Budget recommendations therefore allow for a slight increase in the PSBR.

2. Reduce business costs. This must include a fall in interest rates, which have been well above the inflation rate for over 2 years. The case for a transfer of the burden of taxation from corporations and individuals to consumption was expertly argued by Messrs Bill Robinson and Geoffrey Dicks of the London Business School in their article "Employment and Business Costs" (Economic Outlook 1983-87, Vol 8 No 1, Ocober 1983).

3. Improve incentives at all levels of earnings, so as tc reward skill, risk-taking and hard work, and progressively remove the poverty and employment "traps".

4. Sustain economic growth by sensible increases in public sector **capital** spending, and by avoiding public spending decisions which are detrimental to industrial and commercial order books.

5. Maintain downward pressure on public sector **current** spending. The ABCC is convinced that further savings can be found throughout the public sector by eradicating waste, improving staff productivity, and privatising functions which can efficiently be performed by free enterprise. The ABCC hopes to publish the results of a major study of public expenditure, in the context of growth prospects and taxation priorities, before the Budget.

6. Sustain a competitive exchange rate, taking into account the desirability of lower interest rates. The ABCC has already argued for urgent consideration to be given to Britain's entry into the European Monetary System as a means of reducing fluctuations in the value of sterling caused by rumours over the price of oil.

7. Sustain the fight against inflation by continuing to hold down pressures for pay increases particularly in the public sector, and thus build on the Government's successes in this field over the past two years.

Recommended Budget Measures

1. Abolish the **National Insurance Surcharge**, which Chambers of Commerce have pressed for throughout the period of the last Government. Its material burden is still significant; more particularly, its retention belies Government intentions of helping business by providing a beneficial environment, and its abolition would be significant evidence that the Govenment was prepared to back industry in its fight to restrain costs.

2. Cut business's **national insurance contributions** for 1985-6 by one percentage point. This would be a further contribution to improved competitiveness.

3. Reduce **business rates** which, as the ABCC has already pointed out on other occasions, are likely to increase sharply in many areas in 1984-5 as a result of, first, the operation of the Govenment's penalty hold-back arrangements, and, second, of high spending councils seeking to improve their revenues before the Government's rate capping proposals come into force in 1985-6. Increases in business rates should not exceed the current rate of inflation, and until the Rates Bill is effective, the Exchequer should meet this cost. The Government's progressive reduction of rate support grant from 61 percent of local government spending targets to 52 percent in 1984-5 is a clear example of how the burden of direct taxation has been moved **from** taxes on individuals **to** taxes on business, as business

pays nearly 60% of rates income. We have already welcomed the provision of empty property derating for industrial premises and the right for **all** businesses to pay rates by instalments and we reiterate Chambers' previous recommendations that partially used ("mothballed") premises and plant be given rate relief.

4. **Gas** contract rates for industry should be frozen beyond April 1984. As the ABCC has already indicated, increased charges which directly contribute to industrial costs amount to a form of disguised taxation. The ABCC was delighted that the Electricity Council appears able to avoid increasing its own prices to industry. In view of the continuing disadvantage suffered by British companies compared with their European competitors in energy costs, there remains a case for further help for intensive **electricity** users. We would also wish to see the rate of duty on **heavy fuel oil** reduced.

5. Increase **capital investment** in the infrastructure, particularly in improved communications, measures to restore derelict land and buildings and modernisation of the sewage system which is becoming increasingly urgent in many older industrial areas. The ABCC's paper "Fair Deal For the Regions" argued for such priorities, some of which are capable of immediate implementation and most of which would have minimal import content. Investment in link roads to the East and South Coast ports, and in railway electrification remains vitally important.

6. Introduce measures to improve **incentives**. The progressive reduction of the poverty and employment "traps" is as important to the efficiency of the economy as the improvement of incentives to middle management (any individual earning £13,000 or over is penalised by the increase in National Insurance contributions announced on 17 November, in addition to the increased taxation on company cars). A larger increase in tax thresholds than warranted by the rise in prices would be a better way of pursuing these various purposes than a reduction in the basic tax rate.

7. Implement the following measures, mainly on **capital taxation**, for which the Association has pressed in previous years, details of which have been submitted separately to the Inland Revenue:

a) a full and proper indexation of capital gains, removing the one year's delay and allowing indexed losses
b) Remove anomolies in taxation of benefits in kind (particularly car and petrol benefits).
c) Abolition of the investment income surcharge
d) Reductions in rates of Capital Transfer Tax
e) Abolition of the Development Land Tax, the administration of which is absurdly wasteful
f) Various measures on Corporation Tax

8. **Help for Small Firms**

Many of the above measures would be of great assistance to smaller firms in starting up and, more importantly, "taking root" and steadily expanding. The 1983 Budget contained a most welcome "Small Firms Package" of measures, notably re-introduction of SEFIS. The ABCC's paper "Small Firms — Taking Stock", published in September 1983, also urged the Chancellor to:

a) Extend capital allowances to new buildings and extensions which are to be used for commercial as well as industrial purposes.
b) Widen the scope of the Business Expansion Scheme so as to permit reasonable participation by, and remuneration of, non-executive directors.
c) Extend VAT zero-rating to building repairs and refurbishment to business premises.
d) Allow VAT relief for bad debts, whether or not insolvency has been established. At present a large number of bankruptcies and liquidations have to be initiated simply to enable creditors to recover VAT.

In addition, ABCC has asked that serious consideration be given to reducing the Small Business Loan Guarantee Scheme premium from 3% to 2%. ABCC does not believe that the upper limit for assistance under the Loan Guarantee Scheme should be raised higher than £100,000.

The VAT registration threshold should continue to be raised in line with inflation; so as to help reduce small firms' administrative burdens.

Meeting the Cost

It should not be difficult to accompany the above generally welcome measures with economies of, say, £750 million in current spending in 1984-5 and £1.75 billion in 1985-6. Not only is Britain's PSBR, as a proportion of GDP, one of the lowest of the advanced industrial nations, but we also note that Treasury Ministers have argued to us that there is little prospect of lower interest rates in Britain while the US deficit remains so high. Thus, holding down Britain's PSBR rigidly on the lines prescribed in the Medium Term Financial Strategy is unlikely to produce **lower** interest rates and a degree of slippage on the PSBR, therefore, is unlikely to have a significantly adverse effect on interest rates.

If, however, in the Chancellor's judgement, PSBR increases on the lines indicated would jeopardise sustained recovery in national output, we would urge him to examine closely the case for increases in indirect taxation. An increase in VAT of, say, 1%, would not enter directly into **industrial** costs and would produce £550 million in the first year and £740 million in a full year. If matched by substantial reductions in business costs, as we have requested, it could be represented as helping the British producer against foreign competition. If real personal tax thresholds were raised, as we also suggest, consumer spending would not significantly be hit. There may even be a case for a further increase in the duties on tobacco and alcohol, beyond the revalorisation assumed in the Treasury's figures.

(continued)

Summary of Recommended Measures (£ billion)*

	1984-5	*1985-6*
Abolition of NIS	0.9	1.1
Reduction of Employers NIC by one percentage point	—	0.9
Cuts in Business rates, public utility costs and heavy fuel oil duty	1.0	0.7
Extra Public Capital Expenditure	0.75	1.75
Further indexation of Income Tax allowances and thresholds (by 7½% instead of 5% as justified by the going rate of inflation)	0.4	0.55
Capital Tax Changes and Small Firms Package	0.2	0.65
Total Tax Changes	3.25	5.65
Public spending savings	−0.75	−1.75
Feed back effect	−0.75	−1.50
Net effect on PSBR	+1.75	+2.40

*In comparison with no changes in policy using the Treasury definition: i.e. assuming indexation of tax thresholds and revalorisation of duties.

January 1984

S24/1

FROM: MISS F P BOGAN
DATE: 25 January 1984

MR F MARTIN

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Monger
Mr R I G Allen
Mr Andren
Mr Lord
PS/IR
PS/C&E

BUDGET DEPUTATIONS:
ASSOCIATION OF INDEPENDENT BUSINESSES (AIB) AND NATIONAL FEDERATION OF SELF EMPLOYED AND SMALL BUSINESSES

The Financial Secretary was grateful for your minute of 23 January. He agrees with your recommendations and would be grateful for suitable draft letters to send to the respective organisations.

F P Bogan
MISS F P BOGAN
Assistant Private Secretary

Budget prep file

Association of Independent Businesses

(formerly the Smaller Businesses Association)

Trowbray House, 108 Weston Street, London SE1 3QB
Telephone: 01-403 4066

President:
The Rt.Hon. Lord Lever of Manchester

National Chairman:
Brian Kingham

HM TREASURY — MCU
REC'D. -6 JAN 1984
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FINANCIAL SECRETARY
REC. 10 JAN 1984
ACTION Mr F Martin -
PPS CST MST EST
Sir P Middleton
Mr Cassell
Mr Monger
Mr R Allen
Mr Griffiths

do we want a meeting?

5th January 1984.

The Rt Hon Nigel Lawson Esq MP,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
London SW1P 3AG.

Mr Lord
PS/IR PS/C+E

Dear Chancellor

I am writing to reinforce certain of our submissions for the 1984 Budget which were sent to your office on 21 December 1983.

The proposals in the doucment follow our National Council's concern that taxes must neither distort the true market economy nor be allowed to discourage the creation of wealth and the promotion of enterprise.

Our National Council is further concerned with those taxes which are no longer a significant source of revenue especially those that have a heavy compliance cost. In particular certain stamp duties and the current Capital Gains Tax fall into this category and should, in our view, be abolished in their present form.

As in previous years we highlight the need to remove the unemployment trap by a really significant increase in personal allowances or lower rates of tax. We appreicate that this will be expensive but are convinced that any relief you can give must be channelled in this direction. In addition we would recommend that any revenue from increased indirect taxation or from any increase in National Insurance charges for those whose gross income exceeds £12,200 (1983/84) and whose taxable income is less than £14,600 should be used for this purpose.

The Government is committed to the reduction of the bureaucratic burden facing the owner of a smaller business. In 1977/8 P11D's had to be completed for one in ten full-time employed men. Failure to increase the threshold for this form means that in 1983/84 it will be needed for 50% of such employees. Not only does this greatly increase the administrative task of record keeping and preparation of the form but by including genuine reimbursable expenses when calculating the threshold for P11D the Government has allowed a situation to develop where two men, on identical moderate salaries and benefits, but one is in receipt of reimbursable expenes, have a different ultimate tax burden. This

.../...

Executive Committee: Philip Bayliss (Chairman), Stuart Bayliss, Peter Boneham, John Cochrane, Bryan Morgan, Ernie Naptin, David Selby and Peter Wild. Secretary: J.B.M. Donnellan.

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must be wrong and was never the intention of Parliament.

Corporation Tax has led to many smaller businesses seeking relief by unnecessary expenditure to obtain capital allowances. The Association is still committed to the simplification of the existing system by imposing a low rate of tax on profits which have been adjusted by a recognised current cost formula with free depreciation. With such a system capital allowances could be abolished. We appreciate that such changes are unlikely to be introduced in the 1984 Budget and have made proposals which will remove the fiscal barriers to growth so often encountered by small successful firms.

For most companies, especially after a recession, growth must be preceded by an injection of funds to finance equipment and to build up working capital. Yet finance on acceptable terms is still denied to many. We propose that those who make profits should be able to access the tax paid on them for development finance, asset acquisition and increased working capital. We propose that tax paid should be available for a period of seven years.

A feature of this proposal is that only successful companies are assisted and only if they need assistance. The current ability to go back three years for incorporated and one year for unincorporated companies is nowhere near long enough for small companies where re-equipment of large pieces of plant may only take place every seven or eight years.

The Association has always advocated the need to increase equity investment in small firms. The present arrangements whereby dividends have to be paid out ot taxed profit, while interest payments on loans are allowed against tax is a disencentive to finance expansion or a start up with equity as the tax bill is greater.

We are concerned at the damage done to the unquoted company by Capital Transfer Tax on the death of the owner. Our proposed amendments would go a long way to preventing this and to allowing the business to be passed on to the next generation in a much healther condition.

I, and my colleagues on the AIB's Taxation Committee would be pleased to elaborate on any of these points and I believe that a meeting with you would be most useful.

Yours sincerely

J A Cochrane

J.A. Cochrane
Chairman AIB Taxation Committee.

ASH action on smoking and health

5-11 Mortimer Street
London W1N 7RH
Telephone 01-637 9843

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1P 3AG

CH/EXCHEQUER
REC. 16 JAN1984
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COPIES TO

13 January 1984

Dear Mr Lawson

In view of your forthcoming Budget speech, I am writing to ask you to receive a small delegation from ASH to discuss tobacco taxation.

We should like to ask you:

(i) to make a substantial rise in tobacco taxation;

(ii) to mention in your speech the overwhelming health reasons for doing so;

(iii) to make a commitment to regular annual rises in the future to ensure that the cost of smoking in real terms is at least maintained if not increased.

In support of these requests, we should welcome the opportunity to discuss the following points:

(i) Smoking takes an unparalleled toll of the nation's health, causing what the Royal College of Physicians described recently as a "hidden holocaust" of about 100,000 premature deaths per annum; and the illness and disability caused by smoking, especially in the form of respiratory diseases, results in a loss of some 50 million working days per annum.

(ii) Cigarette prices, in real terms, are still lower than in the mid-1960s.

(iii) Price is accepted by both the tobacco industry and those concerned with health to be the single most effective influence, at least in the short term, affecting consumption.

(iv) Employment is not an issue which can justify refraining from raising tobacco taxes. Not only should human life

.../..

Patron: HRH The Duke of Gloucester
President: Professor Charles Fletcher CBE MD FRCP Vice-Presidents: Dr. Keith Ball MD FRCP Professor Sir Richard Doll DM FRCP FRS
Chairman: Professor Peter Sleight MD DM FRCP Vice-Chairman: Richard Sleight
Hon. Secs: Dr. Noel Olsen MSc MB MRCP Dr. Muir Gray MD Hon. Treasurer: Malcolm Young
Director: David Simpson

Registered Charity Number: 262067 Registered Address: Royal College of Physicians, 11 St. Andrews Place, Regents Park, London NW1 4LB.

and health come first (as it does in the case of road accident prevention) but also tobacco manufacturing is so capital intensive that money no longer spent on cigarettes will almost certainly create a demand for goods or services which take more labour to produce.

(v) Increasing tobacco taxation is not socially regressive because price increases are borne to a greater extent by upper socio-economic groups than they are by the lower paid.

(vi) The relative price inelasticity of cigarettes means that Treasury revenue can be increased even when consumption is made to fall by a rise in taxation.

If you agree to a meeting, no doubt your office may find it helpful of telephone our Director at the ASH office.

Yours sincerely

Peter Sleight MD DM FRCP
Field-Marshal Alexander Professor
of Cardiovascular Medicine,
University of Oxford.
Chairman

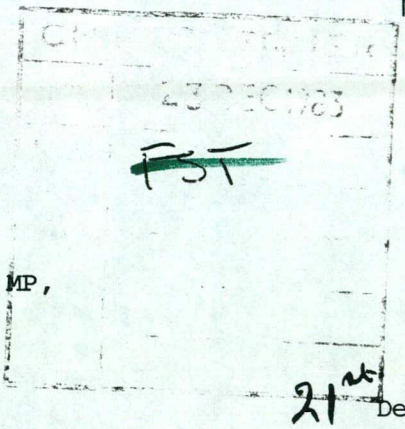
Association of Independent Businesses

(formerly the Smaller Businesses Association)

Trowbray House, 108 Weston Street, London SE1 3QB
Telephone: 01-403 4066

President:
The Rt.Hon. Lord Lever of Manchester

National Chairman:
Brian Kingham



The Rt Hon Nigel Lawson Esq. MP,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
London SW1P 3AG.

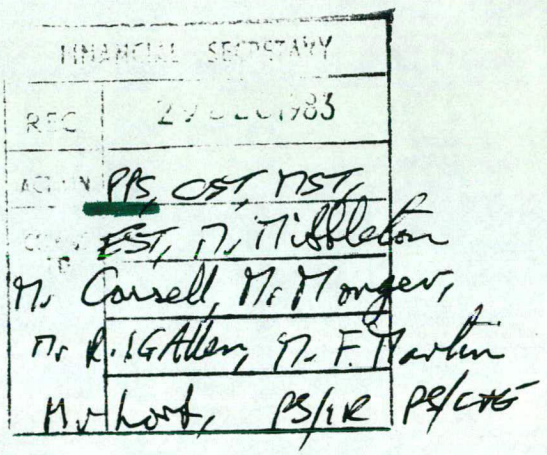
21st December 1983.

Dear Chancellor

I enclose our submission for your 1984 budget. The Chairman of our taxation committee will write to you about this early in the New Year.

Yours sincerely

J.B.M. DONNELLAN
General Secretary



Executive Committee: Philip Bayliss (Chairman), Stuart Bayliss, Peter Boneham, John Cochrane, Bryan Morgan, Ernie Naptin, David Selby and Peter Wild. Secretary: J.B.M. Donnellan.

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BUDGET SUBMISSION 1984

**Association of
Independent Businesses**

BUDGET SUBMISSION 1984

BUDGET SUBMISSION 1984

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TAX AND THE INDEPENDENT BUSINESS

PREFACE

The AIB is constituted to represent the Independent Business sector which comprises very many small firms, both incorporated and unincorporated, a number of medium-sized firms and a few large firms. Its members consist of a good cross section of this sector, both in terms of size and of activity. The Association's National Council has ultimate responsibility for all policy documents.It is aware that as the representatives of this sector to Government it needs to balance the interests of existing owners, employees and all those who aspire to enter the Independent Business sector, either as proprietors or employees.

Our views on taxation are in consequence concentrated on those aspects which especially affect the health of the whole Independent Business sector, and particularly on those aspects which discriminate unfairly against it.

INTRODUCTION

Our concern with the present structure of the taxation system goes much deeper than a feeling that certain clauses in certain Finance Acts are harmful to the strength of the Independent Business sector of the economy.

The very basis of many taxes are in our view fundamentally in error given acceptance of one premise - that the U.K. economy needs for the foreseeable future to trade in manufactured goods across the world.

The increase in world population gives us huge potential markets, but also poses a threat as countries with lower labour costs and standards of living enter the world economy as competitors. Everything in the U.K. must be geared to the motivation and nurturing of enterprise, and this includes the tax system

No increase in tax in recent times has ever stimulated legitimate enterprise and the converse is true - reductions in tax have stimulated enterprise.

Therefore the incidence of taxes on the wealth creating sector of the economy must constantly be examined to ensure that the benefit of the revenue they produce is not outweighted by the burden they impose on the growth of activity.

The consequences of this line of reasoning go far to shape the best tax system for an economy such as ours.

A SUMMARY OF OUR PROPOSALS

We look both for the removal of taxes and reliefs from taxes that:

* are biased against small scale unincorporated enterprises and the self employed;

* diverting investment from industry and commerce;

* remove profits that a profitable firm could use for expansion;

* inhibit individuals from seeking work or working harder, a condition that afflicts the poor more then the rich under present circumstances;

* accelerate the break up of shareholdings in private companies leaving them open to take over;

* incur disproportionate administrative costs.

There follows a resumé of the changes we propose within each of the main branches of taxation.

Income Tax

In the longer term, we urge the elimination of reliefs from personal income tax and reduction in the rates, if necessary financed by more indirect taxation.

In the short term we propose an increase in personal allowances by more that the rate of inflation and fund this in part by ending anomalies in NI contributions and a reduction in the higher rate thresholds, thus concentrating benefit on the lower paid. This will take people out of tax and increase the incentive to work. In addition we propose:-

*Widening the range of qualifying investors for the Business Expansion Scheme and creating Local Investment Clubs. Giving the Revenue more discreation over the 5 year shareholders rule;

* increasing the threshold for PllD's from £8,500 to £14,000 and thereafter to index-link it at the prevailing rate of inflation. Also exclude re-imbursed expenses from emoluments

* abolishing the investment income surcharge, especially on those over 60.

* increasing the limit of tax free Luncheon Vouchers to £1.50 per day to approximate more closely to the average subsidy of meals in company canteens.

Capital Gains Tax

We propose action be taken to:-

* abolish existing CGT rules;

* levy CGT on short term gains as an extension of income tax.

If these CGT proposals cannot be accepted then modify the exisitng law as follows:-

* reform rollover relief to facilitate the continuation of independent businesses;

* make funds held in private business liquidated by the owner on or after retirement be on parity with pension funds;

* simplify and improve indexation rules;

* modify CGT to encourage inter-vivos gifts;

* re-write chattel exemption rules;

* abolish double taxation of company assets;

* allow a set off in regard to CGT against brought forward losses.

Capital Transfer Tax

We suggest reforms to:-

* introduce a hold over relief;

* permit transfer of relief unused on the death of one spouse against the estate of the survivor when he/she dies;

* revise and increase business reliefs for CTT so that they coincide as far as possible with CGT.

Corporation Tax and Schedule D, Case I & II

If the Government remains commited to a form of company taxation based on profits, the Association's long term aim is a low rate of profits tax with no allowances. We still believe, inspite of the 1982 Green Paper, a case remains for a comprehensive review of incorporated and unincorporated business taxation, particularly the logic of taxing any productive assets, as well as the usefulness of trying to tax "profits" regardless of any assessment of ability to pay.

Since we understand Corporation Tax is here to stay for the forseeable future we propose adjustments to the present regulations to:-

* permit repayment of tax paid on profits in previous years in respect of a limited period, perhaps 7 years, to enable a company to expand;

* make allowances for funds employed in expansion (increases in working capital for stock build up and debtors should especially be allowed);

* bring Schedule D case I & II whenever practical into line with Corporation Tax;

* allow dividends of independent companies to be deducted against profits before tax;

* ensure capital equipment paid for by a tenant but owned by the landlord qualify for allowances in the accounts of the tenant.

* expand IBA to cover all commercial buildings.

Excise duties, - prices charged by state monopolies and local authority rates

We look for a substantial reduction in the burden industry has to carry in order to reduce the ex-works costs of manufactured goods. These are traded worldwide against the severest competition. Attention should be paid to:-

* ensure via maximum efficiency and limited Government interference that prices charged by state monopolies for goods or services required by industry and commerce are not in excess of prevailing world price levels;

* ensure excise duties do not make price levels uncompetitive.

Stamp Duty

We believe changes are needed to concentrate the Revenue collected by this tax and mitigate the market distortion it generates. This could be achieved by:-

* abolishing the 50p duty on stock transfer forms;
* examining duty on share capital as it dissuades companies from financing themselves with equity.

Regional grants and schemes to assist industry

* The cost per job created through regional grants must make them one of the least successful schemes on record. The AIB would welcome a review of regional and other policies and trust if they are to continue then any substitute scheme would both in law and practice be available to small independent businesses;
* by contrast the Loan Guarantee Scheme has been extremely cost effective. We have supported it (indeed we lobbied for years for its introduction) and wish it to continue past 1984 and develop to accomodate the demand for guaranteed loans it has stimulated and to generate competition in banking.

Taxes on Employment

These must be reduced by the:-

* elimination of the National Insurance Surcharge;
* reduction of the employer's National Insurance contribution;

Sources of additional revenue

We believe the Exchequer could raise any necessary additional finance to achieve these reductions and modifications by increases in indirect taxation, ending anomalies in NI rates and applying increased personal allowances for income tax against the basic rate.

INCOME TAX

Reliefs from and rates of Income Tax

The AIB is concerned that the £7 billion of reliefs from income tax have two very disturbing consequences. First, they divert investment from unquoted businesses into housing, life assurance and pension funds, and, secondly they make rates of tax higher than they need be. Less reliefs and lower tax rates has the support of the Association.

In addition we wish this tax to be less stringent on the lower paid and in particular we should like to see Government tax policy move towards the position where a family receiving supplementary benefits should not at the same time be paying income tax.

Thresholds and Allowances

We believe personal allowances should always be increased by the rate of inflation and if funds allow, possibly by the elimination of reliefs, they should be raised even higher in order to take people on supplementary benefit out of income tax.

In order to ensure that people on high incomes do not get a disproportionate advantage from this increase in allowances (a £500 increase in allowances is worth £150 to the 30% tax payer and £300 to the 60% tax payer) the thresholds at which rates of tax change should be reduced (or at least not increased fully in line with inflation) by the amount of the extra allowance.

The reduction in tax plus NI payments made by an individual when his gross income exceeds of £12,200 (1983/84) and before his "taxable income" reaches £14,600 (gross say £17,395 less married mans allowances £2795 = £14,600) should be eliminated, giving a large increase in revenue.

Further details of both these proposals for providing revenue to raise the personal allowance are given in Annex C.

These actions would enable even higher personal allowances to be granted and more people to be taken out of tax so increasing the numbers willing to take jobs at the market rate.

Provided income tax is not levied on families receiving supplementary benefits we feel increased allowances are a better method of assisting the lower paid than reduced rates. However, if tax is going to be levied on these families the effect of reduced rates on increasing people's incentive to work should not be overlooked.

The Business Expansion Scheme

Until 1987 at least, individual tax payers will receive tax relief of up to 75% on annual equity investment in unquoted trading companies subject to certain exclusions. Whilst this 'Business Expansion Scheme' does much to widen the sources of finance available to Independent Businesses, four further developments are necessary to enhance its usefulness.

Qualifying Investors - Employees and 'associates' (relatives of directors) must be allowed to invest in unquoted companies and obtain tax relief. These are obvious and direct sources of finance that directors could look at when needing capital and are often preferred to non-associate investment. The exclusion of these groups appears wrong in equity and does nothing to promote employee ownership.

The creation of 'investment clubs' - Whilst employees and 'associates' may well feel satisfied with an investment in a single company most people need to spread their risk. Two or three tax payers should be able to form an 'investment club' perhaps managed by a local accountant. The tax payers will purchase shares in the 'club' with tax relief and the club can re-invest all the funds in local businesses. Such clubs should be town and county based with regional or even industrial specialisation. By this means more tax payers might be attracted to marginal investment as the risk is shared, whilst large financial institutions would not be involved.

The creation of investment clubs is even more important if the employee and associates rules remain unchanged.

The Five Year Rule on Shareholdings: - This can act as a brake on a fast developing company applying for a USM listing. If three years after a cash injection a company needs a larger injection of funds it would be caught between the need for this cash and causing tax difficulties for its original backers. We feel in these instances it should be enacted that the Revenue should be able to use their discretion.

Company Law: The provision of a revised Table A for company's articles of association would do much to smooth the passage of investment under this scheme. At present much legal time and company money is expended in revising existing sets of articles, many of which do not allow equity participation of the type encouraged by the scheme.

If other reliefs against income tax were abolished , of course we would wish the BES to expire in 1987.

P11D's

The threshold of £8,500 causes employers to complete an ever-increasing number of P11Ds. Average male earnings in 1982/83 were £8,700. It is ludicrous that someone with average earnings should be classed as 'higher paid' by the taxman and his employer obliged to complete an additional detailed return of his emoluments. This is a major administrative burden on small businesses. The system of basing the threshold on emoluments, which is defined in the Act to include legitimate business expenses, means that an employer does not even know at the start of the tax year for which employee he needs to keep these records.

There is also discrimination in tax treatment of employees benefits which depend not on their level of salary but on the level of total emoluments (which are 'deemed' to include genuine business expenses). Thus 2 people on similar salaries can have quite different tax treatment for a company car and other perks. The following examples show the extent of this problem.

	A Machine Shop Chargehand	B Salesman
Salary	£7,000	£7,000
Expenses	Nil	3,500
Company Car tax assessment	325	325
Interest Free Loan	600	600
	£7,925	£11,425
Allowed 'necessary expenses' accepted by Revenue before tax	Nil	-3,500
Assessable benefits from P11D?	Not required	YES
TAX PAID ON	£7,000	£7,925

As a result, taxpayer B is assessed for tax to include his benefits in kind. He pays 30% tax on £925 extra compared with taxpayer A on the same salary and benefits. This amounts to an extra £277.50 if they have the same personal circumstances.

To remove these problems we propose:-

1. The P11D threshold should be based on the level of remuneration plus benefits but not include any re-imbursed business expenses.

2. This threshold should return to the value it originally represented which in today's terms is around £14,000.

If these proposals are enacted employees on equal salaries will incur equal tax treatment on any benefits they receive and employers will need to complete far fewer P11D forms.

Investment Income Surcharge

We are still apalled that any one who invests and receives a taxable return for risk is singled out for special taxation. It is, we feel, especially time that the Surcharge was abolished for individuals aged 60 or over. Most such individuals find themselves living on the income from their life savings. It is wrong to subject the income arising on an elderly persons life savings to a surcharge after such income has already been subjected to normal rates of income tax. Most of the life savings which create such investment income has arisen from the earnings during a working lifetime and as a result Investment Income Surcharge for persons over the age of 60 is really a tax on the thrifty.

The element of double taxation is expecially severe when one considers the tax regime of a pension fund and the classification of a pension as earned income. Seen in this light and Investment Income Surcharge is a penalty on those who have financed their business with their own savings; most would agree that those who use their funds in this way deserve a reward for their effort not a penalty. More is said under CGT concerning the unmerited tax advantages of savings via pension funds rather than in ones own business enterprise. (See also Annex D).

Luncheon Vouchers

We repeat our concern that the tax free limit on luncheon vouchers has not been increased since 1948. This is a direct discrimination against the smaller firm as they cannot provide subsidised canteens for their staff owing to the diseconomies of scale, which the larger firm does with out tax liability, 15p a day should be increased to £1.50 or else the benefit should be taxed on those receiving subsidised meals. A 3 course meal for employees at a well known West End department store costs 10p.

CAPITAL GAINS TAX

Introduction

Since its inception hardly a year has passed without major modifications to this tax. These have increased its complexity and we are greatly concerned with the costs of compliance. This is particulary acute when dealing with unquoted shares. Typically we hear of cases where the cost of computation and negotiation was twice that of the tax. No tax that places such a burden on the economy should be continued. For example, one member is still trying to settle a share valuation matter relating to 1978. The Inland Revenue have offered to settle now at £37 for each £10 paid up share compared with the initial offer of £42 in 1981. This substantial reduction, however, has taken hours of management time and advisors fees.

Our first concern on detailed aspects of the current system of taxing capital gains concerns the grossly unfair tax treatment of realised paper gains which arose between 6th April 1965 and 5th April 1982. During this period of 17 years an asset worth £10,000 increased in money value by £45,000 although its real value remained the same. The fact that a confiscatory levy of £15,000 can be imposed on realisation remains a major blot on the fiscal scene.

Our second concern is with its uncertain incidence between two almost similar transactions, as occurs in the chattel exemption rules where a husband and wife partnership is classified as a sole trader.

The Association of Independent Businesses accepts the need to tax capital gains, but considers it should be done in such a way that it is easy to compute, fair to all, and cheap to administer. In the past the taxing of short term gains as income has been proposed but the cut-off problems of tax being paid on assets held for a year but not on those for a year and a day have been seen to be insurmountable.

We believe the proposals we list below tackle this problem.

Proposed new tax

Capital gains should be treated as income for all gains made in the previous three years, and tax should be paid at the individuals top tax rate, or at a discount on that rate, in the year the gain is realised in the following manner:-

* disposals within one year of purchase - the whole gain;
* disposals within two years of purchase - half the gain;
* disposals within three years of purchase - a third of the gain;
* disposals three years and more after purchase - no tax levied;
* losses on disposals should not be allowed against gains unless the taxpayer opts for a period of five years for them to be allowed;
* the rate of tax for those that take the option (and very few would do so) would be at a higher rate. This could of course be the individuals top tax rate with those not taking the option having a discount (say of 15%) on that rate;
* modifications to the tax free allowance may be necessary under this new regime to take account of the altered incidence of tax;
* the need for rollover relief will be much reduced or, indeed, eliminated, although a transitional period of at least three years will be required.

We feel the reduction of the proportion of the gain to be taxed as time passes will compensate for inflation, and for this reason we do not believe the tax requires any inflation linking. Holding onto savings are also encouraged, which we understand to be in line with national economic policy.

The average rate of tax will be higher than the current 30% but the incidence will be lower. The net tax take is difficult for us to calcualte as we do not have access to revenue data.

We have deliberately made the set-off of losses in the above scheme an option for to retain losses would have posed numerous problems for the average taxpayer. Since losses would not have been deductible on an asset held over 3 years, tax payers would be tempted to sell shares within one year of purchase should there be any loss during that first year and, indeed, to sell assets periodically only to re-purchase them in order to ensure that future losses become liable for off-set. The Association does not see this artificial trading to be of any benefit to the economy and it certainly would be a nuisance to the taxpayer.

The option to take losses into account would be vital for a tax payer holding a large quantity of unquoted shares in a business that was making losses. The holders of assets with a volatile value in a limited market would also find it prudent if they took the option, even at the price of a higher rate on gains.

Proposed alterations to existing tax.

Should the Government feel unable to accept the above proposals then the following amendments will remove some of the worst anomalies of the existing tax, and make it less damaging to the wealth creating private sector of the economy.

* Re-investment rules (rollover relief)

- rollover relief is far too restrictive. If an asset is sold at a gain in order to purchase another asset, repay a loan, or pay C.T.T. , then rollover relief should be automatic.

- relief should be allowed on 'productive assets' not just assets used in trade. Confusion can occur when relief is sought for assets the products of which are not traded directly, though they contribute to another assets ability to trade.

* parity with pension funds;

- money invested and accumulated by an individual in his business should when liquidated rank pari-passu with monies invested in a pension fund. Indeed to stimulate risk taking some tax advantage should be obtained by the person who uses his own savings to build up a business. As Annex D shows, this is far from the current situation.

* indexation rules:

- that discrimination results from the indexation rules is now accepted by all parties. The AIB believe that relief should be given on assets purchased before 1981/82 on the purchase price, plus the inflated value since 1981/82 based on the value in that year. Post 1981/82 acquisitions should be treated as at present.

* CGT on lifetime gifts; - applied to the business environment encourages the elder generation of businessmen to 'hang on' to a business rather than 'hand over' to new blood. Whilst CGT due may be rolled-over the temptation is there to pass over the assets CGT free on death as well as reduce the CTT charge through business reliefs.

* CGT on company assets - capital gains obtained by a company are taxed twice. First by a CGT charge on the gain and secondly through the share-holder whose shares increase in value on account of the gain. Relief should be given to reduce this double charge.

* set-off for capital gains against brought forward losses - it seems iniquitous that businesses with tax losses can be taxed on a current capital gain. Many firms, to provide liquidity, after suffering losses, have sold assets and then been taxed on purely paper gains.

* chattel exemption rules: - should be reformed to end the discrimination that exists between the exemption from CGT given to non-married business partners which is double that given to husband and wife partners.

CAPITAL TRANSFER TAX

Holdover relief should be available on business assets including shares in unquoted companies until such time as they are sold (or quoted on a stock exchange).

Should shares on which holdover relief has been given decline in value, then the eventual monies paid over to the Revenue should be the tax due or the ultimate value of the shares, whichever is the lower. In a liquidation, for example, shares could have nil value yet a shareholder could have a substantial held-over tax liability based on a valuation at the time of a previous transfer.

If holdover relief is introduced, then a number on problems previously voiced on this tax become redundant. These include:-

* request for payments by instalments;

* the problem of periodic charges on settlements that include unquoted shares.

Death of Spouse Unused CTT relief should be made available to the surviving spouse on death.

Business Reliefs. The rules on business relief should follow those contained in CGT; relief would then be given on transfer of business assets held by a shareholder who himself controls 25%, or whose immediate family control 51% and he holds 5% in his own right.

A person that inherits a business asset from a spouse who is in a partnership (free of CTT on husband/wife rules) should get business relief if and when the asset is transfered to the remaining partners.

CORPORATION TAX

The Associations' views on company taxation fall into three categories.

Firstly, the proposals, outlined below concern the present system of Corporation Tax and, we believe, they go as far as possible to alleviate the problems inherent in using a tax base subject to complex legal definition and reduced by a series of arbitrarily chosen reliefs and allowances.

Secondly, in our reply to the 1982 Green Paper we outlined our support for a simplification of the existing system leading to a low rate tax on profits adjusted by a recognised current cost formula with free depreciation. No capital allowances would be needed.

Thirdly, we are investigating alternative tax regimes that will take account of companies ability to pay, as well as reviewing the taxation of productive assets generally. This study goes beyond the 'revenue-neutral' constraints imposed under the Green Paper review.

In this submission we concentrate on the first theme - necessary changes within the current framework of Corporation Tax to make this tax as useful and fair as possible. We propose modifications to support expanding businesses and other necessary improvements. Should the government be considering changes along the lines sketched in the above two paragraphs (our second or third alternatives) it would have the support of the Association.

The tax and expanding businesses

We submit a detailed paper (Annex A) on how both Corporation Tax and Schedule D case I & II need revision so they better support expanding businesses. In summary these are:-

* to provide the means for expansion by:-

(a) enabling a business to access the tax it has paid on its profits during the last 7 years in order to finance expansion (but not to finance current losses beyond the current limit of one year). This encourages a company to save for its own re-equipment rather than fritter away its profits on unnecessary expenditure, untimely purchase of plant and inflated pension fund contributions. Accessing profits

back seven years would cover the re-equipment cycle of the majority of small firms;

(b) allowing as relief against profits real increases in stocks, work-in progress and trade debtors less trade creditors. At present stock relief only protects a company in a limited way against the effect of inflation. These reliefs will provide expanding companies with a source of additional working capital;

* to bring Schedule D Case I & II more into line with Corporation Tax;

* to assist the spread of equity finance in small companies by allowing dividends to be deducted from profits before tax, in much the same way as loan interest is deducted. At present it is not in a company's interest to finance expansion or a start up with equity as the tax bill is much higher. This proposal could be restricted to private companies whose ordinary or participating shares are unquoted.

The present system is tending to frustrate attempts to widen the ownership of small firms, including use of the Business Expansion Scheme.

Other Corporation Tax Matters

* Small Workshops - It has clearly been an anomaly for too long that buildings have attracted less favourable capital allowance treatment than machinery.

Many small companies inhabit very small workshops, the majority of which are not on industrial estates, with vacant property to let, and can only expand and retain their current labour force by building extensions to their existing premises. The current 100% allowance for small workshops appears only to include 'self contained workshops'. This precludes extensions to existing workshops but would include a new unit built beside an existing unit, provided it is used by a separate 'trade' (whatever that may mean). This could well be a less convenient and more expensive option for a growing manufacturer and it is not clear why extensions are disallowed.

A move towards accepting extensions to existing property would appear to be in accordance with the recent extension of the Business Start up Scheme into the Business Expansion Scheme.

Should the Inland Revenue be anxious least very large companies take advantage

of this concession it could be limited to extensions of 1250 sq.ft. that when completed make a building of less then 5,000 square feet.

Many of our members with poor cash flow but solid potential would be materially helped by this amendment to the rules. A small workshop easily becomes overcrowded and less efficient. The current regulations are a brake on growth and an inducement to the prolongation of inefficiency.

* Capital allowances - Stokes (HMIT) v Costain Property Investment Ltd. A recent court judgement held that plant and machinery will not qualify for capital allowances if it is part of the permanent fixtures of a building, which becomes the landlord's fixtures, in cases were the payment was by the person holding the lease. As a result quite genuine capital expenditure will not be allowed even though the end of the lease may well be years after the effective life of that plant or equipment has ended.

  It appears the Finance Act 1971 s41 (1) (b) needs amending to allow those on long leases especially, perhaps 5 years or more, to qualify for capital allowances even though the assets purchased become fixtures of the property.

* Building Allowances - We again repeat our belief that the current limitation of building allowances to industrial premises has no economic justification. As every year more detailed rules are introduced to 'clarify' eligbility the system becomes more and more complicated and anomalies abound. The cost of immediately rectifying this situation may be prohibitive. The principle however, could be recognised by removing the biggest anomaly - that of warehouses-possibly financed by a small reduction in the percantage of I.B.A.'s overall. As circumstances permit in future years the remaining anomalies could then be removed.

  The recent reports of the Treasury's submission to the NEDC on the source of jobs for the future would appear to support the case that allowances for industrial buildings only is unjustified

EXCISE DUTIES AND PUBLIC SECTOR PRICES

Whilst some increase in certain indirect taxes are justified as part of a switch from direct to indirect taxation, any excise duties must ensure industrial prices are competitive in world markets.

Simlarly, gas, electricity, telephones and other public sector charges must be competitive in relation to world prices. In April 1983 UK businesses were still paying higher prices per kilowatt hour that their counterparts in France- although recent price stablility will reduce the difference. The cost of standing charges for all ultilities should be constantly kept under review for low volume business users as well. We look to the Government to promote the efficiency of these services to keep prices down and not use price increases here as a form of taxation.

As an example of these problems the Association has received many complaints in the last year on the increasing cost of water. British water is more expensive per cubic metre for business users than water in the USA, Canada, Eire and other competitors. Water in England and Wales is more expensive that Scotland or Northern Ireland. One member firm with 70 employees has watched their water rate increase from £115.28 in 1977 to £1,511 in 1982, an increase of 1214%. Another firm saw an increase of 60% in six months.

LOCAL AUTHORITY RATES

Rate demands have increased continually in recent years, this is now undisputed. Non domestic local authority rates increased by 79% in real terms between 1967-1982. This fixed and increasing cost must be regarded as a major factor in the continuing uncompetitive position of U.K. industry. The impact on employment has also been considerable.

Recent attempts to control local authority expenditure are no real solution to the problems of local government finance. What is needed is a widening of the tax base to distribute the burden of the services local authorities provide. At the moment those rate payers who pay rates and the industrial and commercial sector share too much of the burden. The spending policies of different local authorities, translated into rate demands, also creates unfair competition between businesses in the same market.

Another phase of local authority reform is needed to:

* widen the tax through a Local Income Tax for all wage earners;
* abolish domestic rates;
* establish a nationally set non-domestic rate as near to zero as possible.

STAMP DUTY

Our full views on the need to reform stamp duty were submitted earlier this year to the Revenue. In summary we believe:-

* the capital duty levy should be abolished in relation to all unquoted shares of U.K. trading companies up to a share valuation of £100,000;

* the possibility of an annual exemption on new shares issued for unquoted companies above this limit should be considered as well.

The revenue loss involved by such a bold measure would be small as most of it comes from share issues over £100,000. No legal block prohibits this move from the point of view of the EEC directive.

* petty stamp duties should be abolished as they amount to bureaucratic harassment. The 50p Stamp Duty collected on stock transfer forms is a case in point. Virtually no revenue is raised and real inconvenience is suffered.

REGIONAL GRANTS AND GOVERNMENT SUPPORT FOR INDUSTRY

The current form of regional policy is expensive and ineffective. Since 1970 the average cost per job created through regional policy has been high - £34,000. Yet the only area of the U.K. which has had a positive increase in employment has been East Anglia with no development area status. Claims of 'grant-hopping' by large firms abound and recent acedemic studies have concluded that the current format of regional policy is defective. A fundamental review of the system of regional aid with a move to fewer grants and concentration on job creation would have the support of the Association. Our views on this subject have recently been submitted in a separate detailed paper.

On the other hand one of the most successful job creation schemes on record, the Loan Guarantee Scheme, ends its pilot phase in 1984. At the moment the cost per job created through this scheme is around £160 each. At the same time the huge demand for guaranteed loans, over 12,000 since 1981, illustrates the scheme fills a gap in the financial market place.

Not only does the Association feel the scheme should be continued on a permanant basis but:-

* less emphasis should be put on additionality to make the premium income cover more of the loss rate;

* more emphasis put on a personal commitment to any new business project, although this does not necessarily mean a monetary commitment nor any form of personal guarantee;

* a greater facility to review re-payment periods say two years into the loan.

In addition, we do not believe the upper limit on loans need be increased by more than enough to restore its value in real terms to the £75,000 figure in 1981. This would be around £90,000 in May 1984.

Any upper limit in excess of this figure would move the scheme away from the small business sector, indeed the average loan at present is still £35,000. Massive injections of loan financial capital over £100,000 may well

just store up problems for businesses for the future. Firms need to look to equity or, echoing our own proposals contained in this submission, to access recently paid profits tax.

TAXES ON EMPLOYMENT

The institution of the National Insurance Surcharge on employers was a major break with the actuarial basis of the system of national insurance. Rightly called 'the job's tax', we believe the Government should fulfil its pledge made in June 1983 to abolish the remaining surcharge from April 1984. Abolition will increase the financial resources of business by £1,300m or more in 1984/85.

On a more general level we are concerned by the effect of the ever rising level of employers national insurance contributions and the brake they put on job creation. The current rate of 10.45% (not contracted out) is high, yet the effect of increases already in the rate since 1975 have been to massively increase taxes on labour from 13.2% of total taxation to 17.5% in 1980. With the surcharge included, employers contribution's have increased 103% between 1967-1982 in real terms.

A move should be made this year to begin to reverse the trend. Through an increase in VAT and other indirect taxes the employers contribution could be reduced, so moving taxation away from production to consumption.

Similarly, the effect of ever increasing employees contributions on the incentive to work should not be forgotten. Again, more indirect taxation to reduce direct taxation and insurance contributions would have the support of the Association.

ANNEX A

Company Taxation 1983

SHORT SUMMARY OF MAIN PROPOSALS

1. Allow unused capital allowances and reliefs to be set against taxed profits incurred up to seven years previously.

2. Increase the scope of reliefs against company tax to include working capital required for increases in stocks and trade debtors less trade creditors.

3. Bring Corporation Tax and Schedule D case I & II more into line.

By this means companies of proven worth - those that make profits - will be helped to expand. Those that choose not to expand will pay tax. It is as simple as that.

BACKGROUND

The Inland Revenue claim that the majority of organisations commenting on the 1982 Green Paper on Corporation Tax asked that the present tax system by largely retained.

Regrettably the Green Paper did not address itself to the economic implications of levying taxes on productive resources. When the effect of these are taken into account in a mixed economy (part state owned, part large public companies and part small privately financed companies), and one that trades in manufacturerd goods, the options discussed in the Green Paper become totally inadequate. The incidence of this tax on a large sector of the economy is reducing growth where it is most likely to be effective and at the same time increasing the need for further taxation to cover unemployment pay. It is a vicious circle.

Corporation Tax is not the only tax on productive resources as Schedule D cases I & II come into the same category. Regrettably the Green Paper did not cover this tax at all.

The propriety of taxing the wealth creating sector of the economy has repeatedly been questioned not least of all in our evidence to the Bolton Inquiry. The alternative sources of revenue are so huge, Income Tax, VAT, Excise duties, that the gathering of even small amounts from trading companies with a risk of starving them of development funds does not appear to be worth taking. This is particularly true in the small business sector which has no access to the Stock Exchange, and certainly less than its fair share of Government grants.

The view that business capital should originate from fully taxed private funds is contentious in view of the Business Expansion Scheme which allows individuals to provide capital from tax free income. It is also noticeable that the tax exempt funds of pension companies and life assurance companies are fed into the Stock Exchange and through the Stock Exchange to P.L.C.'s not to the small independent business sector.

Allowing a company to expand its own capital base by using its own profits free of tax is therefore a small yet important step to take, and this is at the heart of our proposals.

THE GROWTH OF SMALL BUSINESS IS AFFECTED BY TAXATION

The need to access past profits

Existing Corporation Tax and Schedule D case I & II together with their associated capital allowances systems do not cater for the rather lumpy investment cycle of the smaller firm, but are attuned to the smoother growth patterns of larger firms. Regrettably business expansion, in the small business sector, is anything but smooth. Opportunities come which need to be taken or else they are lost. Capital expenditure is rarely even: the purchase of new leases and re-equipment often come together.

In large companies single departments in its existing trade can be re-equiped one at a time and the capital allowances claimed against current profits earned by the whole company. Thus the company's plant gets continuously updated every seven years or so.

But what about a small firm whose main productive asset costs £300,000 and it makes only (say) £50,000 a year profit? Eight years profit are needed to purchase an exact replacement assuming no inflation. But today's world of inflation and modern technology usually mean extra funds are required. Yet every year 38% of the profit is taxed. If incorporated the company can only go back 3 years to set unused capital allowances against previous profit and if unincorporated only 1 year under Schedule D.

It would appear that the amount of time a company can go back should reflect, in order not to be discriminatory, the re-equipment cycle of the smallest concern.

With new technology many businesses can be competently managed around the use of a single expensive piece of plant. These are the industries of the future. Current tax law makes their continuation as small slim profitable concerns extremely unlikely. They will either fail to re-equip or be forced to become part of a larger grouping of firms all because of tax law. Neither of these courses of action are in the interests of efficient industry.

The current tax and capital allowance system forces small companies into short term investment decisions, into dumping profits into pension schemes, into unnecessary revenue expenditure, all in order to reduce total tax

liability. It would be more sensible for proprietors to plan their company expansion over a longer time period, with a tax system that favours such activity, rather than discriminates against it.

In short, the ability to access past profits one year under schedule D and 3 years under Corporation Tax does not fit in with the re-equipment cycle of a large number of small firms.

The need for relief in respect of necessary working capital

In addition no relief is given for the equally pressing requirement to finance increases in working cpaital, particularly those needed to cover the increase in stocks and debtors consequent on a growth in business.

PLC's versus small firms

The above are not key issues for companies with a Stock Exchange quotation. They are able to increase their capital by a rights issue or a placement of shares; very often using the tax exempt funds of pension and life assurance companies. How different is the case of the small or medium-sized business without access to tax exempt funds except via the Business Expansion Scheme (this has yet to prove its worth though it could be of help to larger private companies).

The easiest source of tax exempt funds for a small business would be the companies own past profits if a scheme to relieve them of tax in certain circumstances could be designed.

At present, a proprietor is likely to have to borrow money for expansion, to incur a long term debt and perhaps even sign a personal guarantee. Too many good expansion schemes fail because the proprietor does not wish to incur the debt or sign the guarantee, yet it is in the economy's interest that these schemes be brought to fruition.

Accessing past profits has enormous attractions if only because it selects companies who have already proved their competence.

PROPOSALS

Proposals for the amendment of existing business taxation:-

1. Provide the means for expansion by:-

   (a) enabling a business to access the tax it had paid on its profits during the last 7 years in order to finance expansion (but not to finance current losses beyond the current limit of one year). This will encourage a company to save for its own re-equipment rather than fritter away its profits on unnecessary expenses, untimely purchase of plant and inflated pension fund contributions.

   (b) allowing as relief against profits real increases in stocks, work-in-progress and trade debtors less trade creditors. At present stock relief only protects a company against the effect of inflation.

2. Bring Schedule D case I & II more into line with Corporation Tax.

3. Assist the spread of equity finance in unquoted companies by allowing dividends to be deducted from profits before tax, in much the same way as loan interest is deducted. At present it is not in the companies interest to finance expansion or a start up with equity as the tax bill is much higher. This proposal could be restricted to private companies whose ordinary or participating shares are unquoted.

   The present system is tending to frustrate attempts to widen the ownership of small firms including use of the Business Expansion Scheme.

Further details

1. Assessments should be made broadly as they are now. If, as we hope, current cost accounting becomes widely adopted, this method of calculating profits should be used for tax purposes. The free depreciation of assets in the life expectancy of the asset should also be allowed.

Increase in working capital consequent on the expansion of business should be allowed under two headings:-

* increases in stock and work-in-progress

* increases in trade debtors less trade creditors

Capital allowances and increases in working capital should be set off against the profits (if any) in the year in which they are incurred. If no profits are incurred or if a balance is outstanding, they should be set off against profits in the previous seven years on a first in first used basis. To prevent abuse, losses will only be able to be set off against profits in the previous year (as now).

The effect of these proposals will be to allow companies to reduce their Corporation Tax assessments by an amount which equates to the additional working capital they require to carry on their expanded businesses. It will also allow companies to finance their expansion by obtaining credits for taxes previously paid in the last 7 years.

The abuse of the previous stock relief scheme will be mitigated by including trade creditors in the equation before relief is granted. It will not be in a firms interest to increase stocks just before a year end as their creditors will increase pari-passu.

2. Profits tax should be paid as and when due, but the form of receipt should indicate that the tax can be reclaimed for unused capital allowances and stock and debtor reliefs incurred up to a date 7 years after the date of the relevant tax year ,and that the tax cannot be used for any normal trading losses after one year has elapsed. These tax receipts will be evidence of a company's entitlement to the tax in defined circumstances and will be of great benefit in trying to negotiate bridging loans with the Banks.

3. Dividends should be allowable against taxable income in private companies (those whose ordinary shares are not traded on the Stock Exchange). This will encourage companies to finance themselves with equity capital. Companies

should still deduct ACT and remit it direct to the Revenue paying shareholders only the net amount. This proposal is designed to mitigate the effect of Corporation Tax on the capital structure of a company. Since dividends are paid out of income, but interest on loans are paid out of income before tax, there is a substantial incentive for companies to structure themselves on loans rather than equity. This is against current social policy which attempts to promote the widening of share ownership via the participation of workers in their companies.

The effect of this anomaly between the financing of loans compared with equity can be seen from the following example:

A company makes £100,000 profit before interest and pays £50,000 interest or dividend.

(a) Corporation Tax at 38%

	Loan Finance		Equity Finance
Profit before tax and interest	100,000	Profit before tax	100,000
Loan Interest	50,000	Corporation Tax	38,000
Taxable Profit	50,000	Profit after Tax	62,000
Corporation Tax	-19,000	Dividend of £50,000, less ACT (£15,000)	35,000
Retained in Company	31,000	Retained in Company	27,000

Company is £4,000 better off with Loan Finance.

(b) Corporation Tax at 52%

Profit before tax and interest	100,000	Profit before tax	100,000
Loan interest	50,000	Corporation tax	52,000
Taxable profit	50,000	Profit after tax	48,000
Corporation tax	-26,000	Dividend of £50,000 less ACT (£15,000)	35,000
Retained in Company	24,000	Retained in Company	13,000

Company is £11,000 better off with Loan Finance.

4. These proposals are not designed to make every company a tax exempt fund, they are designed simply to ensure that those companies which

are expanding have access to a reliable source of finance. Our proposals ensure that revenue will be gathered from those companies who are profitable but fail to expand.

ADDITIONAL BENEFITS

The effect of these changes on the Exchequer must not be viewed only in terms of the amount of revenue collected. The following bonuses must also be considered:-

* effect on corporate growth particularly in small companies;

* the simple method of accessing past profits means the successful small businessmen is not bogged down in time consuming negotiations with Banks and the money market;

* the reduction in current Corporation Tax avoidance schemes will leave more funds available for the company to use and this will assist corporate growth;

* the ability to expand from their own funds will reduce the amount of money companies need to take from the Government and this will reduce Government expenditure on regional grants and other industrial assistance policies. Substantial savings in Government expenditure should be possible here;

* the equity of enabling small companies to have access to 'tax exempt funds' for the purpose of expansion. This would mirror the access PLC's have to the tax exempt funds of the pension funds.

* More tax would be paid even if some of it would be reimbursed later. The flow of funds into the Exchequer would be greatly increased over the first three or four years. Repayments would begin to build up but a residual tranché of funds being continuously rolled over would remain in the Treasury coffers.

ANNEX B

AIB BUDGET PROPOSALS

TAX CHANGES TO ASSIST EXPANSION

* abolish the Investment Income Surcharge, particularly for those over 60.

* allow the creation of 'investment clubs'

* provide the means for expansion by:-

  (1) allowing as relief against profits real increase in stocks, work-in-progress and trade debtors less trade creditors. At present stock relief only protects a company against the effect of inflation.

  (2) enabling a business to access the tax it has paid on its profits during the last 7 years in order to finance expansion (but not to finance current losses beyond the current limit of one year).

* to bring Schedule D case I & II more into line with Corporation Tax.

* to assist the spread of equity finance in small companies by allowing dividends to be deducted from profits before tax, in much the same way as loan interest is deducted. At present it is not the companies interest to finance expansion or a start up with equity as the tax bill is much higher. This proposal should be restricted to private companies whose ordinary or partcipating shares are unquoted.

  The present system is tending to frustrate attempts to widen the ownership of small firms including use of the Business Expansion Scheme.

* TAX CHANGES TO REDUCE ADMINISTRATION COSTS TO SMALL FIRMS

* raising the PIID threshold in line with wage inflation

* simplifying CGT to avoid complicated unquoted share valuations

* abolishing 50p stamp duty on share transfer forms.

TAX CHANGES TO REDUCE THE INCENTIVE TO WORK PROBLEM

* remove income tax from families whose income is such that they receive supplementary benefit

* provide additional funds to achieve this in the short term by limiting increased reliefs and tax changes to the lower rate band and raising the NI threshold to coincide with the 40% tax threshold.

TAX CHANGES TO REDUCE BIAS AGAINST SMALL FIRMS

* raise the luncheon voucher tax free limit or tax sudsidised canteens as a benefit in kind

* amend certain CGT rules to avoid unfair treatment of husband and wife partners and provide proper rollover relief for all capital taxes

* reform Schedule D case 1 and 11 Corporation Tax rules to mirror the re-equipment cycle of small businesses.

ANNEX C

FINANCING HIGHER ALLOWANCES FOR THE LOWER PAID

We believe personal allowances could be increased above inflation through the use of the following ways of increasing revenue and reducing the Exchequer costs of allowances.

(1) Ending the anomaly between the maximum earning limit on NI payments for employees and the first higher tax threshold.

Currently those earning between 12,200 p.a. and c. £17.500 p.a. receive, in effect, a 9% lower marginal tax rate. This seems unfair. Either the initial starting threshold for 40% taxation could be lowered or the maximum earning limit for NI raised to end this anomaly. The second alternative would be preferable to minimise the impact on those with near average earnings.

Around 3 million people receive this rebate and, for example, to raise the NI threshold upwards would generate up to £1,500m extra revenue in 1983/84. This could increase each main personal allowance by nearly £200.

(2) Limiting any additional tax relief to all taxpayers equal to that received by those on the basic rate.

This could be achieved by reducing the threshold at which each higher rate begins by the same amount as the basis personal allowance increases. The following figures illustrate the impact of this change.

Basic rate		£100 additional allowances	
Gross Pay	16,600	16,600	
Allowances	2,000	2,100	
Taxable on	14,600	14,500	
Tax - 30%	£4,380 paid	£4,350	net gain £30

Higher rate				
Gross Pay	18,000		18,000	
Allowances	2,000		2,100	
Taxable on	16,000		15,900	
Tax £14,600 @ 30%	4,380	Tax 14,500 @ 30%	4,350	
Rest @ 40%	560	Rest @ 40%	560	
Tax Paid	4,940		4,910	- net gain £30

As a result the post tax gain is the same for the higher rate taxpayer as at the basic rate - £30 a year for a £100 increase in allowances.

We estimate that if this was introduced, for every £100 increase in allowances the cost would be reduced by between £15 - £16m. This would be a small but worthwhile contribution to help the lower paid, if the money was used for higher allowances.

Annex D

Comparison between a businessman who saves money in his own unincorporated company and one who saves via a corporate pension fund. These examples are based on an unchanged tax system with no inflation.

A. Mr Alcock, the small unincorporated businessmen, aged 40 starts a business which expands and he places £7,500 each year into the business. This money comes out of his salary. On average he has paid 40% tax on this money (some of it at 30%, most at 40% and some at 50%).

At the end of 20 years Mr Alcock has put into his business

20 x £7,500 = £150,000

But he has paid £5,000 tax each year on this money (£12,500 x 40% = £5,000; £12,500 - £5,000 = £7,500 invested) making a total tax bill of £100,000 over the 20 years.

At retirement he sells his business for £300,000 and pays capital gains tax on the gain, less £50,000 relief:-

Selling Price	£300,000	
Invested by Mr Alcock	-£150,000	
Gain	£150,000	
Less Business Retirement Relief	-50,000	
Less Annual Exemption	- 5,300	
Tax	£94,700	@ 30%
CGT paid =	£28,410	

Mr Alcock finishes up with a fund of £271,590 (£300,000 less £28,410).

.../..

B. Mr Beetle is a member of a pension scheme in a private company. He can fund up to 2/3 rds his final salary in tax free contributions and get 1½ times his final salary tax free. Assume - final salary £33,000, final fund in his name -£300,000 (an average-sized fund for a £30-35,000 pa pension)

On retirement Mr Beetle gets:-

- £50,250 tax free (1½ times final salary)
- an annuity of £24,000 a year (depending on health and age of retirement, but this is an average figure).

Summary

At the date of their retirement Mr Alcock has paid out £128,410 in tax during the life of his business on the money he has used to build up his business and the gain he made on selling it.

Mr Beetle has paid no tax (nor has his employer) on the money put aside for his retirement and his savings have been rolled up over 20 years in a tax free fund and his contributions would be much smaller than Mr Alcock's annual investment.

Post Retirement Position

A. Mr Alcock purchases an annuity with £271,590 - to provide a £27,000 pa payment. He has an average life expectancy, as does Mr Beetle, of 17 years.

Every year (assuming no tax changes) his position would be :-

.../..

Income: £27,000 annuity income - £15,660 tax free (being the capital element)

Total Statutory Income: = £11,340, less £2795 married allowance=£8545

Taxable on: = £8545 @ 30% = £2563.50 plus 15% additional tax on income over £7,100 = £216.75

Annual tax paid: = £2780.25 - Annual Income: £24,219.75

Total tax paid over 17 years = £24,219.75 (£2780.25 x 17)

B. Mr Beetle receives a tax free lump sum equal to 1½ final salary - £50,250 and £24,000 a year pension, taxed as earned income. Less personal allowances of £2795, taxable income of £21,205 would incur:-

£14,600 @ 30% = £4380

£ 2,600 @ 40% = £1040

Remainder @ 45% = £ 802.25

Annual Tax paid:- £7222.25 leaving Annual Income: £16,777.75

Total Tax paid over 17 years: £122,778.25

Hence it appears that Mr Alcock's tax disadvantage before retirement is reversed after retirement. Yet overall his tax position would still be worse. Before retirement Mr Alcock paid £128.410 in tax to build up his business and realise his gain. Say he lives to the average age of 77, he will pay an additional £47,264.25 tax - totalling £175,264.25

Mr Beetle, on the other hand, who paid no tax to build up his pension fund and over 17 years of retirement, pays £122,778.25 tax. This is still £52,286 less than Mr Alcock.

This fiscal example does not include the extra work and risk Mr Alcock takes. Equally all Mr Alcock's savings were made out of taxed income whilst Mr Beetle had the benefits (un-taxed in his hands or anyone else)

../...

of premiums paid into a tax exempt fund.

Should Mr Alcock have chosen to invest his own funds and to live off the income he would have paid even more tax and his estate would have paid CTT on his investments on his death.

No Government claiming to support individual enterprise and the development of small businesses should allow discrimination on this scale to continue.

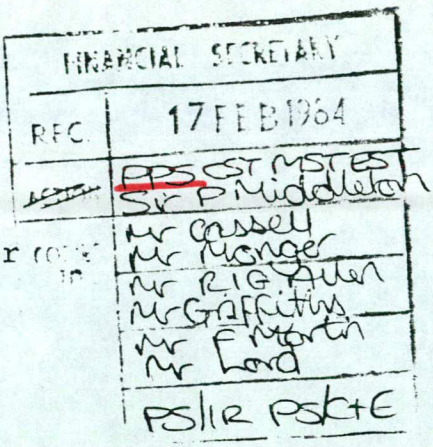
ABC
ALLIANCE OF BRITISH CLUBS

PO BOX 32, STOCKPORT, CHESHIRE SK1 1ER
TELEPHONE: 061-480 4264

Alliance National Council 1983/4
J. Abbruzzese, Maerdy Workmen's Hall
H. Barker, Intake Social Club, Doncaster
W.J. Barratt, Monks Road W.M.C., Lincoln
D. Beale, Corby Royal British Legion Club
B. Cox, Farsley Liberal Club, Leeds
F.S. Elliott, Birmingham & District Association of Club Secretaries
R.G. Evans, Caernarvon Borough Conservative Club
P. Flynn, St. Cuthberts Catholic Club, Chester-le-Street
W.L. Jones, Newent Circle Club, Glos.
W. Maley, Downhill W.M.C., Sunderland
R. Marshall, British Rail Staff Association, Wickford
D. Radcliffe, Huddersfield & District Club Secretaries Association
N. Rogers, Llay Royal British Legion Club
C. Shepherd, Ivy Leaf Memorial Club, Yiewsley
C.M. Stadius, Birtley Rex Club, Co. Durham
K.B. Woodcock, Greenside W.M.C., Huddersfield
Chairman: R. Marshall
Treasurer: K.B. Woodcock
Legal Adviser: P. Coulson LL.B.

JD/JP

10 February 1984



Mr Nigel Lawson
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London
SW1P 3AG

Dear Mr Lawson

This Alliance represents just over 800 registered clubs and at its last meeting the national council heard reports from member clubs of the affects on them of the recession.

The clubs, in general, have borne up very well considering the high levels of unemployment and rising prices of goods and services, plus ever higher rates bills, which they have had to bear.

However, the registered clubs have survived only because they are non profit-making and can economise in various ways with the approval of the members, who own their clubs, of course.

However, as the Budget is getting nearer, I have been asked to write to you not with the usual tongue in cheek plea not to impose higher taxes on this and that because of the bad effect this would have, but to advise you in all sincerity that any substantial increase in taxes on the basic commodity supplied by all clubs - beer - would have a catastrophic affect on sales and therefore on the excise duty revenues you would gain.

We have conducted an internal survey of our member club bar sales and discover that these have largely, at best, remained static and in many cases have declined. Only a very few clubs have actually increased sales.

Cont'd

10 February 1984

Mr Nigel Lawson

You may be interested to know, in view of the EEC moves on increasing beer duty to protect wine sales, that wine sales in our clubs hardly exist. This is NOT due to the fact that wine is more expensive but to the truth that wine has NEVER been drunk in the registered clubs to any extent. Nor can we see it doing so in the future. So if beer is made artificially more expensive to satisfy wine interests the result will NOT be a switch to wine in our clubs. It will simply result in less beer being drunk.

This will deny the clubs of the revenue they need to provide their members with amenities and many local communities with many leisure, social and sporting facilities, all of which are provided on a non profit-making basis.

It will also deny the Treasury considerable excise revenues. Or at least it can do no less than place a substantial proportion of those revenues at risk.

This Alliance, therefore, sincerely hopes that as Chancellor you will have a regard for the bona fide interests of the club movement and its millions of members, when planning your Budget, in addition to the obvious fact that Treasury interests are involved. Our interests are certainly not those of wine producers and we cannot accept their argument that outlets which have never shown any interest in their product should be asked to suffer because their product is presumably not selling in their traditional outlets.

The wine lobby argument is just as valid as cinema owners asking for a huge extra tax to be placed on television sets to safeguard film interests. With that sort of mentality the railways would never have replaced the coach and horse industry. It is also an argument aimed at the wrong target because wine sales in the U.K. have actually been rising, we understand. At the same time beer sales in the U.K. have been declining. So it is beer, and not wine, that needs protecting in the U.K. The EEC wine interests should look to the Continent to increase sales and not attempt to flood the U.K. with their wine lake.

We will be most disappointed if this present government gives in to this outrageous and basically impertinent demand by the EEC wine interests.

Yours sincerely

J Dowd

J Dowd
Honorary Secretary

AGE CONCERN ENGLAND

National Old People's Welfare Council Bernard Sunley House 60 Pitcairn Road Mitcham Surrey CR4 3LL ☎ 01 640 5431
Telex 8956502 Cresnt G 44/AGECON

Patron HRH The Duchess of Kent
President Lord Seebohm
Vice Presidents Lord Goodman Jack Jones CH MBE
Sir Leslie Porter Professor J C Brocklehurst
Sir Alan Marre KCB Sir John Mills CBE
Professor Olive Stevenson
Chairman Miss A H Spokes
Vice Chairmen W G Bryan N S Marsh CBE QC
L Cockburn
Honorary Treasurer N Fryer
Director David Hobman CBE

HM TREASURY – MCU
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REF NO. 15676

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
11 Downing Street
LONDON SW1

DH/jg

24th February 1984

Dear Mr Lawson

The enclosed Submission highlights those benefits and concessions which particularly affect elderly people. It draws attention to those areas where substantial enhancements are necessary which we urge you to include in your 1984 Budget.

Yours sincerely

David Hobman

Enc

FINANCIAL SECRETARY
REC 28 FEB 1984
PPS CST MST EST
Sir P Middleton
Mr Cassell
Mr Monger
Mr R I G Allen
Mr Griffiths
Mr F Martin
Mr Lord
PS/IR
PS/C+E

Charity (261794/A1)

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Professor Olive Stevenson
Chairman Miss A H Spokes
Vice Chairmen W G Bryan N S Marsh CBE OC
L Cockburn
Honorary Treasurer N Fryer
Director David Hobman CBE

help AGE CONCERN warm up winter

SUBMISSION TO THE CHANCELLOR

1 9 8 4

Age Concern trust that the Chancellor of the Exchequer will provide pensioners with a real improvement in their living standards in the forthcoming budget. Their present pension is too low, a view shared by 58% of people according to a recent MORI poll. The submission concentrates on the following areas, outlining our views at the head of each section and the reasons for supporting them.

Retirement Pension

Tax Allowances and the Poverty Trap

Housing Benefit and the Poverty Trap

Supplementary Pensions

Heating and Insulation

Home Improvement Grants

Death Grant

Invalid Care Allowance

Christmas Bonus

We hope that some of the anomalies which effect small groups of pensioners will be removed. This would right injustices felt by all elderly people.

Registered [illegible] No. [illegible]

RETIREMENT PENSIONS

The link between the retirement pension and average earnings should be restored, and losses from previous years made good. Uprating should take place twice yearly with real increases towards a pension of half average earnings for a couple and one third average earnings for a single person. The earnings rule should be abolished and the married women's "half-test" waived retrospectively. There should be phased increases of the Over 80's Pension to the same level as the retirement pension.

Age Concern regard the current practice of linking the increase in the retirement pension to the rise in the Retail Price Index as the minimum necessary to ensure survival. In "Growing Older"* the Government expressed this sentiment:

> " ...people will need an income sufficient to provide a reasonable standard of living and to enable them to take part in the life of the community. The key to this lies in a basic retirement pension at a satisfactory level ..."

The present full basic weekly rate of pension for a single person is £34.05p. This is 5p less than the minimum requirements level for Supplementary Benefit before additions are made for health and heating needs and obligatory additional outgoings such as water rates and house repairs. The full basic weekly rate of retirement pension for a couple of £54.50p is also 5p below the Supplementary Benefit minimum requirements level. As a result, many pensioners and widows without occupational pensions are obliged to claim Supplementary Benefit where they would have preferred the contributory system to have given them protection from poverty in old age.

Legislative changes since 1979 have resulted in a consistent loss of income to pensioners. By April 1983 a pensioner couple had lost £2.55p per week, and a single person had lost £1.30p due to previous changes. Had those losses been restored at that date, the basic pensions would then have become £57.05p and £35.35p respectively.

Since then a further 3.2% has been lost because the link with average earnings has been broken. Thus at November 1983 the basic pension for a couple could have been £58.88p and £36.48p for a single person. Each couple had lost £4.38p per week at that date, equivalent to 11 weeks average expenditure on food in a full year. Each single person had lost £2.43p a week, equivalent to 3 months average expenditure on food in a year.

These losses to pensioners must have had a severe impact on their standard of living, which should now be made good. The 1979 value of the pension should be restored and the pension should be uprated twice a year, and not once a year as at present. This would enable pensioners to reap the benefit of adjustments for inflation, and reduce the time-lag problem which erodes the value of increases.

* "Growing Older". March 1981. HMSO. p.6. para 2.1

However, restoration of the previous purchasing power of the pension will not address the problem of its fundamental adequacy and equity. Pensioners are amongst those on the lowest incomes in our society and Age Concern's objective is to achieve a pension which enables the recipient to live with dignity. This implies not only the restoration of the link with average earnings, but also an increase in the proportion of average earnings which the pension represents.

In its Second Report (1983), the Social Security Advisory Committee stated:

> "If earnings consistently rise faster than prices, but pension rates are increased - as they have been since 1980 - only by the factor of price increases, then the value of the pension as a proportion of earnings will fall drastically over time . . . . .the gap between elderly people's standards of living and the standards of the working population will widen rather then diminish ..."

The S.S.A.C. recommended that if earnings consistently keep ahead of price movements "...there should be periodic upratings of pension levels above the minimum price-relation provided for in the Social Security Act 1980". Since 1980 earnings have consistently risen faster than prices, and Age Concern hope that just such an uprating will take place in the budget.

The pension for a couple was 35.7% of average earnings in November 1983, a single pension was 22.3% of average earnings. Age Concern are committed to achieving a pension of not less than one half of average earnings for a couple, and not less than one third of average earnings for a single person. Application of this principle at November 1983 would have resulted in a pension of £76.35p and £50.90p respectively.

The Earnings Rule

The Government should now fulfill its long-standing commitment to abolish the earnings limit. Although the ceiling to the earnings rule has been lifted since 1979, it has continued to lose value in real terms.

In March 1983 the abolition of the earnings rule would have cost about £55 million. The cost of its abolition could eventually be recouped by the contributions that pensioners would make to the rejuvenation of our economy and through their taxes.

Over 80's Pension

Phased increases in this pension should commence to bring it in line with the retirement pension.

The Non-Contributory Retirement Pension for people over 80 years old was introduced in 1970. This can now be claimed by any person over 80 who fails to qualify for a contributory retirement pension, or qualifies for a very low rate of retirement pension. Originally over 132,000 people claimed this pension but by March 1983 only 42,050 received it, at a cost of £43 million. Numbers continue to drop at the average rate of 4000 a year, and the Government Actuary hasestimated that the number of claimants will level off at about 22,000 a year, which would cost about £20 million at current levels of payment.

Non-Contributory Retirement Pension is paid at the weekly rate of £20.45p for the claimant and £12.24p for a dependant spouse, giving a pension of £32.69p for a married couple, which is less than the single person's retirement pension, and only 59% of the current retirement pension for a married couple.

There is an inequity in the disparity between the level of this pension and the contributory retirement pension, which causes embarrassment and hardship to elderly recipients. As there are progressively fewer of these pensioners, the Government's financial commitment is diminishing. We believe that phased increases should begin to lessen the financial inequalities between the very old and other pensioners.

Married Women's "Half-Test"

There are still 200,000 married women who retired before 6th April 1979 and have no retirement pension in their own right because they failed to satisfy the "half-test" applied only to married women before that date. They should now be given the pension to which they contributed.

Age Concern continues to receive letters and enquiries from these women who complain at the injustice whereby they have contributed significantly to the state pension scheme but can receive nothing from it. The cost of waiving this rule would have been £50 million in 1983.

TAXATION AND THE POVERTY TRAP

> The Age Allowance should become a Retirement Allowance raised annually in line with inflation. Serious consideration must be given by the Government to the pensioner poverty trap which has emerged in recent years.

There are 225,000 retired women aged 60 - 64 who cannot benefit from the Age Allowance because this only applies to people who reach 65, the state retirement age for men. It would cost £20 million in a full year at 1983/84 levels to change the Age Allowance into a Retirement Allowance available to these women, a small cost in relation to the total social security budget of £37 billion in 1984/5 to mitigate the effects of poverty entrapment and the humiliation of discriminatory practice.

The Age Allowance must be raised in 1984 and annually uprated in line with inflation.

Age Concern are disturbed by the general impact of low tax thresholds on pensioners with small occupational pensions and extra pension elements. In recent years we have witnessed the emergence of a serious pensioner poverty trap. The rate of withdrawal of benefits (particularly Housing Benefit) rises steeply and converges with the impact of taxation to reduce net income and spending power to levels close to or below those of people receiving Supplementary Benefit.

The Secretary of State for Social Services recently published tables* demonstrating the effect of taxation and withdraval of Housing Benefit** upon a single pensioner paying a model rent and rates. Thus a pensioner with a state pension of £34.05p plus an occupational pension of £15 per week would pay £1.10p income tax and receive Housing Benefit of £8.64p leaving a net weekly spending power of £38.34p. This can be contrasted with the position of a Supplementary Pensioner paying the same model rent and rates, who would have a net spending power of £40.10p. A pensioner with a higher occupational pension of £20 per week would pay £2.60p tax and get £7.24p Housing Benefit, giving a weekly spending power of £40.44p only 34p above the Supplementary Pension level.

The Pensioner poverty trap could be lessened by a more generous Age Allowance available to all men and women over state retirement age. Any increase in this allowance should contain an additional component to offset losses suffered by pensioners hit by cuts in Housing Benefit.

HOUSING BENEFIT AND THE POVERTY TRAP

> There must be no cuts to Housing Benefits, as this benefit is only paid to poorer pensioners who cannot afford all their rent and rates. The Government must consider this benefit in conjunction with taxes and other benefits in order to alleviate the pensioner poverty trap.

There has been consistently less generous treatment of elderly people with incomes just above Supplementary Benefit levels as successive changes have been made to the Housing Benefit scheme. Many of the recipients of this benefit also pay tax, which has intensified the pensioner poverty trap.

Sir Geoffrey Howe, in his first budget speech as Chancellor of the Exchequer on 12.6.79 declared that "our general policy is to make substanial reductions in public expenditure but that must not be done in a way that bears unfairly on the most vulnerable members of our society." Yet the Government has announced "savings" of £190 million on Housing Benefit in a way that will hurt and cause hardship to more than 1 million pensioners.

Age Concern are dismayed at recent proposals for further cuts to Housing Benefit in April and November 1984. These proposals will have a particularly damaging effect on occupational pensioners, and hurt again many who lost money at the introduction of Housing Benefit.

* Parliamentary Written Answer: Pensioners (Spending Power) Hansard 18.1.84 Col. 147

** Housing Benefit payable at rates up to April 1984 Less Benefit would be paid thereafter.

234,000 pensioner households were "lifted off" Supplementary Pensions when the Housing Benefit scheme began, losing their entitlement to help with water rates, heating, and the right to claim single payments or use the Fuel Direct payments scheme. These households now form part of the much larger group who will lose benefit as a result of the latest proposals.

DHSS has estimated that a further 1,150,000 pensioner households suffered a reduction in Housing Benefit after April 1983 despite the protection afforded by the "transitional additon" due to end April 1984. Many lost all entitlement to benefit, and also entitlement to the higher rate of Home Insulation Grant and to local concessions for cheap or free home helps, meals-on-wheels, and travel by public transport.

The latest proposals will result in loss of benefit to a further 1,300,000 pensioner households in April 1984 and loss of all entitlement to benefit to a further 220,000 pensioner households, with consequent loss of the above concessions.

Losses to elderly people of such magnitude are unacceptable and the proposed "savings" which gave rise to these proposals must be abandoned. If not, it is certain that many more pensioners will be caught in the poverty trap by withdrawal of some or all of their Housing Benefit. This will hit hardest those people with small occupational pensions. Any undermining of the financial position of people on low incomes who have tried to take advantage of the state's own limited incentives to providence and hard work seems to be in direct contradiction to the Government's declared policies.

The Government does not appear to have considered the relationship between the taxation and benefits systems, as unco-ordinated short-term attempts to achieve "savings" in both systems have converged to squeeze persioners on low incomes.

SUPPLEMENTARY PENSIONS

> The Savings limits for entitlement to Supplementary Benefit and Single Payments should be increased. The value of the Addition for people over 80 should be restored. The "earnings disregard" should be raised to facilitate charitable help to pensioners. There should be a major revision and revaluation of the Supplementary Pension Minimum Requirements component.

In 1981 it was estimated that 2,480,000 pensioner households were entitled to claim a Supplementary Pension, but only 67% had actually claimed. leaving £210 million in unclaimed benefit. At February 1983 1,810,000 pensioner households were claiming Supplementary Pensions, but there were still substantialnumbers who had not claimed, and were living on extremely low incomes. Others on very low incomes are hampered from claiming because

the savings limits are too low and have not been uprated in line with inflation.

Savings Limits for Supplementary Pensions

The capital (savings) limit above which Supplementary Pensions cannot be claimed is still too low, and has failed to keep up with price inflation. This limit was set at £1200 in 1975, although its effect was mitigated at that time by a system of tapering entitlement to benefit for savings above that limit. These tapers were abandoned in 1980, when the savings limit was raised to £2000.

However, the £2000 limit in 1980 had not taken account of price inflation since 1975, and should have been £2444. The new limit, taken together with abandonment of the tapers, effectively cut entitlement to claim benefit. This entitlement has never been restored.

The savings limit increased to £2500 in 1982, but reference to the true impact of inflation would have brought it up to £3093. When it was raised to £3000 in November 1983, it should have been £3248.

This limit should be increased to £3500 in November 1984 merely to take account of inflation, and should be automatically increased in line with inflation thereafter.

Single Payments Savings Limits

The savings limit set for entitlement to receive Single Payments for urgent needs and necessities is also unrealistically low in relation to the cost of the needs which qualify for these payments, particularly funeral costs.

The limit was £300 in 1978 and was raised to £500 in November 1983, but this rise did not take full account of price inflation. Merely to increase it in line with movements in the Retail Price Index would point to a limit of about £550 for November 1984, which should be increased regularly in line with inflation thereafter.

The Age Addition

The value of the addition for Supplementary Pensioners over 80 years old should be restored.

The present 25p addition is derisory, and contributes little to the particular needs of the very old. In order to restore the value of this addition to its original purchasing power in 1971, it should be raised to at least £1.10p in November 1984.

Earnings Disregard

The level of the Earnings Disregard discourages charitable assistance to elderly people. At present the first £4 of earnings or charitable payments are disregarded before Supplementary Pension entitlement is reduced.

The earnings disregard was last increased in 1975 when it rose from £2 to £4. To raise this disregard in line with inflation it would become £11.40p in November 1984.

Some of the pensioners affected by this disregard have special problems and receive payments from charities. These payments often represent a saving to the state in terms of assistance with urgent needs, and the low level of the disregard hampers such assistance.

Where a charitable payment exceeds £4 per week, the difference is deducted from the recipient's Supplementary Pension. Thus it is the practice of charities to limit their assistance to £4 in order not to compromise the recipient's Supplementary Pension. Charitable help to elderly people would certainly increase if the disregard were uprated in line with inflation. We are aware that the Association of Charity Officers have requested uprating of this disregard. Such an uprating has also been recommended by the Social Security Advisory Committee.*

Minimum Requirements

The general level of Supplementary Benefit is still too low to provide adequately for the special needs of the old. There must be an investigation of the basis upon which the minimum requirements component of this benefit is calculated. This is anachronistic because it does not contain elements for provisions which have been regarded as essential for many years by the general public e.g. refrigeration, telephone, T.V.

If the minimum requirements component is realistically revised it might reduce the need for "additions", some of which are set at unrealistic levels which fail to meet the costs for which they cater.

The very minimum necessary to ensure the survival of the poor is the automatic indexation of the basic benefit, additions, disregards and savings limits.

* First Report of the Social Security Advisory Committee. 1981. HMSO Page 62 and

Second Report of the Social Security Advisory Committee. 1982/3 HMSO Page 46

HEATING AND INSULATION

The Government should set higher Supplementary Benefit Heating Additons which should be raised in line with inflation in fuel costs. Heating Additionsshould be extended to pensioners who get Housing Benefit. Home Insulation Grants should be increased and extended to cover other insulation costs. There should be a thorough review of help with heating costs.

Age Concern believe that every old person has a right to a warm home made safe by good illumination. At least a quarter of all pensioners are prevented from having adequate heating, lighting and insulation because of excessive costs. Yet 97% of those intervieved in a recent public opinion poll described heating as a necessity.*

Fuel costs continue to rise as pensioner poverty deepens due to the inadequate level of the pension. Expenditure on Heating Additions for Supplementary Pensioners alone will be £380 million in 1983/84 compared with £104 million in 1978/79. Yet these additions are inadequate to meet the heating needs of these elderly people.

Supplementary Benefit Heating Additions

Supplementary Benefit Heating Additionsare insufficient to provide for the actual heating needs and costs faced by elderly and disabled people.

The lowest rate of Heating Addition for a householder over 70 is £2.05p This will fuel a one-bar electric firefor 37 hours in one week, and will enable anelderly person to switch on the fire for about 5 hours a day. Assuming that 10 hours a night are spent asleep in bed, the other 9 hours could be spent without any heating at all. In reality the pensioner may opt for a poor diet in order to have more heating.

The disabled pensioner's Heating Addition is £5.05p per week because it is assumed that a virtually immobile person needs extra warmth. If we can assume that a one-bar fire (1KW) provides inadequate warmth for an immobile person, then a 2 KW heater could be fuelled for 46 hours per week by the disabled person's Heating Addition, or 6.1/2 hours each day. If 10 hours each night are spent in bed, 7.1/2 hours a day could be left without heat.

To fuel these basic heating appliances for all the waking hours of a winters day, additions of £5.36p and £10.72p per week respectively would be required. Although payment for fuel costs can be spread throughout the year by instalment plans, there are generally only a few summer weeks during which elderly and disabled people can dispense with any heating at all.

* LWT/MORI Survey 1983

Taken on a yearly basis, these additons are still wholly inadequate. The amounts quoted do not allow for inflation during 1984 when gas prices rose by 4.3% on 1st January and electricity prices are to rise by 2%. The figures are for unit costs of electricity alone and do not allow for standing charges included in bills.

In 1982 90% of Supplementary Pensioners received a Heating Addition, indicating that at least 1,629,000 pensioner households faced unenviable choices between warmth and a nutritious diet last winter. This figure does not include those who did not claim the benefit to which they were entitled, or those with incomes just above this level who received Housing Benefit.

There is a very strong case for extending entitlement to a Heating Addition to pensioners who receive Housing Benefit as high fuel costs contribute to the problem of the pensioner poverty trap.

The numbers of recorded deaths from Hypothermia have increased since 1971. These deaths peaked during the very cold winter of 1978/79 but the underlying trend since 1971 is upward, which reflects the increasing numbers of frail elderly people in the population and thus larger numbers of people liable to suffer extreme effects from cold. Between 1971 and 1984 fuel costs have risen dramatically.

It has been established that there is a relationship between low body temperature and a range of other illnesses which may be recorded as the cause of death on death certificates. In view of this relationship the urgent need to solve the problem of inability to pay for adequate heating must be officially recognised.

Home Insulation Grants

Bearing in mind the relationship between low body temperature and illnesses which are fatal to frail elderly people, the Government must now focus its attention upon means for providing adequate warmth for older people by a combination of measures to enhance the incomes of the poorest, to control the cost of fuel to those in need of warmth, and to properly insulate their homes, in order to reap the maximum benefit from expenditure on fuels and simultaneously conserve these valuable resources.

Thus the amount of grant payable for Home Insulation should be increased overall and indexed to inflation in retail prices and building costs. The scope of the grant should be extended to cover all draught proofing and insulation measures irrespective of whether there is a loft in the dwelling.

Home Insulation grants are restricted to the provision of loft insulation where there is none, or where existing insulation is less than 25mm deep. A grant of 90% up to a cash limit of £95 can be made to elderly or disabled people on low incomes, and a grant of 66% up to a limit of £65 is made to other applicants.

This grant will cover the cost of providing permanent means of access to the roof space (i.e. a trap door if there is none), insulation material for the loft, lagging of tanks and pipes in the loft, and a hot water cylinder jacket. The applicant cannot get the grant unless all these

works are completed where they are lacking.*

Many elderly and disabled people have to employ a contractor to do the work, and the level of the grant is unrealistic in comparison to the costs of hiring a contractor and completing the entire package of works where necessary.

The higher rate of grant was introduced in August 1980. The limit was raised from £90 to £95 on 1st May 1982. If this limit had been uprated in line with general price inflation it would have been nearly £114 in August 1983. Building cost inflation rose faster than retail prices for the period 1980-83.

In order to qualify for the higher rate grant the applicant must have "special needs", i.e. must be in receipt of Supplementary Benefit or Housing Benefit. ** Thus the 220,000 pensioner households who will lose all entitlement to Housing Benefit as a result of the latest changes will no longer qualify for a higher rate of insulation grant. ***

The Department of the Environment estimates that about 20% of households in Great Britain have uninsulated lofts, but other evidence shows that these households are most likely to be headed by a pensioner.****

The narrow criteria of the Home Insulation Grant scheme mean that it does not tackle the general problem of inadequate insulation in pensioners' homes. Grants should now be extended to the cost of general insulation and draughtproofing, and entitlement to the higher rate should be extended to all pensioner households, with 100% grant for Supplementary Pensioners.

There is an urgent need for a full-scale interdepartmental review to examine ways of helping poor elderly consumers with heating costs and improving the standards of insulation and energy conserving appliances in their homes. Without a coherent policy Supplimentary Benefit commitments will continue to rise, poverty entrapment for those on incomes above Supplementary Benefit levels will intensify, and every year elderly people will grapple with the harsh reality of winter, resulting in illness and fatality for the casualties.

* Circular 10/83 Department of the Environment Appendex A Paragraph 4(2)

** Circular 10/83 Department of the Environment Appendex A Paragraph 5(4) (a) & (b)

*** Parliamentary Answer from Sir George Young, Under Secretary of State for the Environment. Hansard 13th December 1983.

**** "The Elderly Consumer". Published by The National Consumer Council. May 1982

HOME IMPROVEMENT GRANTS

> 90% Home Improvement Grants should be extended to all older homes owned and occupied by pensioners.

The withdrawal of general 90% grants for repairs and improvements for owners of older homes from April 1984 is disappointing.

The Government has already recognised the problems in financing repairs and improvements that are faced by elderly owner occupiers. It is declared policy to help older people to remain in their own homes for as long as possible, which merely reflects the wishes of many pensioners. These problems were recognised in the Government's publication "Growing Older".*

This problem can be mitigated by retaining 90% Home Improvement Grants for all older homes owned by an occupier who is over state pension age. Age Concern believes that this is the least that the Government can do to assist elderly home owners and slow the rate of deterioration of the nation's housing stock.

DEATH GRANT

> The Death Grant should be increased to £210 and thereafter uprated in line with inflation. It should be extended to cover funerals of the very old.

In 1983/84 the total cost of the Death Grant will be £28 million, but administration will cost £18 for every £30 grant paid. If the grant were restored to its 1949 value, it would be increased to £210. This would have cost £105 million in 1983/84, about 3p a week to the average earner.

The matter of the total inadequacy of this grant remains unresolved. Funerals cost between £350 and £600. Assistance with funeral costs to relatives of the dead is limited to people claiming Supplementary Benefit, and further limited to those claimants eligible to get Single Payments. Many bereaved Supplementary Pensioners do not qualify for help with funeral costs due to the very low level of the savings limit for Single Payments. Thus in 1982 only 7,500 Supplementary Pensioners qualified for Single Payments to help bury relatives, a very small proportion of the 2,130,000 households who were claiming Supplementary Pensions at the time.

* "Growing Older". Department of Health and Social Security. March 1981 Chapter 5 page 30 para.5.9

The average amount given to successful pensioner claimants was £214, close to the amount that the Death Grant would have been if it had been uprated in line with inflation since 1949.

The present contributory Death Grant is not payable for funerals of men born before July 1883 or women born before July 1888 because these people had retired before 1948 when the National Insurance scheme began. About 25,000 people remain ineligible for Death Grant on age grounds, but these numbers continue to diminish due to death itself.

In view of the small and decreasing numbers of very old people involved, Age Concern believe that their inclusion in eligibility for this grant would be a cheap and generous measure.

The problem of paying for funerals faced by those with low incomes will not go away, and must be tackled by a large increase in the Death Grant, to be linked to price inflation thereafter.

INVALID CARE ALLOWANCE

> The Invalid Care Allowance should be raised and extended to married and cohabiting women.

Invalid Care Allowance is paid at the rate of £20.45p weekly. It should be raised to a level at which it adequately compensates the recipient for loss of earnings. The Allowance was introduced as recompense for lost earnings for relatives caring for elderly and chronically sick or disabled people, who are thus unable to work. However, the Allowance is paid at a rate which is £6.50p per week less than basic Unemployment Benefit.

In July 1983 the estimated cost of extending the Invalid Care Allowance to married women was £60 million. This cost would be offset by savings of £20 million in dependency additions and other benefits, giving a net cost of £40 million.

Relatives caring for invalids save the state significant amounts of money by easing the burden on the Health Service and on personal Social Services. The majority of these carers are married or cohabiting women, a group excluded from claiming this Allowance. Since more than half the total of married women now work, these carers are also entitled to financial recognition of the earnings they have forgone.

CHRISTMAS BONUS

> The Christmas Bonus sould be increased in line with inflation to £40 for Christmas 1984.

It has been estimated that 9,100,000 pensioners received the Christmas Bonus in 1983. The value of the bonus has been eroded by inflation to the point where it would not pay a lone pensioner's food bill for one week. If the Christmas Bonus had been uprated in line with inflation each year since its introduction it would have been £38 at Christmas 1983, and should be £40 at Christmas 1984.

Pensioners have interpreted the diminishing value of the bonus as evidence of the level of regard which is given to their interests and the level of value placed upon them as a group by the Government. The Christmas Bonue is regarded as a symbol of the generosity of spirit of the Government of the day, and its falling purchasing pover is remarked annually by pensioners.

Conclusion

In "Growing Older" the Government pledged that it vould:

> "...ensure price protection for pensioners over the years as a minimum. As the economy improves, pensioners will share in that improvement..."

Age Concern have demonstrated that the minimum of price protection has not yet been achieved in relation to many of the benefits upon which pensioners depend. The Government now has the opportunity to ensure that this pledge is honoured through the measures included in the budget for 1984.

RM/JR
February 1984

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Budget suggestion

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ASSOCIATION OF INDEPENDENT RETAILERS
Newtown Road, Worcester WR5 1JX
Telephone (0905) 28165

The Rt. Hon. Nigel Lawson, M.P.
Chancellor of the Exchequer,
House of Commons,
Westminster,
LONDON, S.W.1.

7th February, 1984.

Dear Minister,

EXCISE DUTY - BEERS, WINES AND SPIRITS.

This Association supports the arguments which have already been submitted to you by the Brewers Society, opposing an increase in Excise Duty on beers, on the grounds that it would lead to a further decline in sales. It is undoubtedly true that increasing the price of beer, whether it be through higher Excise Cuty or price rises imposed by the Brewers themselves, has led to a substantial reduction in sales, and has without question, contributed to the level of unemployment.

However, if it is necessary to imcrease Excise Duty in order to satisfy the demands of EEC Legislation, then we respectfully suggest that there is a strong case to be argued for distinguishing between draught beers on the one hand, and packaged beers (canned and bottled) on the other.

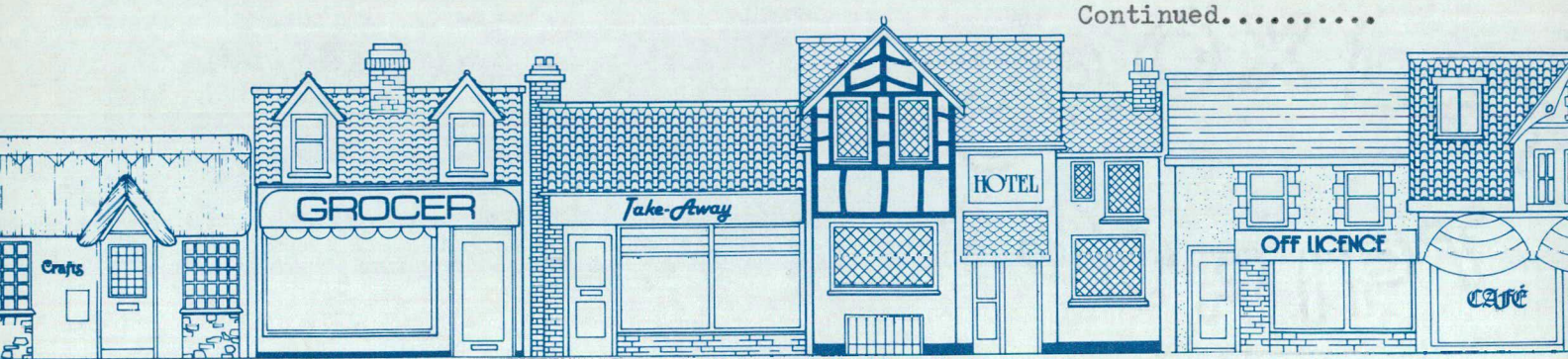
We would be greatly obliged if you would give consideration to the following points in support of that argument :

i) The Directorate of Competition of the EEC has itself distinguished between draught and packaged beers in the drafting of the new EEC Regulation 83/83 covering exclusive purchasing agreements, even though such reference was removed from the final Regulation.

ii) That draught beer is the principal item for sale in a public house, without which it would no longer be a "pub". This is not the case with any other retail outlet.

iii) The "off" trade of public houses has almost completely disappeared as a result of the firece competition from supermarkets, who have been able to exploit their purchasing power to secure excessive discounts, enabling them to offer lower prices to the public than those at which the licensee can purchase from his own Brewery Company.

Continued.....



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Directors: W. Banning (Chief Executive)
B. Davis (National Secretary)
Reg.Off.: Lloyds Bank Chambers, The Avenue, The Cross, Worcs.

The Rt. Hon. Nigel Lawson, M.P.
Chancellor of the Exchequer.

7th February, 1984.

Continues.....

iv) That although there is clear evidence that the increase in beer prices has led to a reduction in sales in pubs, the sales of packaged beers through other outlets has increased.

v) That the decline in beer sales in public houses has not materially improved the sale of wines, because although beer drinkers may consume less beer, they do not switch to wine.

vi) The majority of publicans are self employed, independent retailers, running small businesses among which the level of bankruptcies and failures has increased dramatically during the last two years, and unless they are given some special consideration, this trend is likely to continue at an increasing rate.

x/ I would welcome the opportunity to meet you in order to explain our views in greater detail.

Yours faithfully,

W.C.BANNING
Chief Executive.

CH/EXCHEQUER
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COPIES TO MCA

BL Public Limited Company
35–38 Portman Square
London W1H 0HQ
Telephone: 01-486 6000
Telex: 263654
Cables: Leymotors London W1 Telex

Budget reps file

RP

14 December 1983

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London
SW1P 3AG

Dear Chancellor,

THE 1984 NATIONAL BUDGET

As I am sure you appreciate, the domestic UK environment within which BL's constituent companies operate is of fundamental significance to the achievement of the Company's objectives. In this regard, discussions with my colleagues here have identified several issues where the stance taken by HMG is of great importance to our plans. My purpose in writing, therefore, is to request your sympathetic consideration of our concerns in your deliberations on the measures you will be announcing in the national Budget next March: we wish particularly to draw your attention to the following areas:

1 UK Competitiveness

As UK manufacturers we continue to experience extreme competitive pressure due to the high value of sterling in relation to historic levels. In making this observation, I refer, of course, primarily to Europe and to sterling in relation to European currencies, and not to the dollar, the strength of which has greatly benefitted Jaguar.

The result is that despite major improvements in productivity in Austin Rover and Jaguar, who have both more than doubled output per man since 1979 (to the extent that Austin Rover in many of its operations now matches best European standards), we have difficulty selling profitably in Europe and suffer severe competitive pressure on our UK margins.

Directors: D. R. G. Andrews, C.B.E., Sir Austin Bide,
Sir Robert Clark, D.S.C.,
R. Horrocks, Sir Robert Hunt, C.B.E., D.L.,
Sir John Mayhew-Sanders.

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Registered in England No. 1213133.

14 December 1983

Rt Hon Nigel Lawson MP

In the case of Land Rover Leyland, these pressures add greatly to the problems of the severe recession in truck demand.

Our companies are also unique in that production is wholly undertaken in the UK, unlike Ford and GM who draw upon continental sources for around half their UK sales. Unlike BL's situation the profitability of both these companies has, therefore, actually benefitted from the strength of sterling while neither company is a net exporter.

To our thinking, there is little doubt that were sterling to ease versus the main European currencies, not only would our own competitive situation improve, but there would also be encouragement for a greater emphasis on UK production by our major competitors. There might also be a reversal in the rapid deterioration in the motor industry's balance of payments that has occured this year despite BL's very positive net contribution to UK exports of around £700m. Similarly, there is no doubt that the competitiveness of UK component manufacturers would also benefit.

Our dealers could also be the beneficiaries of such a sterling shift. At present the heavy discounting of car prices which continues in the UK has left dealers with weak balance sheets and trading margins hardly adequate to cover the cost of the money necessary to support their activities. We see discounting continuing next year, partly because of the overcapacity within the industry and the resultant world-wide intensification of competition, and partly because UK car prices are seen as relatively high, providing importers with margins denied to us or our dealers. As a result, in 1984 when Austin Rover and Jaguar are due to launch important new products, there is a risk that our dealers will be unable to afford adequate stocks of the cars required. A weaker pound versus the leading European currencies would be wholly beneficial on all these counts.

Further, we note from your Autumn Statement that increased exports are expected to make a significant contribution to the improved performance of the economy next year. If this strategy is to succeed I believe it is vital that sterling weakens against European currencies in particular. May I please urge you to assist UK manufacturers, such as BL, by adopting policies conducive to this outcome.

14 December 1983

Rt Hon Nigel Lawson MP

2 National Overheads

It is vital to our competitiveness that those costs to industry which are under the control of Government are kept as low as possible. I refer in particular to energy prices, the national insurance surcharge, which we believe should be abandoned as soon as possible, and rates, concerning which I have already been in correspondence with the Secretary of State for the Environment to urge the reinstatement of the general revaluation of rates.

3 Special Car Tax

I am aware of the campaign by the Society of Motor Manufacturers and Traders, of which we are members, for the abolition of the Special Car Tax. While in principle we are against discriminatary taxation, I have to say that if such a step is contemplated by Government, its timing remains our absolute and overriding concern. Unless Austin Rover and Jaguar are able to respond vigorously to the market boost that the removal of Car Tax would bring, we will lose customers to importers.

For instance, although we still lack some of the products necessary to completely update our car product range, import penetration of the car market has been contained in 1983. Despite this, both the volume and share of tied imports by Ford and GM within the total car market has actually increased. However successful we may be in holding back other importers, there is always the risk that a higher car market will lead to more imports by the multinationals rather than greater production from their UK plants.

In 1984 our exposure to such developments increases since both Austin Rover and Jaguar are introducing the new models vital to their future success. At such a time there are always enormous pressures on production facilities to maximise output. It is essential that those pressures on us are not increased in 1984 by a further boost to the market, even if that means deferring the removal of a discriminatory tax.

4 The Taxation of Company Car and Private Fuel Benefits

The motor industry position regarding the company car market may well be one that is familiar to you, but I believe it bears repeating, at least in outline, because of its profound significance for the British vehicle manufacturer.

14 December 1983

Rt Hon Nigel Lawson MP

Fleet purchases account for around half of total UK new car sales in any year, and have done for some time. UK based companies purchasing car fleets or company cars tend to be strongly supportive of UK based vehicle manufacturers in their purchasing patterns, more so than private individuals buying on their own account. Generally speaking also, the larger the car, the greater the proportion of its UK sales that are made to companies, reaching over 80% in the case of Rover and Jaguar models.

While we are not questioning the general principle of taxing the private benefit arising from the provision of company cars and private petrol (though it occurs to us that there are many benefits in other sectors which remain untaxed), it is of concern that the escalation of the taxable benefit now regularly greatly exceeds the rate of inflation or the rise in fuel costs.

The problem arises when the individual's perception of the personal benefit he obtains from having private use of a company car is less than the tax bill he faces. Such a situation creates pressures to trade down market, to move away from company-purchased to privately-purchased cars which are more likely to be imports, or to buy second-hand rather than new cars. A recent Institute of Marketing report has already identified that these effects are occuring now in the UK market. None of these outcomes will assist the UK motor industry, least of all Austin Rover and Jaguar.

From 1984 Austin Rover will have, for the first time in many years, a strong medium-car product range able to compete on equal terms in the largest sector of the fleet market, while Jaguar will be launching its replacement saloon range. It would be ironic if, coincident with this, increased taxation of company car benefits were to undermine this important market sector and its potential profitability for us.

Therefore, may I please urge two things; first, that the increases in taxable benefits for company cars and private fuel you will announce for 1984/85 do not exceed inflationary expectations, and, secondly, that whatever percentage increases you apply to the company car taxable benefit scales are applied equally to the car price bands which are the basis for the taxation of benefits for cars above 1800cc.

5

14 December 1983

Rt Hon Nigel Lawson MP

5 Commercial Vehicle Downlicensing

In recent months commercial vehicle manufacturers, through the Society of Motor Manufacturers and Traders (SMMT), have been making representations to the Department of Transport to implement commercial vehicle downlicensing, facilitated by the 1982 Finance Act. The objective is to allow trucks to be licensed in lower weight categories than their design weight, so minimising manufacturers costs of type approval, operator costs in terms of Vehicle Excise Duty liability, and the Department of Transports's workload. We fully endorse the case made by the SMMT and their request to you that a full down-licensing scheme be announced no later than the 1984 Budget.

May I please urge that these requests are given your full and sympathetic consideration in your deliberations for the March Budget. I am, of course, ready to provide any further facts or information that you or your officers require.

Yours sincerely

Austin Bide

Sir Austin Bide
Chairman
BL Public Limited Company

Copy to: The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry

BMA House
Tavistock Square
London WC1H 9JP

Telephone 01-387 4499

BRITISH MEDICAL ASSOCIATION

Our ref. JDJH/NDE/MC
Your ref.

CH/EXCHEQUER
REC. 30 JAN 1984
ACTION FST
COPIES TO

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1P 3AG

25 January 1984

Dear Mr Lawson

General practitioners who are independent contractors frequently find themselves liable to capital gains tax on their retirement. At the 1983 Annual Conference of Representatives of Local Medical Committees, an assembly which represents all general practitioners in the UK, the following resolution was passed:

> "That Conference believes that capital gains tax relief on business premises for those who retire at 60 should be improved."

We would respectfully ask that you take note of the views of the general practitioners in the UK when preparing your forthcoming budget.

Yours sincerely

John Havard

Secretary

Registered as a Company limited by Guarantee. Registered No. 8848 England
Registered office: BMA House Tavistock Square London WC1H 9JP
Listed as a Trade Union under the Trade Union and Labour Relations Act 1974

Secretary J D J Havard MA MD LLB

British Tourist Authority
Queen's House 64 St. James's Street London SW1A 1NF England

Telephone: 01-629 9191 Telegrams: Tagbandi Piccy London
Telegrams Overseas: Tagbandi London SW1A 1NF
Telex: 21231 BTAADM G
VAT Regn. No. 238 5259 43

Sir Henry Marking, KCVO, CBE, MC
Chairman

1st November, 1983.

HM TREASURY — MCU
REC'D. - 4 NOV 1983
ACTION Mr Tebbit
MFZ — 104/6
SIGNATURE
REF. No. 11300

FINANCIAL SECRETARY
REC. 15 NOV 1983
PPS CST
MST EST
Mr Middleton
Mr Cassell
Mr Monger
Mr R. Allen
Mr Griffiths
Mr F Martin
Mr Chivers
Mr Portillo
PS/IR
PS/C+E

Dear Chancellor,

I am writing to you this year well in advance of the Spring 1984 Budget in view of the economic importance of the tourist industry in the UK and also because tourism, given the right economic environment, offers good prospects for more jobs.

I have divided our recommendations into two sections - the first section containing those items which we hope you will be able to deal with in the next Budget. The cost of these three items we estimate to be of the order of £50 million, although it is well nigh impossible to estimate the cost of a change in the law concerning the letting of self-catering facilities.

Against this estimated cost to the Exchequer must be set the benefit that would accrue to the economy in terms of additional visitors and their expenditure. Item 1 should result in additional investment in new hotels, helping the building industry and improving our hotel facilities on offer against international competition. Item 2 should assist the theatre in mounting more productions and indirectly improve the tourist product on offer. Item 3 should encourage more investment in self-catering facilities - an area where our European competitors are in many cases offering superior facilities.

In a three- to five-year period we would see benefits accruing not only to the tourist trade, but also to the Exchequer through increased revenue from VAT and other taxes as visitor numbers grow. These steps in creating favourable conditions for development will help to improve standards necessary to meet the foreign competition.

1st November, 1983.

You will see that no overall preferential rate of VAT is included because we understand that HMG has no intention at present of departing from the principle of one standard positive rate of VAT, and we appreciate the administrative problems facing Government in this matter. Nevertheless, the tourism industry regards VAT on tourism services for overseas visitors as discrimination because no other leading national export suffers this burden. If no way can be found to alleviate the burden, I trust that some of the substantial 'windfall' tax revenue earned from overseas visitors, currently £500 million per annum, can be re-invested in other ways to maintain Britain's tourism appeal, for example in provision of amenities, conservation and resort development.

Tourism offers substantial opportunities for growth, but international competition increases and our standards of service and attractions must be up to the internationally required level.

Yours sincerely,

The Rt. Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
Treasury,
Parliament Street,
London, SW1P 3AG.

BUDGET RECOMMENDATIONS FROM THE BRITISH TOURIST AUTHORITY

Section 1

1. Hotel Building Allowances

The hotel industry is discriminated against in comparison with manufacturing industry.

Hotel Building Allowances are still at the rate of 20% fixed in 1978, and have not been increased in line with Industrial Building Allowances which are now 75%. We believe this discrimination should be removed and that the figure should be the same as that for Industrial Buildings. There will be a continual need for investment in new hotels in the years ahead, both in view of the expected increase in world tourism and because we face increasing international competition in the tourist market. Unless Britain can offer an up-to-date competitive product, our share of the world tourist market is likely to fall.

We estimate the cost to the Exchequer at £12 million.

2. Private Investment in the Theatre

To encourage more private investment in the theatre, which is one of the main attractions to overseas visitors, investors should be enabled to offset against income tax or capital transfer tax liabilities arising from an investment of £5,000 per individual, provided that this investment is in a live production which is open to the general public.

We estimate the cost to the Exchequer at £5 million. However, against this must be set the income tax which the Treasury receives from investors who make profits out of successful theatre productions, which we estimate to be £1 million per annum.

3. Treatment of Letting of Self-Catering Facilities

Income from the letting of self-catering facilities should be assessed under Schedule D case 1, and not under Schedule D case 6, which frequently occurs at present. I do hope it will be possible for you to include this provision in your 1984 budget.

This is a sector of the market which is growing very fast, both from demand from overseas visitors as well as domestic holidaymakers. If taxation is still assessed under Schedule D case 6, there will be far less incentive to invest in self-catering facilities in future.

I do not have sufficient information on this to be able to make an estimate of the cost to the Exchequer.

Section 2

4. Self-Catering Units - Loan Interest Relief

Interest on loans can be set against profits at present, provided the owner can show that the loan has been raised for trade purposes and that the property is let for at least 26 weeks during the year and is available for letting at a commercial rate during the other weeks of the year.

In our promotion overseas we aim to encourage visitors to travel to all parts of the UK, especially the more remote parts such as Scotland and Wales where the economic benefits of tourism are particularly important. These are the very areas where the season is shorter than 26 weeks, so that we would ask that loan interest relief be extended to these areas if they can show that the 26 weeks period is not attainable. This would mean that owners would be able to set the interest paid on loans against their profits, even if the property is available to be let for less than 26 weeks each year.

We are unable to estimate the cost of this concession.

5. Assistance to Historic Houses and Listed Buildings

(a) Income Tax Relief

Income Tax relief on historic houses and listed buildings may be treated like that of a business for income tax purposes if the property concerned is run as a business - under Case 1 of Schedule D. Thus running costs, repairs and maintenance of the property - and losses thereon to some extent - may be set against all other income before income tax is charged. If there is no profit, this relief is not applicable.

Case 1 of Schedule D should be extended to cover all Grade I listed buildings, whether or not they are run as a business. This should include gardens which open often enough to meet the requirement of 'reasonable access'.

(b) Listed Buildings' Repairs Allowance

This allowance should be available so that the cost of repairs may be set against income before tax is charged in respect of all listed buildings, whether or not they are run for a profit.

British Greyhound Racing Board
24-28 Oval Road
London
NW1 7DA
Telephone 01-267 9256/9

Chairman Lord Mancroft KBE TD

General secretary F J Underhill FCIS

Registered in England 229741

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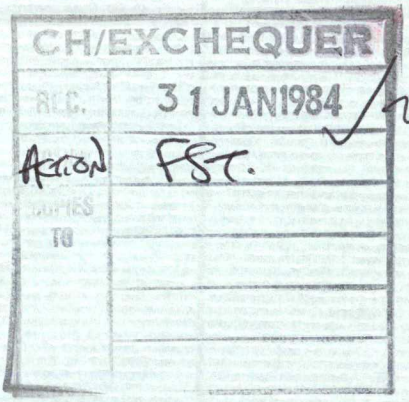
Budget top copy

Rt Hon N Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

31 January 1984



Dear Chancellor,

On behalf of the British Greyhound Racing Board, which comprises the elected representatives of all sections of the sport, I enclose herewith a Memorandum seeking the abolition of the present On-Course General Betting Duty on bets placed through the greyhound totalisator. Greyhound racing alone of all betting sports has been singled out for special taxation since 1948, and the sport makes an urgent plea to you for relief to be granted from this burden.

If the sport, which is currently the second largest spectator sport in Britain, is to be saved as a national sport, urgent action is now needed both in relation to taxation and also in regard to easement in the legislation of 1934 which still largely governs the sport.

It would be most helpful if you could consent to meet representatives of the Board to discuss the Memorandum.

Yours faithfully
Mancroft

CHAIRMAN

Enc

BRITISH GREYHOUND RACING BOARD

M E M O R A N D U M

GREYHOUND RACING - TOTALISATOR GENERAL BETTING DUTY

JANUARY 1984

BRITISH GREYHOUND RACING BOARD

MEMORANDUM

GREYHOUND RACING - TOTALISATOR GENERAL BETTING DUTY

1 HISTORY

Greyhound racing alone of all betting sports in Britain has been singled out for special taxation. Although the General Betting Duty was introduced in 1966, greyhound racing was subjected to a special tax of 10% on bets placed through the totalisator from 1948 until the introduction of the General Betting Duty. During 1962-63 that tax was increased to 11% because of the 'regulator' that was imposed at that time. The on-course bookmakers had to pay a countervailing licence duty from mid 1948 until 1966, but was not a tax placed on bets in the same way as the Pool Betting Duty. That Licence Duty was paid by the bookmakers in sums which were geared only to the type of enclosure in which they operated and ranged from £48 to £6 per bookmaker per meeting.

2 The On-Course Betting Duty was reduced on 31 July 1972 from 5% to 4% in order to introduce the much needed principle of a differential between on and off-course duty. It was then accepted by the Government that the burden of on-course duty should be lighter than that imposed off-course.

3 Since 1948 there can be no doubt that the imposition of the 10% Pool Betting Duty started the decline in both attendances and totalisator turnover, as shown in the / Table set out in Schedule A. Whilst there were other social considerations that applied during the years that followed, there can be no question that the harshness of that tax was largely instrumental in directing patrons to other activities which were not subject to such penal taxation. The legalisation of betting offices in 1961 was an additional burden because until that time the only legal outlets for cash betting was either at horse racecourses or greyhound racecourses. In 1961 the sport of horse racing was given a special advantage of a levy imposed on off-course bookmakers in order to provide a financial cushion to offset the effect of betting offices on horse racing attendances, but this was not extended to greyhound racing. Greyhound racing has had to rely on the permitted deduction from the greyhound totalisator for the greater part of its revenue and which, from 1934 to 1969, had been fixed at 6%. This has been raised by the Home Secretary on three occasions, namely in 1969 to 12½%, in 1975 to 15% and in 1980 to 17½% in recognition of the adverse financial circumstances facing the sport stemming from the decline in attendances allied with the diversion of betting from the greyhound totalisator to the on-course bookmakers and the off-course market.

4 Prior to the introduction of the 10% Pool Betting Duty, greyhound racing had been well patronised and this is evident by the attendance statistics for the immediate pre-war and post-war periods. However, since that time greyhound racing has been profoundly and adverseley affected both in relation to attendances and totalisator turnover partly due to the competition afforded by other forms of leisure and more conveniently accessible forms of gambling legalised by the

Betting and Gaming Act 1960 and which were not subject to special taxation. Greyhound racing is essentially an on-course sport but, unlike horse racing, has been unable to share in the movement of betting money away from the course and into the betting offices. The prejudicial effect upon the sport has been very severe. When Parliament passed the Act of 1934 by which greyhound racing was tightly controlled, it could not have envisaged the developments which would flow from the legislation which was to follow nearly 30 years later, and which is now causing a number of provisions of the 1934 Act to become out-dated. The liberalisation of the Betting and Gaming laws of the 1960s largely passed the sport by, and it has suffered heavily as a consequence.

5 PRESENT CIRCUMSTANCES

The current economic recession has accentuated the extremely disadvantageous effect on attendances and totalisator turnover at greyhound racing meetings. The decline in totalisator turnover, measured in both actual and real terms, means that the amount of the permitted percentage retained by the managements for all purposes, has been markedly reduced. The situation has now been reached where the return on capital invested makes the future promotion of greyhound racing at present stadia highly questionable. Most of the greyhound racecourses in Britain are situated in areas of high urban development, and are therefore very attractive for redevelopment purposes. The pressure is such that directors may have no alternative but to sell or redevelop the racecourses in order to fulfil their responsibilities to shareholders. The forthcoming closure of the White City Stadium in London illustrates, to the greatest possible extent, that greyhound racing is facing a crisis. White City Stadium has long been regarded as the 'flagship' of greyhound racing, and its closure strikes at the very heart of the sport. The public who patronise the second largest spectator sport in Britain cannot but query why more stadia

should be forced to close without some remedial action being taken by the Government in relation to both taxation and legislation. The General Betting Duty on bets placed with the totalisator should be abolished. Such action would materially assist the sport of greyhound racing in a time of considerable financial difficulties. It must be clearly stated that without such relief both by the Treasury and, indeed, by the Home Office in relation to other legislation, the national sport of greyhound racing will not be able to continue in its present form.

6 / The movement of betting from the greyhound totalisator to on-course bookmakers is set out in Schedule B and shows that the ratios are approximately 71.5% to 28.5% of the total volume of on-course betting. The Schedule shows a swing of nearly 14½% from the totalisator to the on-course bookmakers over a period of some 14 years. In 1967-68, the first year when statistics were available from Customs and Excise, the betting on the totalisator was 48.4% of the total on-course betting. This has now been reduced to less than 30% on provisional figures released by Customs and Excise. Measured in real terms, betting on the greyhound totalisator has fallen by 35% in the two years from 1981 to 1983. The sport cannot draw any additional revenue from the bookmakers because of the effect of Section 18 of the Betting, Gaming and Lotteries Act 1963, which prescribes the maximum amount which the on-course bookmakers can pay to a greyhound racecourse management. Although a number of bookmakers endeavour to assist the sport by making voluntary contributions by sponsoring races, such payments have no statutory basis whatsoever, and can and are withdrawn at the whim of the bookmakers. It will be readily recognised that no business can be maintained by having to rely on such payments. Whether the On-Course General Betting Duty should be abolished or decreased in respect of betting with the on-course bookmakers,

is not a matter on which the Board would wish to express any views. The Board can only be concerned with the successful operation of the greyhound totalisator from which revenue all the operating expenses of the sport, including the payment of prize money, and establishment and security costs must be met.

7 The Government obtains revenue from greyhound racing when it is the subject of off-course betting. The Royal Commission on Gambling indicated that 18% of all off-course betting was on greyhound racing, and this currently amounts to £573 million per annum, yielding £45.8 million by way of taxation. As greyhound racing does not receive any levy arrangements from this source, the sport must, in equity, look to the Chancellor of the Exchequer to assist it through the present difficult period. The tax yield from the greyhound totalisator in 1983 was £2.6 million and, although only a comparatively small amount, would be of great advantage if it was retained by the public for further investment on the totalisator.

8 If it is not possible to obtain any relief from the heavy burden of taxation which greyhound racing alone has borne for over 36 years, the sport, within the space of only a few years, will cease to exist as presently established, and the British public will be deprived of a well ordered and organised sport which they have patronised since it was introduced into the country in 1926.

9 The Board therefore makes the strongest possible plea to the Government for relief from the burden of taxation by the abolition of the present 4% General Betting Duty on bets placed with the greyhound totalisator and trust that this can be enacted in the 1984 Budget.

SIGNED: ....

CHAIRMAN SECRETARY

FJU/SAS
31.1.84

SCHEDULE A

NGRC TOTALISATOR TURNOVER & ATTENDANCES

Year	TOTALISATOR TURNOVER All Greyhound Racecourses	NGRC Racecourses Only	Total Attendances NGRC Only	No. of NGRC MTGS	No. of NGRC Racecourses Operating
	£	£	£		
1938	40,300,000	38,000,000	25,000,000	6402	59
1947	119,529,873	131,500,000	36,000,000(est)	6943	77
1948	94,731,820	87,306,407	25,264,116	6930	77
1949	84,940,070	74,956,356	25,203,553	7550(est)	77
1950	70,558,010	62,068,113	22,548,979	7327(est)	70
1951	66,653,480	59,498,744	21,185,993	7206(est)	68
1952	64,722,690	57,449,400	20,861,108	7295	68
1953	61,695,510	54,858,446	19,864,063	7118	68
1954	57,935,350	52,084,577	18,426,014	7006	66
1955	59,101,470	53,076,138	17,906,950	7292	66
1956	59,802,950	53,630,133	16,611,070	6844	65
1957	61,515,000	55,395,950	16,458,975	6881	65
1958	59,575,790	53,688,986	15,374,167	6833	65
1959	60,024,830	54,489,387	15,211,066	6821	64
1960	62,462,710	57,865,769	15,288,587	6787	64
1961	63,027,860	57,744,734	14,464,858	6673	64
1962	56,787,820	52,391,848	12,827,823	6615	62
1963	54,923,540	51,093,214	12,005,116	6307	59
1964	55,561,520	51,355,807	11,493,607	6381	58
1965	62,106,000	58,480,219	11,213,730	6003	58
1966	63,083,605	60,083,605	10,463,033	5889	56
1967	69,600,000	66,216,938	9,939,573	6009	57
1968	69,000,000	65,745,144	9,127,157	6057	57
1969	63,780,000	59,681,241	8,049,838	5702	53
1970	59,340,000	55,556,351	7,365,653	5585	52
1971	59,480,000	56,188,971	7,199,398	5808	50
1972	58,790,000	55,029,616	6,403,679	5774	50
1973	64,075,000	58,495,322	6,101,704	5458	46
1974	66,950,000	64,206,508	6,083,334	5429	46
1975	73,525,000	69,211,102	6,200,118	5874	48
1976	71,050,000	66,718,593	5,716,596	5923	49
1977	75,100,000	70,685,971	6,585,491	5847	48
1978	76,375,000	71,504,284	6,027,327	5688	48
1979	80,800,000	76,484,832	5,964,323	5712	47
1980	85,825,000	81,290,642	5,484,781	5535	45
1981	*77million (est)	72,950,373	4,943,396	5291	46
1982	*66.5million(est)	63,233,040	4,311,554	5432(Betting	45
1983	*64.8million(est)	61,932,148	4,245,995	5443 Days)	44

*Breakdown of totalisator turnover between greyhound racing and horse racing no longer available from H.M.Customs & Excise.

FJU/HWC/ASB
25.1.84

E &O E

S C H E D U L E B

BETTING ON GREYHOUND RACING - ON-COURSE

FINANCIAL YEAR	TOTAL ON-COURSE BETTING	GREYHOUND TOTALISATOR		ON-COURSE GREYHOUND BOOKMAKERS TURNOVER	
1967/68	£146.5m	£70.9m	(48.4%)	£ 75.6m	(51.6%)
1976/77	£173.6m	£71.7m	(41.3%)	£101.9m	(58.7%)
1977/78	£185.8m	£76.1m	(41%)	£109.7m	(59%)
1978/79	£191m	£75.2m	(39.4%)	£115.8m	(60.6%)
1979/80	£233.5m	£83.4m	(35.7%)	£150.1m	(64.3%)
1980/81	£249.7m	£85.3m	(34.2%)	£164.4m	(65.8%)
1981/82	£237.1m	£76.5m(est)	(32.3%)	£160.6m(est)	(66.7%)
1982/83	£244m (est)	£67m (est)	(27.5%)	£177m (est)	(72.5%)
*1983 Calendar Year	£227m (est)	£65m (est)	(28.5%)	£162.8m(est)	(71.5%)

*Estimate based on figures supplied by H.M. Customs & Excise.

FJU/HWC/ASB
31.1.84

E.&O.E.

B. P. & B. I. F
Budget papers file
1984

FINANCIAL SECRETARY	
REC.	30 JAN 1984
ACTION	PPS, CST, MST, EST
COPIES TO	Sir P. Middleton Mr Cassell, Mr Monger Mr R.I.G. Allen, Mr Griffiths Mr H. Martin, Mr Lord, PS/IR PS CUE

The British
Paper and Board Industry
Federation

Plough Place, Fetter Lane, London EC4A 1AL
Telephone 01-353-5222 Telex 24854
Telegrams Qualified London EC4A 1AL

HM TREASURY – MCU
RECD. 27 JAN 1984
ACTION FET
42/2ND
SIGNATURE
REF NO. 14361

The Rt. Hon. Nigel Lawson,
Chancellor of the Exchequer,
11 Downing Street,
London SW1

DG.S3/WJB/SE
25th January 1984

Dear Chancellor

THE 1984 BUDGET

I write to request that the views of the Paper and Board Industry should be taken into account when the plans for your next budget are being formulated.

2. We are an active member of the CBI and fully support the overall views they are expressing to you regarding the forthcoming budget, particularly with reference to the need for improving our competitiveness. A significant Government contribution towards the lowering of business costs would be achieved by accepting the proposals to abolish the National Insurance Surcharge (which would save our industry £3 million per year) and for the partial business de-rating.

3. However, in this letter we propose to limit our main representations to three additional areas of major importance to the future of this industry.

Government influenced costs

4. This Industry, like many others, has suffered from three years of demand-stagnation aggravated by intense competition from many overseas countries: the resultant losses or inadequate returns have lead in turn to rationalisation and many closures. 1983 saw some encouraging signs of recovery and we now look to consolidation and further progress in 1984. But we face foreign competitors in virtually every sector of the market and the only way to win through is to keep our costs competitively low. Much progress has been made by the industry itself in the more efficient use of its resources, and increases in most areas, particularly those within the industry's control, have been kept at, or below, inflation level. However over the period 1980 to 1983 the glaring exceptions were areas controlled , or substantially influenced, by Government itself e.g.

Rates	Postage & Telephones
Water	Rail freight/Rail fares
Effluent Disposal	Energy

5. In these areas, increases were imposed well in excess of the levels of inflation. In 3 years the RPI increased 27% and goods and services mainly produced by nationalised industries by 43%. Had such increases been attempted by this industry, they would have been rejected by our customers who would have put even more work abroad. Clearly this was not an option open to our Members faced with Government monopolies and Local Authorities. We would ask that if any increases are necessary in these areas in 1984 they be limited to below the 1983 inflation rate i.e. under 5%.

The British Paper and Board Industry Federation Limited. A Company Limited by Guarantee Reg. No. 122788 in England. Registered Office: 3 Plough Place, Fetter Lane, London EC4A 1AL.
Secretary: W.J. Bartlett

Energy

6. Although much has been said over the last three years by the group of energy intensive industries, the CBI and the Energy Task Force of NEDO, we make no apology for raising the subject of energy costs which are crucial to our industry.

7. Here we would emphasise that:-

(i) We appreciate that some concessions have been made and are grateful for them.

(ii) We and other major users of energy are still nevertheless disadvantaged against many of our overseas competitors, particularly in the field of electricity tariffs as high load, high load factor users, and heavy fuel oil where the UK price, which was already relatively high, has moved sharply upwards in recent weeks and in addition there remains the very high UK excise duty.

(iii) Many of our overseas competitors enjoy more generous levels of support from Government for investment in energy related projects than we receive in the UK.

Interest Rates

8. The Paper Industry is capital intensive. For example, a typical new installation could easily involve the investment of £250,000 per employee and an integrated pulp and paper plant currently being built in Wales is estimated to cost £135m. Purchase of ancillary equipment, in the constant process of modernising existing mills, is on a lesser, but still large, scale compared with most other industries.

9. The cost of funds for investment is therefore of the utmost importance to us. The current levels are far too high in relation to current inflation levels.

10. To summarise, this Industry supports the CBI proposals and wishes on its own behalf to stress the vital importance of:-

(i) Government controlled or influenced cost elements being kept below the level of inflation;

(ii) the cost of energy being reduced.

(iii) achieving lower interest rates;

Yours sincerely,

Jeffrey Bartlett

DIRECTOR GENERAL

British Property Federation

35 Catherine Place, London SW1E 6DY
Telephone: 01-828 0111 Telex: 915365

1905/84/DRGM/BP

From the President

FINANCIAL SECRETARY
-1 FEB 1984
PPS CST MST EST
Sir P Middleton
Mr Cassell
Mr Merger
Mr R Allen
Mr Griffiths
Mr F Martin
Mr Lord PS/IR PS/C+E

John Moore Esq., M.P.,
Financial Secretary,
The Treasury,
Parliament Street,
London, SW1P 3AG.

27th January, 1984.

Dear Mr Moore,

copy below. (unfortunately not previously circulated due to oversight.).

May I ask whether you would be good enough to take another look at my letter to the Chancellor of 4th November 1983 in which I put forward some changes which the British Property Federation would recommend him to make in his 1984 Budget so far as the property industry is concerned. I enclose a further copy for ease of reference.

I should like particularly to draw your attention to the paragraph on roll-over relief. Our view is that the roll-over of Capital Gains Tax should be allowed when properties for letting are sold and the proceeds are re-invested in other properties for letting. Lack of deferment relief of this kind is a serious deterrent to development and to building activity. This obstacle is reinforced by a similar restriction affecting Development Land Tax, namely that traders who need to expand but cannot extend their old premises and have to move into new premises cannot elect to defer Development Land Tax. Those who are able to extend their old premises can elect to do so. Roll-over relief should in our view be permitted to those who have to move into new premises.

May I also ask you to look again into the question of tax relief for bona fide development expenditure which turns out to be abortive. Expenditure on architectural competitions, which by definition not everyone can win, is a case in point.

I should be most grateful if you could find time to examine the merits of these three requests in particular. In the view of the important property interests which we represent, action on them would be a great encouragement to enterprise and economic activity.

Yours sincerely,

Dennis Marler

Dennis Marler

British Property Federation

35 Catherine Place, London SW1E 6DY
Telephone: 01-828 0111 Telex: 915365

From the President

HM TREASURY — MCU	
REC'D.	- 7 NOV 1983
ACTION	PS/ FST 36/2
SIGNATURE	
REF No.	

DRGM/BP

The Rt. Hon. Nigel Lawson, M.P.,
Chancellor of the Exchequer,
H.M. Treasury,
Parliament Street,
London, SW1P 3AG.

4th November 1983

Dear Chancellor,

I enclose a memorandum containing points affecting property which the British Property Federation hopes you will deal with in your 1984 Budget.

We were pleased that your predecessor was able to increase to 25% the proportion of office space allowable in buildings qualifying for the Industrial Buildings Allowance. As you will see from our memorandum, we think that rather more in this direction is still needed if the country is to get the sort of premises that modern industry requires. It is, we submit, manifestly wrong that no allowance at all should be provided if the 25% is exceeded even by a small amount.

We were disappointed that Sir Geoffrey Howe was unable last year to do anything about two other points to which we gave priority in our letter of 28th October 1982. The first of these was the treatment for tax purposes of expenditure which for good reasons turned out to be abortive. For example, the Secretary of State for the Environment would like our members to run or take part in architectural competitions. This costs money but there is no tax relief. Secondly, although Ministers want to encourage the private residential rented sector, there is discrimination against individuals who manage their own let properties. Cannot the management of property be treated like any other business for the purpose of tax allowance of business costs? We earnestly hope that you will be able to include these items this time.

As regards the new requests listed in the enclosed memorandum, they are by no means extravagant and all of them are relevant and necessary if the property industry is to be enabled to act, as it should, as a motor for the construction industry and the economy, and a provider of accommodation fit for the nation to work in and live in. I venture, however, to draw your attention especially to the following:

(i) Advance Corporation Tax

Whilst we welcome, as far as it goes, the proposal to allow surplus A.C.T. to be carried back six years for offset against Corporation Tax, we strongly believe that a company should be permitted to offset the A.C.T. it pays in an accounting period against the full Corporation Tax liability for that period.

(ii) Roll-over Relief

We submit that it should be possible to elect to defer Development Land Tax when business assets are replaced. This would bring the tax into line with the existing roll-over provisions for Capital Gains Tax (C.G.T.). The roll-over provisions for C.G.T. should also be extended to allow gains to be deferred when properties for letting are sold and the proceeds are re-invested in other properties for letting.

The prospect of having to pay Development Land Tax acts as a deterrent to traders who would otherwise move to more suitable accommodation. The present system of Capital Gains Tax also acts as a brake on development and reduces building activity.

(iii) Energy Saving

We are virtually alone in Europe in not offering tax incentives in the United Kingdom for energy saving installations in other than industrial buildings. This requires urgent rectification.

I should be grateful if these points and those in the memorandum could be seriously considered because of the beneficial economic effects they would bring at modest cost.

I am sending a copy of this letter and its enclosure to the Secretaries of State for the Environment and for Energy.

Yours Sincerely,

Dennis Marler.

Dennis Marler

THE BUDGET 1984

Memorandum to the Chancellor of the Exchequer

by

The British Property Federation

Reference

1. Advance Corporation Tax

Whilst we welcome the proposal to allow surplus A.C.T. to be carried back six years for offset against corporation tax, we do not consider that the change goes far enough. In many cases A.C.T. will remain a"distribution tax" which was never intended. An advance payment of tax should clearly be deductible from the total tax payable. — S 85 FA 1972

We submit that a company should be permitted to offset the A.C.T. it pays in an accounting period against the full corporation tax liability for that period.

2. Development Land Tax

2.1 Deferral on Replacement of Business Assets

We submit that it should be possible to elect to defer D.L.T. when business assets are replaced to bring it in line with the existing C.G.T. rollover provisions. — S 115 CGTA 1979

If a trader who needs larger premises is able to extend his existing premises, any D.L.T. liability on the development can be deferred. Such a deferral of D.L.T. is not, however, available for the trader who finds it impractical to extend and who must sell his old premises and reinvest the proceeds in new premises. — S 19 DLTA 1976

We are concerned that the prospect of paying D.L.T. is acting as a deterrent to traders who would otherwise move to more suitable accommodation.

2.2 Exclusion from Material Development - Rebuilding

If a building, which had previously been extended by more than one-tenth, is destroyed by fire or other accident and is replaced by a building of the same size, this is regarded as material development. To avoid a charge to D.L.T. the new building must not exceed 110% of the original unextended building. This is unjust and is a severe disincentive to rebuild. — Para 5(1) (b) Sch 4 DLTA 1976

We submit that where such a building has been destroyed rebuilding should not be material development for the purposes of D.L.T. provided the new building does not exceed 110% of the building it replaced.

2.3 Exemption for Small Disposals

We recommend that there should be a D.L.T. exemption for disposals where the consideration (or market value for development projects) does not exceed £250,000.

A large number of land transactions are processed and yet yield little or no D.L.T.

2.4 Annual Exemption

The annual exemption has remained at £50,000 since 1979 and an uplift in it is much overdue and urgently needed. We again suggest an increase to £150,000 to encourage the sale of land for housing and development. S 12 DLTA 1976

3. Assured Tenancies: Capital Allowances

The Federation has long advocated a form of capital allowance as an incentive to build residential property.

We welcomed the introduction in 1982 of capital allowances related to the Assured Tenancy Scheme but were concerned that the legislation was too restrictive. Our original studies had shown that such an allowance needed to be generous to be effective. The results of a recent survey confirm this. S 76 FA 1982

It is therefore urged that the following improvements to the scheme should be made:

- Capital allowances should be made available for the cost of converting buildings into dwellings for letting under the scheme. This could provide a much needed stimulus in inner city areas where many buildings have remained empty in recent years. S 56 Housing Act 1980

- The initial allowance should be increased from 75% to 100% as we originally asked.

- There should be a repeal of the legislation which prevents a claim being made for capital allowances by an approved landlord which is a partnership of individuals. S 6(5) F(No 2)A 1983

- A deferral of the balancing charge should be allowed where an approved landlord grants a long lease to another approved landlord.

4. Landlords: Private Individuals

If the Government wishes to see an increase in rented accommodation in the private sector we submit it should do more to remove discouragements for landlords who are individuals.

It is inequitable that an individual who manages his own let properties is taxed in the same way as a passive investor. An individual landlord runs a business and should be accorded the same business allowances and tax benefits as are accorded to those running other businesses. These should include the following:

4.1 Interest

If interest paid on a loan to purchase, improve or repair let property, exceeds the rental income, the excess should be available for offset against other income. — Para.7 Sch 1 FA 1974

Industrial and commercial properties should be treated as let when they are available for letting. — Para.4(1)(b) Sch 1 FA 1974

Any property which is normally let should be treated as let whilst undergoing refurbishment.

4.2 Improvement and Repair to Residential Let Properties

We submit that the cost of improving tenanted dwellings should be deductible for taxation purposes in the same way as repairs.

5. Companies

5.1 Abortive Expenditure

Property investment companies must in the course of their business commit themselves to expenditure on projects, some of which they are subsequently forced to abandon.

It is important that tax relief should be available for such expenditure. For example, only one company can win an architectural competition. In particular, we submit that what is required is a specific provision allowing expenditure incurred on the preparation of building designs and ancillary work to be deductible as an expense of managements, in cases where a development cannot go ahead.

5.2 Management Expenses

We submit that it should be possible to carry back excess management expenses for relief against profits of the immediately preceding accounting period. — S 304(2) TA 1970, S 177(2)(3) TA 1970

In addition, where excess management expenses occur in the last 12 months of a business, relief should be available against profits of the three preceding accounting periods. — S 178 TA 1970

5.3 Holding Companies

In the case of the holding company of a group, the definition of "management expenses" should be extended to cover all expenditure incurred in managing the subsidiaries.

5.4 Group Relief

If, because of insufficiency of group profits, a current year loss or excess of management expenses cannot be relieved it should be available for group relief in the following periods. — S 259 TA 1970

5.5 Consortium Relief

At present a consortium is unable to use the capital allowances of a consortium company which is a property investment company. — S 258(2) TA 1970

We submit that consortium relief should not be restricted to trading companies.

5.6 Schedule A Losses

If a let property is transferred within a group any accumulated Schedule A losses remain with the transferor. This can inhibit group reorganisation which would otherwise be commercially desirable.

We submit that such a loss should be capable of being transferred with the property.

5.7 Loan Finance Costs

We can see no reason why stamp duty should not be included with other costs of raising loan finance and allowed as an expense. — S 38 FA 1980

5.8 Companies Purchasing Their Own Shares — S 53 FA 1982

We see no reason why a payment by an unquoted investment company for the purchase of its own shares should automatically be treated as a distribution.

Disagreement between shareholders, which is accepted as a valid reason for exempting a payment from being a distribution by a trading company can also hamper the business of an unquoted investment company.

5.9 Archaeological Expenses

Where a building programme affects archaeological remains, contributions to archaeological investigations on the site should be allowable as tax expenses.

6. Capital Allowances

6.1 Lessee's Capital Allowances

S 46(2) FA 1971

We submit that it should be made clear that a lessee who incurs capital expenditure on plant in a building which is to be let, can claim capital allowances on that plant even when the plant is not provided under the terms of the lease.

We consider that this allowance should not be given merely by concession and that section 46(2) FA 1971 should be amended to include a lessee whose business is to let property.

6.2 Requirements in Modern Industrial Buildings

(a) We welcome the change in legislation which increased the allowable office content in an industrial building to 25% of cost but regret that provision was not made to give some relief when this limit is exceeded.

S 30 FA 1983

We submit that in such a case only the cost in excess of 25% should be disallowed.

(b) We submit that the definition of an industrial building is outdated in relation to today's industries and needs amendment, in particular in the requirement that goods or materials must be subjected to a process. A different definition is required of what constitutes an industrial activity.

S 7 CAA 1968

There is also the problem of advanced scientific and high-technology industries which have special requirements.

6.3 Industrial Buildings Bought Unused

The Federation is disappointed that the legislation has not been amended to deal with the problem of an industrialist who intends to purchase an industrial building but needs time to obtain the necessary finance. If he agrees to rent the building from the developer in the interim period he loses his right to claim initial allowances.

S 5(1) CAA 1968

We therefore urge that periods of use in the 12 months following the first occupation of the building by the purchaser should be ignored.

6.4 Small Workshop Conversions

We cannot see any justification for denying a capital allowance merely because a building was unused prior to its conversion. S 31(4) FA 1983

6.5 Initial and First Year Allowances

(a) The use that can be made of capital allowances on industrial buildings is out of line with that on plant. For example, initial allowances, unlike first year allowances, cannot be offset against trading profits of the preceding three years. S 177(3A) TA 1970

(b) When an initial allowance is disclaimed, the write-off period is extended from the normal seven years to as much as twenty-five years; we consider this to be unreasonable.

S 73(2) FA 1981

We submit that following a disclaimer of an initial allowance the writing-down allowance in the second and subsequent years should be one-sixth of the unrelieved expenditure.

6.6 Energy Saving Devices

Expenditure on thermal insulation installed in industrial buildings is treated as plant qualifying for capital allowances.

S 14 FA 1975

We submit that this treatment should be extended to expenditure on thermal insulation, double glazing and other energy-saving installations in all buildings.

7. Capital Gains

7.1 Replacement of Business Assets

We consider that the rollover provisions should be extended to allow gains to be deferred when properties for letting are sold and the proceeds are re-invested in other properties for letting. The present system acts as a brake on development and reduces building activity. S 115 CGTA 1979

7.2 Indexation

We submit that for the purposes of calculating the indexation allowance it should be possible to elect to substitute the market value of an asset at 6th April 1982 for its original cost. Furthermore we consider that the allowance should be given even where this creates or increases a loss. S 86 FA 1982

BRITISH PROPERTY FEDERATION
35 CATHERINE PLACE,
LONDON, SW1E 6DY.

4TH NOVEMBER 1983.

16 Clifton Park,
Bristol BS8 3BY
England
Telephone: (0272) 737373
Telex: 449752 CHACOM G

Chief Executive: G. J. Shore

Bristol Chamber of Commerce and Industry

HM TREASURY – MCU
RECD. 31 JAN 1984
ACTION MW EST 42/2ND.
SIGNATURE
REF No. 14443

FINANCIAL SECRETARY
25 January 1984
PPS CST MST EST
Sir P Middleton
Mr Cassell
Mr Monger
Mr R I G Allen
Mr Griffiths
Mr F Martin
Mr Lord
PS/IR PS/C+E

AX/GERS/kah

Dear Chancellor

BUDGET 1984

We wrote to you last December setting out a number of matters of a technical nature for consideration in connection with your Spring Budget. The purpose of this letter is to express the Chamber's views on the economy and to draw attention to matters which most concern our members.

Prospects for 1984

For the past three years we have entered each new year, with guarded optimism, hoping that it would be the year in which the clouds would lift on the economy only to end the year somewhat disillusioned. Whilst we are pleased to acknowledge that there are signs of a gradual recovery, albeit patchy, it is disappointing to have to record that we are not optimistic that 1984 will be the year in which we shall see significant signs of recovery from the deep seated problems which beset the economy of the United Kingdom. Trading conditions and employment prospects still remain very poor.

Capital Investment

The competitiveness of British industry when compared with both our European and worldwide trading partners, more particularly the newly industrialised countries, is a cause for grave concern. It is for this reason that we urge you, as a first priority, to do all in your power to assist and encourage the rejuvenation of British industry. Our major need is to be among the technological leaders in Western Europe, the United States and Japan. To increase our share of world trade, massive investment in research and development, in production and marketing is needed. We are convinced that industry is aware of the need for such investment and that it is increasingly making funds available for this purpose. However, we look to the Government to play a far greater part than it has in the past few years in this investment for the future, perhaps in closer collaboration with the major United Kingdom Chambers of Commerce who offer considerable assistance to their members, particularly in export promotion.

Contd/.....

The Chancellor of the Exchequer
House of Commons
London SW1A 0AA

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Public Expenditure

We have strongly supported the Government's efforts to control public expenditure and have been pleased to acknowledge the Government's successes. We have at the same time, however, drawn attention to the need to maintain a proper balance between public expenditure on capital projects and on revenue account. We have pointed out that restrictions on the former can, in some cases, have serious repercussions on certain aspects of the economy in the future. Whilst we accept that the major problem facing the Government continues to be the control of public expenditure we also firmly believe that a programme of increased but selective public investment to help speed up recovery and to create new jobs is now essential. We must repeat what we said last January when we asked your predecessor 'not to delay implementing new capital programmes so as to preserve and improve the necessary infrastructure for business to prosper and to create new areas for activities and jobs. As to the longer term, further progress can only be achieved in the context of a coherent Government industrial strategy which must encompass a long term view about public sector capital expenditure and the involvement of Government in development and training programmes for new technology'.

Interest Rates

Interest rates are still a matter of major importance to our members and we urge you to use your best endeavours to contain them at the lowest possible level. The current bank base rate of 9% is a remarkable improvement on the 14½% extant in January 1982. You will, however, appreciate that the rate at which a small business can borrow is considerably in excess of the base rate and this places a restriction on borrowing for all but the most essential business purposes. We hope, therefore, that you will not find it necessary, should your monetary targets be exceeded in the current financial year, to resort to higher interest rates.

In conclusion, may we assure you of the Chamber's continuing support for the Government in its efforts to overcome the many difficult problems still to be solved.

Yours sincerely

G E R Smyth
President

16 Clifton Park,
Bristol BS8 3BY
England
Telephone: (0272) 737373
Telex: 449752 CHACOM G

Chief Executive: G. J. Shore

Bristol Chamber of Commerce and Industry

HM TREASURY – MCU
REC'D. 15DEC 1983
ACTION FST
42/2
12977

GERS/dc/201

7th December 1983

For Budget mtg folder

Dear Chancellor,

BUDGET 1984

I am setting out on behalf of the Chamber, matters of a technical nature to which we wish to draw your attention in connection with the next Budget statement. You will notice that a number of these matters are repeated from last year.
It is our intention to write later on policy matters.

1. TECHNICAL FINANCE BILL

We consider that the time has now come when the legislative arrangements regarding the Budget have to be changed and that a purely technical Finance Bill should be introduced each year at a different time from the main Finance Bill. This would make both the preparation and implementation of the legislation simpler, since the effect of the change would be to spread much of the work through the year.

2. NATIONAL INSURANCE SURCHARGE

The Chamber welcomes the reductions in the surcharge made by the Government, but they feel that it is now appropriate to make urgent arrangements for its total withdrawal with effect from April 1984.

3. CAPITAL TRANSFER TAX

We recommend the introduction of rollover relief of Capital Transfer Tax on private trading companies to the next generation of owners or managers, until such time as the company is sold, provided that the donees are full time working in the business. It is also suggested that the option to pay CTT by instalment should be extended to the donors.

RECEIVED 15 DEC 1983
PPS CST
MST EST
Mr Middleton
Mr Cassell
Mr Monger
Mr R I G Allen
Mr Griffiths
Mr F Martin
Mr Lord
PS/IR
PS/C+E

The Chancellor of the Exchequer,
House of Commons,
London. SW1 OAA.

4. CAPITAL GAINS TAX

4. CAPITAL GAINS TAX

Retirement Relief

At present, retirement relief for capital gains tax is not available to an individual, who has ceased to be a full time working director, on retirement, when he disposes of his business. We consider that this relief should be amended so that relief is available if the disposal is made up to 10 years after retirement.

b) Rollover Relief

We consider that a rollover relief of capital gains into new businesses and trading companies is needed to enable 'grass roots' entrepreneurs to sell up a successful small business to second stage entrepreneurs and to go back and start a new business. Existing relief relates to assets only and not shares and only then to certain types of fixed assets; new businesses often require funds for the development of ideas and initial start up costs in addition to the purchase of tangible business assets.

5. CORPORATION TAX

a) Annual Rate

We consider that it is undesirable and should not be necessary to fix the annual rate of Corporation Tax retrospectively. It would avoid considerable doubt in the minds of companies and we do not think that it would be an undue problem for the Treasury if the rate were to be fixed annually in advance, as is already the very well established practice for Income Tax.

b) Small Companies

We suggest the introduction of a graduated scale of rates of Corporation Tax as the marginal rate of 55½% operates as a disincentive to companies or groups with taxable profits on the band between £100,000 + £500,000. This penal rate also operates unfairly in the case of groups where the relief has to be split equally between all companies within the group.

c) Groups

We feel that consideration could well be given to the taxing of groups of companies as one entity, thus avoiding the necessity for numerous individual company computations and considerable cross correspondence in connection with group relief and the like. We are not concerned in this point with tax reduction, only with the consequent considerable administrative saving.

d) Close Company Groups

We consider that the present anomaly whereby an apportionment assessment can arise in a purely trading group, when a dividend is paid by a subsidiary to a holding company, should be corrected.

6. BUILDING ALLOWANCES

We consider that the present position whereby only Industrial Buildings and certain small buildings attract tax relief against profit is now out of date. We consider that all buildings, whether industrial or commercial, should qualify for tax relief. This would of course sensibly reflect the considerable change that has taken place in business in recent years.

/ 7. STOCK RELIEF

7. STOCK RELIEF

We recommend the removal of the minimum threshold of £2,000, which is deducted from opening value and does not qualify for relief.

8. TIME LIMIT FOR THE SUBMISSION OF CLAIMS

At present the time limit for the submission of claims for losses and group relief surrender claims is two years from the end of the accounting period. This is not consistent with the treatment for losses that can be carried back three years and we recommend that time limit be extended to three years.

9. INCOME FROM PROPERTY

At a time when the Government is seeking to encourage both labour mobility and activity in the building sector, it would be logical to rethink the present fiscal attitude towards income from letting property. We suggest that the letting of property on a commerical basis be assessed as trading income. Thus profits would be assessed as earned income and subject to Retirement Annuity relief, and losses could be set against other income.

10. VAT

a) Bad Debts

VAT is not recoverable on bad debts unless the debtor is adjudicated insolvent. In the case of a limited company, this is interpreted as when the company is being wound up.
However, it is common for companies to enter into Receivership prior to a formal winding up and for the Receiver to find that he has insufficient funds to discharge the preferential creditors and the debenture holders. After he has realised all of the assets, the company is left in limbo because there are no assets remaining to pay the expenses of liquidation. Since the company is not being wound up VAT cannot be recovered. Relief for VAT on bad debts should be given, in our view, where it can be reasonably demonstrated that the debt is irrecoverable.

b) Collection

In the present difficult times businesses are frequently faced with delays in receiving remittances from customers in settlement of trading debts. However, payments of VAT to customs and Excise cannot be delayed on the grounds that the supplier has not received payment from the customer and this can cause financial strain. In these circumstances, and bearing in mind that such businesses are, in a sense, acting as unpaid tax collectors, it is considered that the present regulations should be reviewed to provide some assistance to businesses faced with delays in receiving payments.

c) Registration

We consider that a substantial increase is needed in the level of turnover at which registration of VAT is required, say £50,000, and thus enable a considerable number of businesses to avoid the administrative burden.

/ 11. STAMP DUTY

11. STAMP DUTY

In the present difficult times for employment, it is clearly essential to make moving house, particularly to obtain a new job, as simple and inexpensive as possible. The elimination of stamp duty on the sale of private houses would be of the greatest help in this respect.

12. NEW BUSINESSES

Considerable help has been given to new businesses in many ways, though mainly to those making losses in the early years. Consideration we believe should be given to introducing an income tax relief to proprietors of £5,000 per annum for the first five years to assist them to establish and build up the business in its earlier years.

Yours sincerely,

G.E.R. SMYTH
President

Budget representations 1984

The Bristol Junior Chamber

D W Tyson & Co
12a High Street
Staple Hill
Bristol BS16 5HP

(Tel Bristol 574422)

BR

HM TREASURY — MCU	
REC'D.	17 JAN 1984
ACTION	FST
	42/2ND.
SIGNATURE	
REF No.	13815.

FINANCIAL SECRETARY
19 JAN 1984

PPS, CST, TST, EST
Sir P. Middleton,
Mr Cassell, Mr Monger
Mr R.I.G. Allen,
Mr Griffiths, Mr F. Martin
Mr Knox
PS/IR PS/C&E

The Chancellor of The Exchequer
House of Commons
London SW1A OAA

Dear Chancellor

On behalf of The Bristol Junior Chamber, I put forward the following proposals which the Chamber would ask you to consider for inclusion in the 1984 Budget.

We believe that Interest rates are, in real terms, presently too high and threaten economic recovery. In our view, policies should be followed with an aim of reducing these Interest rates subject to your over-riding aim of restraining inflation.

Despite promises in the previous manifesto, there has been no alteration to the system of rates. In our view, this tax which falls very heavily on the commercial sector is still an unsatisfactory one. We also believe that the tax is widely and properly regarded as inequitable. We would urge that some consideration be given to reviewing the present system.

The burden represented by the Employers National Insurance contribution, and in particular the Surcharge, still represents a real disincentive to the regeneration of employment. In the view of this Chamber, these burdens represent a tax on employment and we do consider that a further reduction in their levels is desirable.

Notwithstanding your recent statement you should be able, within the framework of your Budget, to reduce further the level of direct taxation. This should be achieved by means of increases in the personal allowance - rather than by a reduction in the basic rate of Income Tax.

The Development Land Tax has shown itself to be an uneconomic tax to collect. In addition, it is a complicated tax which creates substantial amounts of work for Business Managers and Professional Advisers which does not produce wealth for the Community as a whole. In our view, yields from the tax are unjustifiably small particularly when one recognises that very often, Development Land Tax is charged as a substitute for other taxation liabilities. In the face of these facts, we feel that the tax should be abolished. If this is not thought politically possible (in our view there is no economic case for retaining the tax) we would suggest that the annual

Continued/2.....

exemption be significantly increased in order that all but the largest cases are taken out of the reach of this particular tax.

We feel that the continued reluctance of this and previous Governments to exempt Charities from V.A.T. is unjustified. It would be more consistent with the general scheme of taxation of Charities to provide an effective exemption from the tax. Would it not be possible to introduce legislation somewhat along the following lines:

Any body which is a Charity registered with the Charity Commissioners would be entitled as of right to register for V.A.T. All of its outputs (subject to any necessary saving provisions to protect the Exchequer) would be regarded as zero-rated. Such arrangements would enable Charities to recover their V.A.T. We would anticipate that smaller Charities would be unlikely to apply for registration, as the administrative burden involved would be unjustified. This arrangement seems to us to provide a ready means of exempting Charities from V.A.T. within the existing legal framework.

We have dealt with a number of purely technical points in the attached appendix to which we would refer you.

Yours faithfully

David C J Evans

The President

Technical Taxation Matters:

Stamp Duty: We would urge that Stamp Duty should no longer be charged on transactions relating to residential property, both freehold and leasehold nor should it apply to Deeds of Variation which do no more than re-direct the Estate of a deceased person.

Income Tax: The Taxes Acts do not in general allow relief for expenditure which is of a mixed purpose (Sections 130 and 189 ICTA 1970 are in point). In practice the Inland Revenue take a less rigid view. None the less, experience shows that there is some inconsistency between Tax Offices. Whilst this may not be a matter for legislation, we think it would be useful if the Revenue were to produce a statement of their present practices and to ensure that these were read by the various districts concerned with the administration of the relevant legislation.

We suggest that rules should be introduced allowing the deduction against Schedule D Case V Income, of interest in circumstances similar to those presently applicable to a person buying property in the United Kingdom for the purposes of letting.

Corporation Tax The anti-avoidance provisions relating to company losses (Section 483 ICTA 1970) and the analogous provisions relating to Advance Corporation Tax are in our view unduly widely drafted. These sections operate in such a way as to deny relief in situations which are not within the mischief which the legislation seeks to prohibit. The present rules are ill defined. If loss relief is not to be denied a business must continue in essentially similar form for a period commencing three years before and ending three years after the date of any change of ownership. In our view, the rules inhibit the resuscitation of viable businesses under new management and accordingly should be reconsidered. We would in particular ask that the rules should not continue to apply with present severity where a gradual change in the conduct of a business comes about as a result of perfectly proper commercial evolution.

Stock Relief: When stock relief was originally introduced a two year time limit within which claims had to be made was incorporated within the legislation. We accept that this time limit was probably reasonable under the old legislation because the possibility of a decline in stock levels with a consequent clawback made it a moot point whether relief was to be claimed. The two year time limit not unreasonably forced an early decision on this point. However, with stock relief in its present form the need for this time limit no longer seems to exist. We consider that the two year time limit is now anomolous. It should be extended to six years as experience is showing that the two year time limit can create difficulties in practice.

Capital Allowances: Following the decision in Stokes v Costain Investment Properties Limited, there is some concern as to the position of a tenant who incurs Capital Expenditure on landlord's fixtures. It would appear that the position for many trading companies is at present satisfactorily catered for by an Inland Revenue concession. However, the concession does not extend to non-trading tenants. As expenditure of this nature is a very common feature of modern commercial life, we believe the position is unsatisfactory and legislation should be introduced. We believe that this could be readily done by amendment to Section 46 Finance Act 1971

BCSA

92-96 Vauxhall Bridge Road
London SW1V 2RL
01-834 1713 Telex: 27523

Budget Rep

Director JCTH/EVB/3282

5th January 1984

HM TREASURY - MCH

REC'D.	10 JAN 1984
ACTION	
	4 3 M/L
SIGNATURE	
REF. No.	1 [illegible]

FINANCIAL SECRETARY

REC. 11 JAN 1984

COPIES TO

PPS CST MST (E)
Sir P Middleton
Mr Cassell
Mr Monger
Mr R I G Allen
Mr Griffiths
Mr F Martin
Mr Lord
Mr Mackinson
PS/IR
PS/CTE

Rt. Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
HM Treasury,
Parliament Street,
London SW1P 3AG

Dear Chancellor,

SPRING BUDGET

The recovery which parts of British commerce and industry are now experiencing is good news and the Government is to be congratulated on its success in pursuing policies which have done much to make this possible. However, this industry - which has one foot in engineering and the other in construction - has yet to see significant signs of an upturn in its fortunes, despite substantial cuts in capacity and investment in new equipment which have led to greatly improved productivity. (I ought to make clear that this industry has no place in house building and has, therefore, has not been a beneficiary of the significant growth which that sector has experienced in recent times).

Our representations for your Spring Budget therefore, whilst mindful of the need to avoid harmful effect on the Government's continuing attack on inflation and restrictions on unnecessary money growth, urge some stimulus to engineering and construction activity and further reductions in business costs.

1. Public Capital Spending

Reversal of the continuing decline in the proportion of the nation's resources devoted to new public capital formation should now, we believe, be the first priority. The reduction in expenditure on infrastructre investment has reached the stage where even those larger Member firms which have improved their efficiency to the maximum extent consistent with remaining viable, are now finding themselves with insufficient work to sustain them. They have made themselves leaner and fitter, have improved their market share in the very competitive private sector and have pursued available export opportunities vigorously, but these advances will only show their greatest benefits if the companies are able to operate at a higher level of output.

A modest additional amount of public capital expenditure is now needed and should be financed, not as extra total Government spending, but through greater economies on the current spending side.

/2.

Rt. Hon. Nigel Lawson, MP 5th January 1984

2. Capital Allowances

Your predecessor increased the initial allowance for industrial buildings to 75%. We believe that a further increase to 100% (matching the 100% allowance for plant and machinery), would be a valuable aid to the construction of the new manufacturing facilities which greater technology is going to require; and would urge the raising of the level in the forthcoming Budget.

Commercial buildings attract no capital allowances at all. The commercial building sector is one where growth has been strong until recently, but there are now signs that it is faltering. The introduction of a (small) capital allowance for commercial buildings would, we believe, be a considerable incentive to commercial clients who tend to be unusually sensitive to the tax regime in deciding whether to initiate new building projects. It would, in turn, give a boost to private sector capital investment.

3. VAT - Infraction Proceedings

In connection with both industrial and commercial buildings, we would add our voice to those in the construction industry which have urged the Government to resist the EEC's 'Infraction Proceedings' regarding the UK's existing rules for zero-rating of VAT for the non-domestic construction sector. The presence in the industrial and commercial construction market of many currently VAT-exempt organisations (such as Insurance Companies and Banks), means that VAT positive-rating of construction supplies would increase the cost to them of buying new buildings and would lead to a reduction in the demand for such buildings.

4. Interest Rates

We heartily endorse the Government's often-stated aim of continuing the downward pressure in domestic interest rates insofar as this is within its own control. We believe that present inhibitions on businesses in investing in new factories and warehouses would be eased significantly if there were a further reduction in the gap between borrowing rates and the level of inflation.

5. National Insurance Surcharge

We support the wide range of other bodies urging reduction in the level or total abolition of NIS to ease the tax burden on employers and aid competitiveness in export markets. We would, however, add that if the room for manoeuvre is restricted we would not regard this as having precedence over the need for increasing public capital expenditure.

/3.

t. Hon. Nigel Lawson, MP 5th January 1984

6. Personal Taxation

We do not share the views of those who have argued for urgent implementation of the 'Manifesto obligation' to cut taxes in the personal sector. The general benefit is best served by measures designed to stimulate business activity and reduce the cost imposed on industry by corporate taxation. We would argue for limitation of personal taxation measures to the normal Rooker Wise adjustments.

In summary, we believe that the achievement of the sustained growth throughout the economy without inflation which you have articulated, requires the diversion of some resources to increase capital spending in both the public and private sectors together with some reduction in corporate taxation to assist British industry in its drive to be more competitive.

I am sending a copy of this letter to our sponsoring Minister, Mr. Patrick Jenkin, Secretary of State for the Environment.

Yours sincerely,

J.C.T. HACKETT

cc Mr. Patrick Jenkin, Secretary of State for the Environment

MS 12 JAN 1984 -40

Budget representation

BRITISH AMUSEMENT CATERING TRADES ASSOCIATION

President: MICHAEL SHEFRAS

National Chairman:
C. HENRY

General Secretary:
A. P. WILLIS

Assistant General Secretary:
J. S. BURNIP

122 Clapham Common North Side
LONDON SW4 9SP

Telephone: 01-228 4107

MINISTER OF STATE	
REC.	12 JAN 1984
ACTION	Mr FREEDMAN
	PS/Chancellor
	PS/CST, PS/FST, PS/EST,
	Mr Monger
	Mr Guthrie

Gen 48/APW/FH

- for advice on xl please

12th January 1984

Barney Hayhoe Esq., M.P.,
Minister of State Treasury
The Treasury,
Parliament Street,
London SW1P 3AG

Mr F. Martin
Mr Lord, Mr Portillo, MST

Dear Mr. Hayhoe,

When BACTA's representatives met the Minister of State Treasury and representatives of Customs and Excise to discuss the Finance Bill in 1982 they forecast that the massive increases in gaming machine licence duty which were then being proposed and which subsequently came into operation on 1st October 1982 would lead to a substantial reduction in the number of amusement-with-prizes machines operated in amusement arcades.

The Annual Report of the Commissioners of Customs & Excise published in November 1983 has confirmed our prediction.

It is not possible to make a direct comparison between the number of amusement-with-prizes licensed during the licence years commencing 1st October 1981 and 1st October 1982 because, between the two, there were changes in the thresholds for higher rate and lower rate machines.

However, we commissioned an independent statistical survey and also consulted the representatives of the other major machine users and have summarised the outcome on Appendix I which clearly indicates a reduction of between 6,500 and 8,500 AWPs licensed in Amusement arcades.
Of particular concern is the effect on those seasonal arcades which form a traditional part of resort facilities and the demise of which would detract disastrously from the entertainment facilities and financial support of areas that have provided their attraction since Victorian times - and already suffer from packaged tour competition which takes their traditional visitors to resorts overseas.

Cont...

BACTA proposes that the plight of arcade operators should be recognised by the introduction of alternative rates of gaming machine licence duty on a special licence available only in respect of premises defined by Section 27, (3) (a), (b) and (c) of the Gaming Act 1968.

To ensure that this help is particularly directed toward the smaller independent businessman it is further suggested that the scope of the special licence be limited to the first 20 dutiable machines on premises covered by a special licence, and that these should be charged at 60% of the appropriate standard rate of duty shown in Table A of Section 23 of the Betting and Gaming Duties Act 1981, as amended.

All dutiable machines in excess of 20 to be charged at the appropriate rate of duty shown in Table A.

X1 My National Chairman and the Officers of BACTA would welcome an opportunity to meet you in order to discuss our proposals in greater depth.

Yours sincerely,

Alan Willis

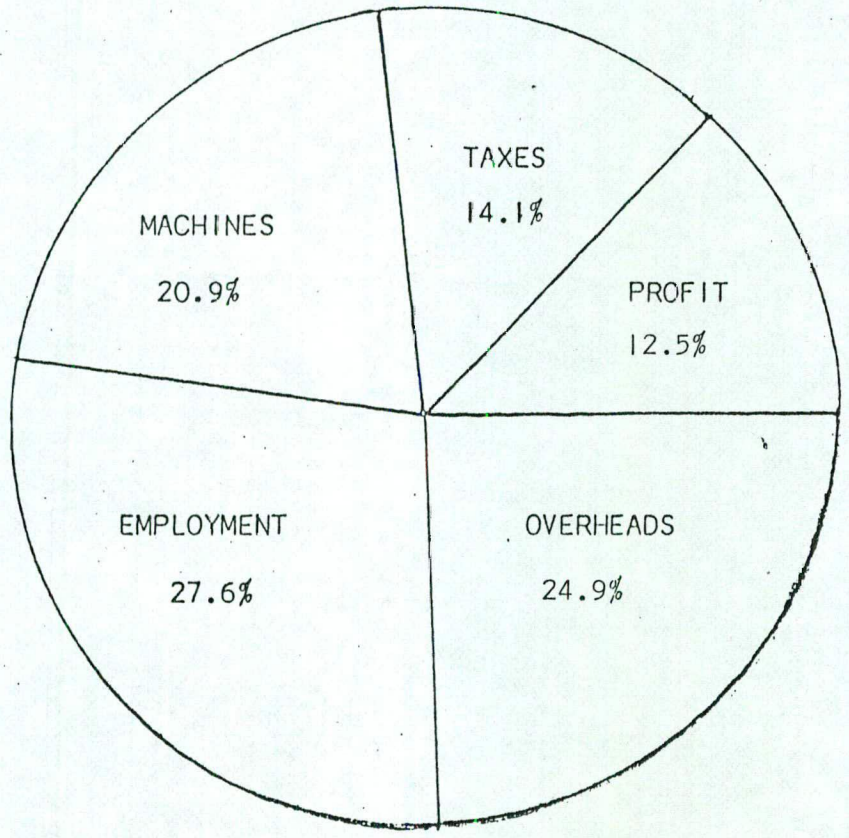
A P Willis
General Secretary

ANNEXE I

Chart to show Taxes, Costs and Profits as Proportion of Turnover of Amusement Arcades

January 1984

Seaside Arcades

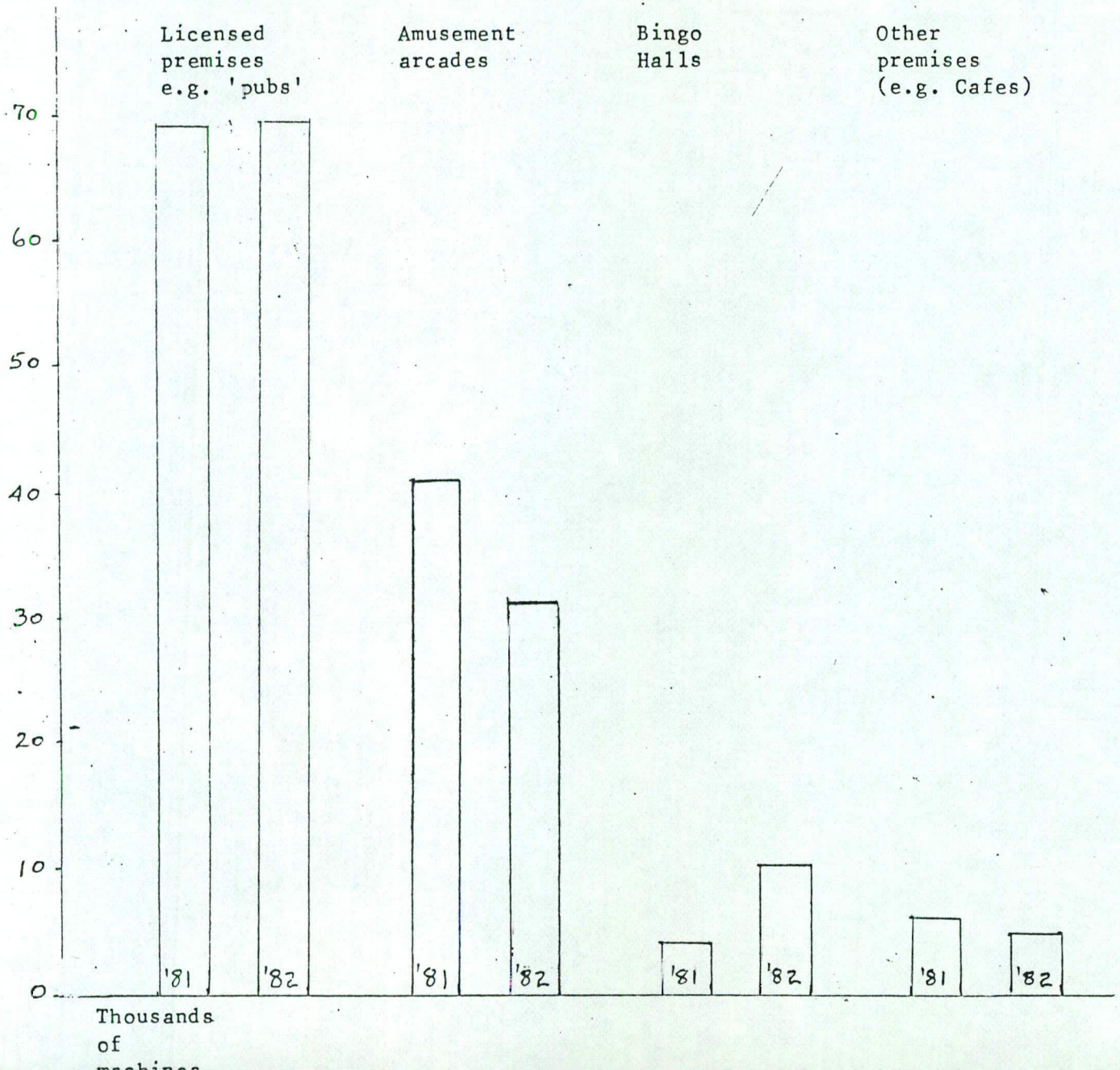


Taxes	cost of VAT (net) and gaming machine licence duties and excluding income and corporation taxes
Machines	costs of rental and/or depreciation and maintenance of gaming (AWP) and other amusement machines in arcades
Employment	Costs of employees including notional salaries of directors and proprietors
Overheads	Remaining costs includineg rent and rates
Notes:	1. Turnover and costs are aggregated for all arcades and an adjustment has been made for non-response 2. Figures refer to 1982/3
Source	AMS survey of arcades of BACTA members in 1983

ANNEXE 2

Chart to show estimated changes in licenced Gaming Machines (AWP) on various premises

January 1984



Sources:

Total machines: H.M.Customs and Excise

Licensed premises: Brewers' Society oral statement at Coin Machine Users Group meeting.

Bingo Halls: BACTA estimate based on removal of Jackpot machines and their replacement by AWP machines.

Other premises: BACTA estimate

Budget mps

BIM **British Institute of Management**

(A Company Limited by Guarantee) *Registered in England No. 441975*

Registered Office:
Management House Parker Street London WC2B 5PT 01-405 3456

Chairman of Council: L.V.D. TINDALE, CBE, CA, CBIM

Director General:
ROY CLOSE, CBE, MSc. CBIM

Secretary:
LINDA HARVEY, BA, ACIS

FINANCIAL SECRETARY

REC.	20 FEB 1984
~~CHAN~~	PPS CST MST EST
COPIES TO	Sir P Middleton
	Mr Cassell
	Mr Monger
	Mr R I G Allen

Mr Griffiths PS/IR
Mr F Martin PS/C+E
Mr Lord

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1A 0AA

30 January 1984

Dear Chancellor,

When I wrote on 9 December setting out the British Institute of Management's thinking on those areas of fiscal policy for 1984/85 to which your Budget proposals should be mainly directed I said that we would be putting a more detailed submission to you in the New Year. I am therefore now submitting our recommendations which, following further discussion within the Institute, and having considered your letter of 22 December, follow the lines of our December letter.

Our members are strongly of the opinion that in the present circumstances the prime need of the economy is a higher level of private and public sector investment, and that this can be helped and encouraged by an increase in investment in the public sector infrastructure. We believe that this should be a first priority of your Budget proposals, taking precedence over reductions in personal or corporate taxation. It is significant that a majority of our members, who have seen and experienced the devastating effects of the recession on productive capacity and employment, are prepared to accept a postponement of the objective of reducing personal taxation in favour of measures aimed specifically at raising the level of infrastructure investment.

/...

The present very welcome recovery, though still somewhat uneven, seems certain to continue for some months, stimulated as it has been from the start by a high level of consumer spending. There are doubts as to whether the recovery can, or should, be sustained by consumer expenditure. Investment and exports must take over as the engine of recovery if it is to gain strength and provide the basis of a re-structured, competitive, technology-based economy. At the end of last year there were welcome signs of improvement in our export performance. But in today's world markets that improvement will have to be supported by investment in both product and process. The current improvement in profit levels augurs well for higher investment in the private sector. There is already some improvement in private sector investment. The fact that the overall level of investment in the economy is 10 per cent above the 1981 trough is mainly due to recovery in the private sector, but it is still too low for British industry to win and sustain a leadership in high technology markets and in technology based-productivity.

However much the private sector is able to raise its level of investment, it must be supported and stimulated by the facilities provided by the infrastructure. How far is the private sector justified in raising investment if the Government by neglecting the maintenance and modernisation of supporting facilities shows little confidence itself in the future ?

Apart from the importance of setting an example, and for the Government to lead rather than lag in investment, there is the fact that since much of this investment must be undertaken some time in the near future, it is better to do it now when there is available capacity, and thus at the same time providing some stimulation to the supplying, engineering and construction industries which are still under employed and in danger of having to reduce their productive capacity below the levels which will be required in the longer term.

All the evidence is that the level of Government capital spending on the infrastructure has fallen alarmingly. In your letter of 22 December 1983 you said you did not accept what we described as a 'dramatic decline in real public sector capital spending' because the information on capital spending provided by Governments is misleading. We agree that the figures are misleading and that it is difficult to get an accurate picture. But even when account is taken of asset sales, and the elements of defence capital spending which form part of the infrastructure, we believe that public sector investment, particularly that undertaken by central and local Government, has fallen significantly since 1978/79.

You also made the point that public investment has to meet proper tests of viability. We entirely agree. The problem is how the viability of investment which generates no direct revenues is to be measured. It is necessary to go wider than an examination of the financial or short-term economic benefits to the investing authority; it is important to take account of the long-term contribution to economic and industrial performance generally. There is, however, as far as we know, no satisfactory and accepted objective methodology for evaluating public investment where no revenue is generated. But this creates the risk that little distinction will be made between infrastructure investment and current consumption - a distinction no worthwhile business would fail to make. Estimates of benefits are heavily subjective, and inevitably involve some general judgement. We wonder, for example, how far the Government evaluates the benefits of infrastructure expenditure in order to ensure that no projects which would have a satisfactory long-term economic return are rejected ? In other words, the viability of infrastructure maintenance and investment must take into account the general economic and social benefits, which must always be difficult to measure objectively. Narrow measurements of viability could be formulae for postponing much needed investment.

Therefore BIM's recommendations continue to be focussed on the greater need for investment rather than for measures which would stimulate consumption. We recommend:

(A) Top priority to be an immediate revival of infrastructure investment in order to improve the prospect of the hardwon gains of recent years being translated into a lasting and longterm improvement in UK industrial performance. Additional infrastructure investment should be financed by:

(i) postponement of tax cuts;

(ii) continued efforts to contain current public expenditure through improvements in efficiency;

(iii) a more sympathetic response to proposals for the private financing of public investment;

(iv) if necessary a modest increase in the PSBR target for 1984/5. BIM believes that the risks involved in terms of higher interest rates and inflation are not great, and are less serious than the consequences either of allowing the recovery to falter, or of allowing the nation's physical and technological infrastructure to deteriorate relative to that of our major international competitors.

(B) No increase in the overall burden of taxation in 1984/5:

(i) no change in the rates of personal income tax. The Institute does, however, attach great importance to the maintenance of the real value of personal income tax allowances and thresholds;

(ii) no change in VAT;

(iii) the level of specific duties should be kept broadly in line with inflation;

(iv) BIM would like to see the complete abolition of the National Insurance Surcharge if this can be managed, but this is felt to be less pressing at the moment than the need for a higher level of infrastructure investment.

Yours sincerely

Roy Close

Roy Close
Director General

THE BRITISH INSTITUTE OF MANAGEMENT

BUDGET SUBMISSION 1984

The Institute very much welcomes the reduction in inflation and the economic recovery which is now taking place. It is pleased that the policies which have successfully brought this about are now providing encouragement to industry following the difficult years, particularly in manufacturing, where capacity has been so sharply reduced. Managers increasingly reflect the growing confidence that British industry will continue to make the adjustments that are necessary to meet the present intense international competition.

However, there remains some uncertainty about the extent and durability of recovery. Some of the doubts derive from international considerations, such as the pressures which cause continuing exchange rate uncertainty, and worries about the possible economic impact of the post-election period in the United States. But nearer home, it is a fact that some sectors, notably heavier engineering, have yet to experience any notable improvement in business and business prospects, and, more generally, there is a significant doubt as to how long consumer spending can continue to fuel the recovery.

Happily, at the end of 1983 there were some signs of new growth in exports, but for this to continue and to turn the present recovery into a durably strong and competitive economy, the Institute is convinced that a much higher level of investment in both the private and public sectors, particularly in the supporting infrastructure in the latter case, is needed. Policies should now be directed mainly towards that objective.

BIM therefore continues to:

(a) support economic policies which give high priority to containing domestic inflation and which promote a reduction in interest rates;

(b) press for effective and more explicit industrial policies to guide the Government's massive influence on the economy in areas such as public purchasing, competition policy, nationalised industries and public corporations, small firms and support for innovation and new technology, etc.;

(c) press for an in-depth consideration, involving a wide representation of the interests involved, of the implications for society of long-term unemployment, while at the same time seek to lessen the prospect of the UK, and perhaps the EEC, moving towards solutions which in the long-term become self-defeating because they undermine industrial competitiveness;

(d) press for fiscal policies which besides paying attention to the important question of the burden of personal and company taxation give greater priority to Government spending on the infrastructure.

/...

The Case for Infrastructure Investment

The Institute has already informed the Government, in a letter to the Chancellor in December 1983, that the central theme of BIM's recommendations on fiscal policy in 1984/5 would be the need to increase Government spending on the infrastructure. We believed that this should take priority over the need to cut personal or business taxation in the 1984 Budget.

Concern over the level of public capital and infrastructure expenditure has been an important theme running through BIM representations to Government in recent years. There is currently a remarkable degree of consensus among managers about the need to put additional resources into the infrastructure now. BIM includes in the infrastructure not only ports, roads, railways, energy supplies, water supply, sewers and the postal system, but also the technological infrastructure including the communications network, expenditure on education and training, support for innovation, R and D and new technologies.

We have witnessed a significant decline in real public sector capital spending over the past decade. (While public infrastructure investment and capital spending are not synonymous they are significantly related.) There is also evidence to suggest that a smaller proportion of GDP is devoted to public sector capital spending in the UK than in the economies of most of our major competitors. (See Annex A.)

It is true that some investment programmes have fallen for good reason (e.g. declining school rolls) and also that some essential infrastructure expenditure falls within current spending programmes (e.g. repair and maintenance, Government support for training and technology). However, it is very difficult to ignore the signs of neglect of the infrastructure. While applauding the efforts which have been made in improving public sector efficiency and trusting that these improvements will continue, we are worried that they may have had 'knock-on' effects on public investment programmes which may at times have been easier to cut than many types of current expenditure.

Managers continue to believe that long-term industrial and economic performance would be undermined by an industrial infrastructure which fell short of modern standards of effectiveness and efficiency, and was not being visibly attuned to meet the rapidly changing demands of the late twentieth century. They fear the consequences of attempting to enter a new and technological era with a dated and unresponsive infrastructure. Adequate and properly directed expenditure on transport, communications, education and training, and technology is vital if British industry is to make the major structural changes, and adjust to the full use of new technology, required to meet and beat the intense international competition.

A further reason for managers' desire to see some increase in Government infrastructure expenditure is the need to help strengthen and sustain the recovery beyond 1984, thereby providing a much needed stimulus to private investment in new products, new processes, new markets. While profits in many sectors are showing welcome signs of improvement which should lead to some increase in investment, the level is still inadequate to sustain a leadership in a high technology business environment. An increase in worthwhile infrastructure investment would not only help to improve order books of UK suppliers but would also provide the encouragement to private sector investment which is so necessary if the recent improvements in business performance are to be sustained and built on. The investment

What is needed in the infrastructure cannot be postponed indefinitely: much of it will have to take place at some time. Undertaking the investment now when there is spare capacity in the engineering and construction industries will be less likely to stimulate inflationary pressures than if it were postponed until the economy picks up further.

Financing Additional Infrastructure Investment

We accept that there is likely to be limited scope for fiscal manoeuvre in 1984/5 (either for tax cuts or for increases in public capital expenditure) within the Medium Term Financial Strategy (MTFS). BIM has supported broad adherence to the monetary targets of the MTFS because of the importance that managers attach to bringing down inflation and interest rates.

The Institute therefore proposes that:

(a) The hoped for reduction in personal and company taxation should be postponed in favour of a revival in public infrastructure investment.

(b) The Goverment's efforts, which we strongly support, to improve efficiency in the public sector as a means of allowing the proportion of total public expenditure allocated to necessary infrastructure investment to rise, must be increased.

(c) The Government should encourage proposals aimed at attracting private finance for public investment - despite much analysis and discussion over the past two to three years progress has been very disappointing. (See Annex B.)

(d) If necessary, the PSBR target for 1984/5 should be increased from its projected level of £8 billion. The effect of a modest rise in the PSBR on inflationary expectations and interest rates in order to finance worthwhile infrastructure expenditure is unlikely to be very great. Obviously the correct target for public borrowing is very much a matter of judgement. For example, on the basis of the information provided in the Government's 1983 Autumn Statement, it should be possible to run a PSBR of some £10 billion in 1984/5 and still make progress towards the aim of a gradual reduction in Government borrowing as a proportion of GDP.

Furthermore, managers continue to find it difficult to appreciate the logic of cutting back on worthwhile infrastructure investment which supports the industrial performance in order to provide a more favourable industrial climate for private sector activity and investment. Properly appraised, efficiently implemented public sector programmes can be as beneficial to the economy as private sector programmes. If the cost of keeping the PSBR down to help reduce interest rates is that essential infrastructure investment is foregone, then that cost may be too high.

Summary of BIM 1984 Budget Proposals

The main points which BIM wishes to be included in the 1984 Budget are set out below.

(A) Top priority to be an immediate revival of infrastructure investment in order to improve the prospect of the hard-won gains of recent years being translated into a lasting and long-term improvement in UK industrial performance. Additional infrastructure investment should be financed by:

(i) postponement of tax cuts;

(ii) continued efforts to contain current public expenditure through improvements in efficiency;

(iii) a more sympathetic response to proposals for the private financing of public investment;

(iv) if necessary a modest increase in the PSBR target for 1984/5 - BIM believes that the risks involved in terms of higher interest rates and inflation are not great and are less serious than the consequences either of allowing the recovery to falter or of allowing the nation's physical and technological infrastructure to deteriorate relative to that of our major international competitors.

(B) No increase in the overall burden of taxation in 1984/5:

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British Institute of Management
Parker Street
London WC2B 5PT

26 January 1984

Budget rqs.

British Institute of Management

(A Company Limited by Guarantee) Registered in England No. 441975

Registered Office:

Chairman of Council: L.V.D. TINDALE, CBE, CA, CBIM

Management House Parker Street London WC2B 5PT 01-405 3456

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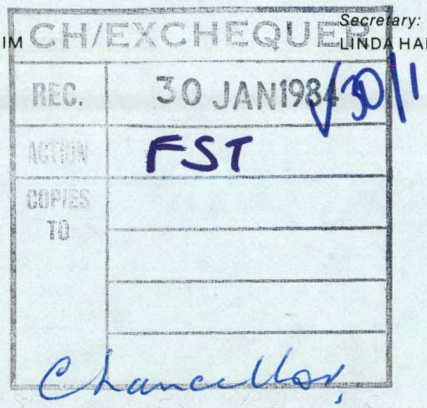

30 January 1984

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The present very welcome recovery, though still somewhat uneven, seems certain to continue for some months, stimulated as it has been from the start, by a high level of consumer spending. There are doubts as to whether the recovery can, or should, be sustained by consumer expenditure. Investment and exports must take over as the engine of recovery if it is to gain strength and provide the basis of a re-structured, competitive, technology based economy. At the end of last year there were welcome signs of improvement in our export performance. But in today's world markets

..... cont/

that improvement will have to be supported by investment in both product and process. The current improvement in profit levels augurs well for higher investment in the private sector. There is already some improvement in private sector investment. The fact that the overall level of investment in the economy is 10 per cent above the 1981 trough is mainly due to recovery in the private sector, but it is still too low for British industry to win and sustain a leadership in high technology markets and in technology based productivity.

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(a) Top priority to be an immediate revival of infrastructure investment in order to improve the prospect of the hard-won gains of recent years being translated into a lasting and long-term improvement in UK industrial performance. Additional infrastructure investment should be financed by:

(i) Postponement of tax cuts;

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(iii) A more sympathetic response to proposals for the private financing of public investment;

(iv) If necessary a modest increase in the PSBR target for 1984/85. BIM believes that the risks involved in terms of higher interest rates and inflation are not great, and are less serious than the consequences either of allowing the recovery to falter, or of allowing the nation's physical and tecnological infrastructure to deteriorate relative to that of our major international competitors.

.... cont/

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Yours sincerely

Roy Close

Roy Close
Director General

The Rt.Hon. Nigel Lawson, MP.,
Chancellor of the Exchequer,
The Treasury,
Parliament Street,
LONDON, SW1A OAA

THE BRITISH INSTITUTE OF MANAGEMENT

BUDGET SUBMISSION 1984

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However, there remains some uncertainty about the extent and durability of recovery. Some of the doubts derive from international considerations, such as the pressures which cause continuing exchange rate uncertainty, and worries about the possible economic impact of the post election period in the United States. But nearer home, it is a fact that some sectors, notably heavier engineering, have yet to experience any notable improvement in business and business prospects, and, more generally, there is a significant doubt as to how long consumer spending can continue to fuel the recovery.

Happily at the end of 1983 there were some signs of new growth in exports, but for this to continue and to turn the present recovery into a durably strong and competitive economy, the Institute is convinced that a much higher level of investment in both the private and public sectors, particularly in the supporting infrastructure in the latter case, is needed. Policies should now be directed mainly towards that objective.

BIM therefore continues to :

(a) Support economic policies which give high priority to containing domestic inflation and which promote a reduction in interest rates;

(b) Press for effective and more explicit industrial policies to guide the Government's massive influence on the economy in areas such as public purchasing, competition policy, nationalised industries and public corporations, small firms, support for innovation and new technology, etc.;

(c) Press for an in-depth consideration, involving a wide representation of the interests involved, of the implications for society of long-term unemployment, while at the same time seek to lessen the prospect of the UK, and perhaps the EEC, moving towards solutions which in the long-term become self-defeating because they undermine industrial competitiveness;

(d) Press for fiscal policies which besides paying attention to the important question of the burden of personal and company taxation give greater priority to Government spending on the infrastructure.

The case for infrastructure investment

The Institute has already informed the Government, in a letter to the Chancellor in December 1983, that the central theme of BIM's recommendations on fiscal policy in 1984/85 would be the need to increase Government spending on the infrastructure. We believed that this should take priority over the need to cut personal or business taxation in the 1984 Budget.

Concern over the level of public capital and infrastructure expenditure has been an important theme running through BIM representations to Government in recent years. There is currently a remarkable degree of consensus among managers about the need to put additional resources into the infrastructure now. BIM includes in the infrastructure not only ports, road, railways, energy supplies, water supply, sewers, the postal system, but also the technological infrastructure including the communications network, expenditure on education and training, support for innovation, R and D and new technologies.

We have witnessed a significant decline in real public sector capital spending over the past decade. (While public infrastructure investment and capital spending are not synonymous they are significantly related). There is also evidence to suggest that a smaller proportion of GDP is devoted to public sector capital spending in the UK than in the economies of most of our major competitors.(see Annex A)

It is true that some investment programmes have fallen for good reason (eg declining school rolls) and also that some essential infrastructure expenditure falls within current spending programmes (eg. repair and maintenance, Government support for training and technology). However, it is very difficult to ignore the signs of neglect of the infrastructure. While applauding the efforts which have been made in improving public sector efficiency and trusting that these improvements will continue, we are worried that they may have had 'knock on' effects on public investment programmes which may at times have been easier to cut than many types of current expenditure.

Managers continue to believe that long-term industrial and economic performance would be undermined by an industrial infrastructure which fell short of modern standards of effectiveness and efficiency, and was not being visibly attuned to meet the rapidly changing demands of the late twentieth century. They fear the consequences of attempting to enter a new and technological era with a dates and unresponsive infrastructure. Adequate and properly directed expenditure on transport, communications, education and training, and technology is vital

if British industry is to make the major structural changes, and adjust to the full use of new technology required to meet and beat the intense international competition.

A further reason for managers' desire to see some increase in Government infrastructure expenditure is the need to help strengthen and sustain the recovery beyond 1984, thereby providing a much needed stimulus to private investment in new products, new processes, new markets. While profits in many sectors are showing welcome signs of improvement which should lead to some increase in investment, the level is still inadequate to sustain a leadership in a high technology business environment. An increase in worthwhile infrastructure investment would not only help to improve order books of UK suppliers but would also provide the encouragement to private sector investment which is so necessary if the recent improvements in business performance are to be sustained and built on. The investment that is needed in the infrastructure cannot be postponed indefinitely: much of it will have to take place at some time. Undertaking the investment now when there is spare capacity in the engineering and construction industries will be less likely to stimulate inflationary pressures than if it were postponed until the economy picks up further.

Financing additional infrastructure investment

We accept that there is likely to be limited scope for fiscal manoeuvre in 1984/85 (either for tax cuts or for increases in public capital expenditure) within the Medium Term Financial Strategy (MTFS). BIM has supported broad adherence to the monetary targets of the MTFS because of the importance that managers attach to bringing down inflation and interest rates.

The Institute therefore proposes that:

(a) The hoped for reduction in personal and company taxation should be postponed in favour of a revival in public infrastructure investment.

(b) The Government's efforts, which we strongly support, to improve efficiency in the public sector as a means of allowing the proportion of total public expenditure allocated to necessary infrastructure investment be increased.

(c) The Government should encourage proposals aimed at attracting private finance for public investment. Despite much analysis and discussion over the past 2 to 3 years progress has been very disappointing. (see Annex B)

(d) If necessary the PSBR target for 1984/85 should be increased from its projected level of £8bn. The effect of a modest rise in the PSBR on inflationary expectations and interest rates in order to finance worthwhile infrastructure expenditure is unlikely to be very great. Obviously the correct target

for public borrowing is very much a matter of judgement. For example, on the basis of the information provided in the Government's 1983 Autumn Statement, it should be possible to run a PSBR of some £10bn. in 1984/85 and still make progress towards the aim of a gradual reduction in Government borrowing as a proportion of GDP.

Furthermore, managers continue to find it difficult to appreciate the logic of cutting back on worthwhile infrastructure investment which supports the industrial performance in order to provide a more favourable industrial climate for private sector activity and investment. Properly appraised, efficiently implemented public sector programmes can be as beneficial to the economy as private sector programmes. If the cost of keeping the PSBR down to help reduce interest rates is that essential infrastructure investment is foregone, then that cost may be too high.

Summary of BIM 1984 Budget Proposals

The main points which BIM wishes to be included in the 1984 Budget are:

(a) Top priority to be an immediate revival of infrastructure investment in order to improve the prospect of the hard-won gains of recent years being translated into a lasting and long-term improvement in UK industrial performance. Additional infrastructure investment should be financed by:

(i) Postponement of tax cuts;

(ii) Continued efforts to contain current public expenditure through improvements in efficiency;

(iii) A more sympathetic response to proposals for the private financing of public investment;

(iv) If necessary a modest increase in the PSBR target for 1984/85. BIM believes that the risks involved in terms of higher interest rates and inflation are not great and are less serious than the consequences either of allowing the recovery to falter or of allowing the nation's physical and technological infrastructure to deteriorate relative to that of our major international competitors.

(b) No increase in the overall burden of taxation in 1984/85:

(i) No change in the rates of personal income tax. The Institute does however attach great importance to the maintenance of the real value of personal income tax allowances and thresholds;

(ii) No change in VAT;

(iii) The level of specific duties should be kept broadly in line with inflation;

(iv) BIM would like to see the complete abolition of the National Insurance Surcharge if this can be managed but this is felt to be less pressing at the moment than the need for a higher level of infrastructure investment.

Management House, London.
26 January 1984.

Annex A

RECENT TRENDS IN PUBLIC INVESTMENT

Domestic

1. As table 1 shows, the proportion of public spending used for capital spending has generally declined during this decade.

Table 1 Public Capital Spending as % Total Public Spending.

1973/74	20.1%	1979/80	14.0%
1974/75	18.1%	1980/81	12.7%
1975/76	19.7%	1981/82	10.1%
1976/77	16.3%	1982/83	9.8%
1977/78	12.6%	1983/84	9.8%
1978/79	13.2%	(plans)	

calculated from: The Government's Expenditure Plans 1979/80 to 1982/83 and
The Government's Expenditure Plans 1983/84 to 1985/86

2. Over the past ten years real public sector investment has fallen significantly with total public investment in 1982 being some 40% lower in real terms than in 1973. This contrasts with the private sector where investment rose by 12% over the same period. General government* investment was 43% lower in 1982 than in 1978 and public corporations' (including nationalised industries) investment was almost 8% lower. This contrasts with private sector investment which had almost regained the 1978 level by 1982. This is illustrated in table 2.

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* General government expenditure includes both central and local government spending on goods, services and transfer payments but excludes government lending to nationalised industries and other public corporations.

Table 2 Domestic Capital Formation

£bn 1980 prices

	Total	Private	General Government	Public Corporations
1973	41.8	24.4	10.9	6.2
1974	40.6	23.2	10.2	7.1
1975	40.3	23.0	9.4	7.8
1976	40.9	23.6	9.1	8.0
1977	39.9	24.9	7.6	7.3
1978	41.2	27.6	6.7	6.9
1979	41.4	28.2	6.4	6.8
1980	39.2	27.1	5.5	6.7
1981	35.6	25.3	4.1	6.2
1982	37.6	27.5	3.8	6.3
% change				
1982 on 1973	-10.0%	+12.7%	-65.3%	+2.2%
1982 on 1978	-8.7%	-0.3%	-43.4%	-7.8%

Source: Economic Trends December 1983

3. Both total investment and private investment fell in 1980 and 1981. Private sector investment started to rise again during 1981 and is still generally rising. This is illustrated in table 3.

Table 3 Domestic Fixed Capital Formation

Percentage change on previous year. (1980 prices)

	Total	Private Sector	General Government	Public Corporations
1978	3.4	11.0	-11.4	-6.2
1979	0.5	2.2	-4.4	-1.6
1980	-5.2	-4.1	-13.9	-1.7
1981	-9.4	-6.6	-26.5	-6.5
1982	5.8	9.0	-6.5	1.2

Calculated from data in Economic Trends, December 1983

4. It should therefore come as no surprise to learn, from table 4, that the proportion of GDP used for public capital spending has fallen noticeably since 1978, bringing down the proportion used for all investment. (The proportion used for private investment stayed fairly constant over that period.) Table 4 also indicates that the proportion of GDP used for public capital spending is now at its lowest in the post-war era.

Table 4 Investment as a % of GDP (factor cost, expenditure based)

	Total	Private Sector	Public Sector
1948	13.8	7.4	6.5
1953	16.1	7.3	8.8
1958	17.6	10.3	7.3
1963	18.8	10.9	7.9
1968	21.8	11.7	10.1
1973	22.2	13.2	8.9
1978	20.8	13.9	6.8
1979	20.6	14.1	6.6
1980	20.1	13.8	6.2
1981	18.3	13.0	5.3
1982	19.0	13.8	5.2

Calculated from data in Economic Trends

International

5. Table 5 confirms that a smaller proportion of GDP is devoted to public capital spending in the UK than in most of our major competitors with the exception of the USA which has a relatively small public sector.

Table 5 Public Investment as % GDP and Total Public Spending 1981

	Total Government Outlays as % GDP	Public Spending on Fixed Investment as % GDP	Public Spending on Fixed Investment as % Total Govt. Exp.
USA	35.4	1.2	3.4
Japan	34.0	7.5	22.1
W. Germany	49.3	6.0	12.2
France	48.9	3.2	6.5
Italy	50.8	4.7	9.3
Canada	41.4	3.0	7.2
UK	47.3	2.7	5.7

Calculated from data in OECD Economic Outlook, December 1983

Annex B

Private Finance For Public Investment

1. There has been considerable debate about alternative methods of financing public sector investment projects. In 1981, at the request of the Chancellor, BIM suggested some potentially feasible methods such as private financing of specific projects, introducing equity to nationalised industries, joint venture companies and leasing of assets. However, the Government has not been very enthusiastic about these, or any other methods.

2. The main arguments against using private capital for public investment are:

   - that public projects would compete unfairly in financial markets because of the impossibility of bankruptcy and because their pricing policies could be influenced by their monopoly status;

   - that full privatisation would be preferable.

3. Nevertheless, NEDC has agreed criteria by which schemes for introducing private finance into public investment could be judged although there have been differences of emphasis over their interpretation. In brief:

   - the schemes should generate improvements in efficiency at least sufficient to offset any extra cost they involve;

   - the finance should be raised in fair competition with the private sector.

4. However no private finance has yet been introduced into either the nationalised industries or other public sector investment projects. This may be because the Government does not believe that the criteria have been met. However, it may be that the Government's commitment to its privatisation programme has reduced the impetus for finding a satisfactory method of introducing private capital to public projects.

5. Amongst the ideas which have been considered are:

   - a British Telecom bond in advance of privatisation. This was rejected on the grounds of non-practicality;

   - small-scale local schemes for combined heat and power;

   - a British Rail scheme for the Victoria-Gatwick rail link;

   - a privately financed Channel link;

- private design, construction, operation and financing of a sewerage treatment plant;

- the private financing of a seven mile dual carriageway link road in the West Midlands. The scheme has been approved by the West Midlands County Council and is awaiting Department of Transport approval.

Management House, London
CD/PC/ED11/BRIEF/BUDA1

30 January 1984

4.76

FROM: MISS M O'MARA
DATE: 22 February 1984

MR MUNRO

BUPA: BUDGET REPRESENTATIONS

The Chancellor was grateful for your note of 20 February.

MISS M O'MARA

From: N C Munro
INLAND REVENUE
TECHNICAL DIVISION
SOMERSET HOUSE

1. Mr O'Leary PRL 20.2.84
2. PS/Chancellor

20 February 1984

Thanks. NM

BUPA: BUDGET REPRESENTATIONS

1. Your note of 10 February.

2. It was the Revenue, not BUPA, who produced the figures quoted by the Chancellor; and the cost of income tax relief at marginal rates for all subscribers would be £m115 (ic. £m90 plus £m25). The Chancellor is right in supposing that these figures were based on existing subscribers only.

3. The joint paper submitted last month by BUPA, PPP and WPA appears to envisage - at least initially - tax relief only for premiums paid by elderly subscribers. But, since elderly subscribers are normally only taken on if they were members of the scheme before retirement, a substantial increase in the number of subscribers as a result of new tax relief would be unlikely.

4. DHSS estimate that there are 1.9 million non-elderly subscribers, of which perhaps some 0.8 million are aged 45 to 64. Of these, we estimate that each year some 40,000 reach age 65 ie. become elderly. On the basis that there are some 200,000 elderly subscribers, and assuming they were all members of the scheme before, we think the

---

cc PS/Financial Secretary
Mr Watson
Mr Lord

Mr Isaac
Mr O'Leary
Mr Calder
Mr Munro
Mr Milner
PS/IR

'drop out' rate on reaching age 64 is about 25,000 a year. In other words, under present circumstances about 15,000 subscribers remain in their scheme after reaching age 65.

5. I should emphasise that these estimates are highly tentative.

6. We have no idea how many more existing subscribers might elect to stay in their schemes when they become elderly, on the basis that their premiums would attract tax relief. If, out of the 25,000 'drop outs', 5,000 more decided to stay in, the additional cost in 1983-84 terms would be about £m$\frac{2}{3}$. If 10,000 stayed in, the cost might be £m1$\frac{1}{3}$ - both on top of the estimated £m25 for existing subscribers.

7. The estimated costings in the foregoing paragraph assume relief at marginal rates. If relief were given at a flat-rate of say 30 per cent, the cost for existing subscribers would be just over £m20. On the same assumptions as above, the additional cost if 5,000 and 10,000 more subscribers stayed in would be £m$\frac{1}{2}$ and £m1 respectively.

8. The advantage of any flat-rate relief is that a Premium Relief by Deduction basis could be used - this would keep manpower costs to a minimum. A system of relief at marginal rates, on the other hand, could entail a staff cost - please let us know if you would like further work done on the manpower implications.

Nem.

N C MUNRO

FROM: MISS M O'MARA
DATE: 10 February 1984

PS/INLAND REVENUE

cc PS/Financial Secretary
Mr Watson
Mr Lord

BUPA: BUDGET REPRESENTATIONS

The Chancellor recalls that BUPA estimated the cost of income tax relief, at the taxpayer's marginal rate, for all health insurance subscriptions as £90 million for 1983-84, or £25 million if the relief was restricted to those aged over 65. He assumes that this figure is based on the existing number of private health insurance subscribers and takes no account of the number of new subscribers who might be encouraged to take out private health insurance, if such a relief were introduced. He wonders if we can hazard a guess at the possible increase and produce revised costings on that basis.

MISS M O'MARA

BUPA,
Provident House,
Essex Street,
London.
WC2R 3AX

PPP,
Eynsham House,
Crescent Road,
Tunbridge Wells,
Kent.
TN1 2PL

WPA,
Culverhouse,
Culver Street,
Bristol.
BS1 5JE

9th January, 1984

-9 JAN 1984

Action FST

Dear Chancellor,

1984 Budget Submission; the Case for tax relief for health insurance

We have great pleasure in enclosing twelve copies of our 1984 Budget Submission.

Copies are being sent to the Secretary of State for Social Services.

Yours faithfully,

Mr. R.M. Graham
Acting Chief Executive
(BUPA)

Mr. G.D. Lock,
Managing Director
(PPP)

Miss D.V. Vicker,
Managing Director
(WPA)

Chancellor of the Exchequer,
The Treasury

FINANCIAL SECRETARY

PPS CST MST EST
Sir P Middleton
Mr Cassell
Mr Monger
Mr R I G Allen
Mr Griffiths
Mr F Martin
Mr Lord
PS/IR
PS/C+E

THE CASE FOR TAX RELIEF

FOR

HEALTH INSURANCE

1984 Budget Submission by

British United Provident Association
Private Patients Plan
Western Provident Association

9th January, 1984

BUDGET SUBMISSION

TO THE

CHANCELLOR OF THE EXCHEQUER

THE CASE FOR TAX RELIEF ON HEALTH INSURANCE SUBSCRIPTIONS

This document is a joint submission by the British United Provident Association (BUPA), Private Patients Plan (PPP) and the Western Provident Association (WPA). These three non-profit making provident associations together account for about nine-tenths of the health insurance market in the UK. The remainder is accounted for by the smaller provident associations and some commercial insurers.

BACKGROUND

2. The National Health Service is under very considerable pressure. The changing age structure of the population, advances in medical technology and the rising cost of health treatment have increased the demands on the NHS; at the same time slower economic growth in the decade since 1973 has meant that Governments have found it increasingly difficult to finance the NHS out of traditional revenue sources.

3. The financial pressures on the NHS are most apparent in the long waiting-lists for treatment. These have been rising over a long period:-

NHS HOSPITAL IN-PATIENT WAITING LISTS - ENGLAND

1959	447,000	(end year)
1969	532,000	(end year)
1979	688,000	(end year)
1980	640,000	(end year)
1981	630,000	(31 March)
1982	622,000	(31 March)
1983	730,000	(31 March)

(Source: HPSS Statistics; Parliamentary Written Answer, 14.4.83)

These long waiting-lists represent both need for treatment that is not satisfied and human misery that is not relieved. The people on the lists have been recommended for treatment by GPs and consultants; the lists therefore omit a further category of people with conditions requiring treatment whom GPs have not referred because of the length of the lists.

4. The growing public need which cannot be met by the NHS within a reasonable time is evidenced by the expansion of the private health sector. The private medical care bought with the help of benefits from BUPA, PPP and WPA has increased dramatically over recent years, as indicated in the following table:-

ESTIMATED % INCREASES OVER PREVIOUS YEARS

1978	3.1
1979	19.3
1980	48.9
1981	45.3
1982	31.0

(Source: BUPA, PPP, WPA)

The demand for more health care than the NHS can provide is also shown by the increase in the number of people covered by the three provident associations:-

NUMBER OF PERSONS COVERED (AS AT END YEAR) MILLIONS

1978	2.4
1979	2.8
1980	3.6
1981	4.1
1982	4.2

(Source: BUPA, PPP, WPA)

It must be very doubtful indeed whether the temporary fall in NHS waiting-lists over the years 1980 to 1982 could have occurred without the spectacular growth in private health treatment over the same period.

RECOMMENDATION

5. BUPA, PPP and WPA believe that the continued expansion of the private health sector is the best way to relieve the unsatisfied demand for heatlh treatment and therefore the strains on the NHS. The most effective way to increase the number of subscribers would be for the Government to encourage citizens to stand on their own feet by giving relief against income tax for the cost of private health insurance subscriptions. It must be stressed that the Provident Associations seek this tax change only for the benefit of their subscribers and the NHS: they themselves of course have no shareholders who could benefit.

REVENUE COST

6. We understand that the Government's own estimate of the cost of income tax relief, at the taxpayer's marginal rate, for all health insurance subscriptions is £90 million for 1983-84. If as a first step towards obtaining the full concession the relief was restricted to those aged over 65, the cost would be - we understand - only £25 million.

THE ARGUMENTS FOR TAX RELIEF

7. Equity. Health care is a necessity. There are other goods that society considers to be necessities too (though it may be questioned whether they really are as necessary as health care) : pensions, life insurance and housing. There is a State pension, financed (in principle) by a compulsory insurance contribution; but people are given tax relief for contributions towards a private pension. There is no State life insurance Scheme as such, but the State takes care of widows and orphans; and yet people are given tax relief for private life insurance premiums. There is public housing; but people are given tax relief on the interest payments they make in order to acquire a house. Equity requires that there should also be tax relief for health insurance subscriptions. The parallel with the first three fields is very close indeed: and in the case of pensions there is no material difference at all to justify the tax system's present discrimination against health.

8. While we can quite appreciate the need to keep the number of tax exemptions as small as possible, it is only fair and just that those exemptions which do exist should be consistent and equitable as between different groups of tax payers.

9. Freedom of Choice. As stated earlier, there is considerable unsatisfied demand for health care. If the Government encouraged the spread of health insurance, some of that demand would be satisfied. Tax relief would give people a greater say over how they spend their incomes and there is no doubt that some people would choose to spend more on health.

10. Efficiency through Privatisation. With a larger private sector there should be a more efficient supply of health care : market disciplines would be introduced. Some of the more cost efficient working practices could be useful to the NHS. The Government has shown itself willing to incur considerable costs in order to privatise certain nationalised areas; it would be strange if the Government's commitment to privatisation were to stop short of health where, after all, there is already a thriving private sector which is capable of considerable expansion given some encouragement.

11. Relief of the NHS and Financial Implications. Tax relief would greatly hasten the spread of private health insurance and so relieve the pressures on the NHS. How rapidly this would occur can only be guessed at; but there can be little doubt - particularly in the light of the figures in paragraphs 3 and 4 above - that with more people covered by health insurance there would quite soon be a lower pressure of demand on the NHS.

12. The tax change required to speed up the shift from public to private health care would incur the short-term revenue cost mentioned in paragraph 6 above. But this short-term revenue cost need have no long-term implications for the public sector borrowing requirement. As the volume of private health care increased and the pressure of demand on the NHS abated, it would be up to the Government to choose how to respond. It could reduce NHS spending below the level which this would otherwise have reached, and so perhaps save as much or more money as would be lost through the tax concession. Alternatively the Government could sustain the planned level of NHS spending while reducing the length of waiting-lists. In the latter case there would be a PSBR cost, but the welfare of the population would be higher and the extra resources being spent on health would be used more efficiently than would be likely if the increased spending on health were entirely through the NHS.

13. The gearing effect of a tax concession should be stressed. Assuming for the purpose of this argument an average marginal tax rate of 33.3%, every pound lost in revenue as a result of tax relief for the marginal subscriber would be offset by three pounds extra going into health care privately and therefore three pounds less would be needed by the NHS.

14. There are other more direct ways in which a vigorous private health sector helps the NHS financially. The income to the NHS from paybeds comes at present to over £50 million a year: with a larger private sector, the revenue would be greater. There is also some cross-subsidy to the NHS by virtue of the fact that consultants working for the NHS can augment their incomes quite substantially by doing private work, thus enabling the NHS to secure their services - and at a lower cost.

15. The Government's Commitment. The Government has a long-standing commitment to encourage the private health sector. The Right Approach, published in 1976, stated:

> "We should encourage rather than deter private provision. Increasing numbers of people have shown that they are ready to provide more for themselves; private medical insurance has doubled and redoubled over the last twenty years. It will be our aim to encourage this trend". (Page 60).

The commitment was re-affirmed in the 1983 manifesto:

> "We welcome the growth in private health insurance in recent years. This has both made more health care available, and lightened the load on the NHS, particularly for non-urgent operations. We shall continue to encourage this valuable supplement to State Care". (Page 28)

There would be no more effective way for the Government to stand by its commitment than to give tax relief for private health insurance subscriptions.

BUPA,
Provident House,
Essex Street,
London.
WC2R 3AX

PPP,
Eynsham House,
Crescent Road,
Tunbridge Wells,
Kent.
TN1 2PL

WPA,
Culverhouse,
Culver Street,
Bristol.
BS1 5JE

C
as foreshadowed at
your BUPA lunch. I suppose
it's conceivable it might come up
at NHealth Seminar
Mary
16/1

9th January, 1984

CH/EXCHEQUER
REC. - 9 JAN 1984
Action FST.
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.....
Miss D.V. Vicker,
Managing Director
(WPA)

Chancellor of the Exchequer,
The Treasury

THE CASE FOR TAX RELIEF

FOR

HEALTH INSURANCE

1984 Budget Submission by

British United Provident Association
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9th January, 1984

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6. We understand that the Government's own estimate of the cost of income tax relief, at the taxpayer's marginal rate, for all health insurance subscriptions is £90 million for 1983-84. If as a first step towards obtaining the full concession the relief was restricted to those aged over 65, the cost would be - we understand - only £25 million.

THE ARGUMENTS FOR TAX RELIEF

7. Equity. Health care is a necessity. There are other goods that society considers to be necessities too (though it may be questioned whether they really are as necessary as health care) : pensions, life insurance and housing. There is a State pension, financed (in principle) by a compulsory insurance contribution; but people are given tax relief for contributions towards a private pension. There is no State life insurance Scheme as such, but the State takes care of widows and orphans; and yet people are given tax relief for private life insurance premiums. There is public housing; but people are given tax relief on the interest payments they make in order to acquire a house. Equity requires that there should also be tax relief for health insurance subscriptions. The parallel with the first three fields is very close indeed: and in the case of pensions there is no material difference at all to justify the tax system's present discrimination against health.

8. While we can quite appreciate the need to keep the number of tax exemptions as small as possible, it is only fair and just that those exemptions which do exist should be consistent and equitable as between different groups of tax payers.

9. Freedom of Choice. As stated earlier, there is considerable unsatisfied demand for health care. If the Government encouraged the spread of health insurance, some of that demand would be satisfied. Tax relief would give people a greater say over how they spend their incomes and there is no doubt that some people would choose to spend more on health.

10. Efficiency through Privatisation. With a larger private sector there should be a more efficient supply of health care : market disciplines would be introduced. Some of the more cost efficient working practices could be useful to the NHS. The Government has shown itself willing to incur considerable costs in order to privatise certain nationalised areas; it would be strange if the Government's commitment to privatisation were to stop short of health where, after all, there is already a thriving private sector which is capable of considerable expansion given some encouragement.

11. Relief of the NHS and Financial Implications. Tax relief would greatly hasten the spread of private health insurance and so relieve the pressures on the NHS. How rapidly this would occur can only be guessed at; but there can be little doubt - particularly in the light of the figures in paragraphs 3 and 4 above - that with more people covered by health insurance there would quite soon be a lower pressure of demand on the NHS.

12. The tax change required to speed up the shift from public to private health care would incur the short-term revenue cost mentioned in paragraph 6 above. But this short-term revenue cost need have no long-term implications for the public sector borrowing requirement. As the volume of private health care increased and the pressure of demand on the NHS abated, it would be up to the Government to choose how to respond. It could reduce NHS spending below the level which this would otherwise have reached, and so perhaps save as much or more money as would be lost through the tax concession. Alternatively the Government could sustain the planned level of NHS spending while reducing the length of waiting-lists. In the latter case there would be a PSBR cost, but the welfare of the population would be higher and the extra resources being spent on health would be used more efficiently than would be likely if the increased spending on health were entirely through the NHS.

13. The gearing effect of a tax concession should be stressed. Assuming for the purpose of this argument an average marginal tax rate of 33.3%, every pound lost in revenue as a result of tax relief for the marginal subscriber would be offset by three pounds extra going into health care privately and therefore three pounds less would be needed by the NHS.

14. There are other more direct ways in which a vigorous private health sector helps the NHS financially. The income to the NHS from paybeds comes at present to over £50 million a year: with a larger private sector, the revenue would be greater. There is also some cross-subsidy to the NHS by virtue of the fact that consultants working for the NHS can augment their incomes quite substantially by doing private work, thus enabling the NHS to secure their services - and at a lower cost.

15. The Government's Commitment. The Government has a long-standing commitment to encourage the private health sector. The Right Approach, published in 1976, stated:

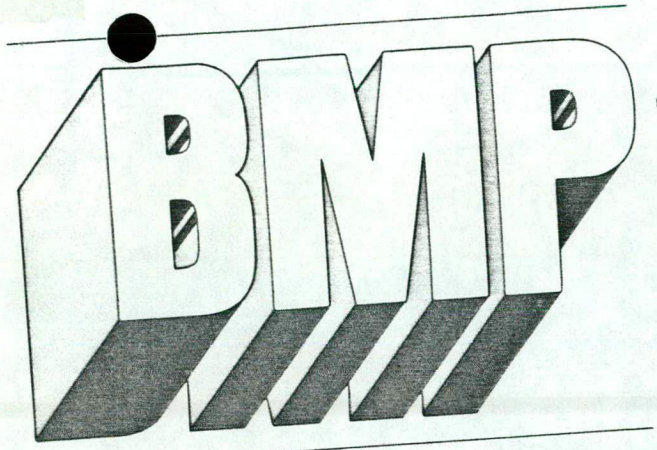
> "We should encourage rather than deter private provision. Increasing numbers of people have shown that they are ready to provide more for themselves; private medical insurance has doubled and redoubled over the last twenty years. It will be our aim to encourage this trend". (Page 60).

The commitment was re-affirmed in the 1983 manifesto:

> "We welcome the growth in private health insurance in recent years. This has both made more health care available, and lightened the load on the NHS, particularly for non-urgent operations. We shall continue to encourage this valuable supplement to State Care". (Page 28)

There would be no more effective way for the Government to stand by its commitment than to give tax relief for private health insurance subscriptions.

Budget ops



NATIONAL COUNCIL OF BUILDING MATERIAL PRODUCERS
33 ALFRED PLACE, LONDON WC1E 7EN
TELEPHONE: 01 580 3344

BR1.

HM TREASURY = MCU	
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SIGNATURE	
REF	14673

REC.	-6 FEB 1984
ACTION	PPS CST MST EST Sir P Middleton
COPIES TO	Mr Cassell Mr Monger Mr R I G Allen Mr Griffiths Mr F Martin Mr Lord PS/IR PS/C+E

2nd February 1984
1860/1

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
London SW1P 3AG

Dear Chancellor

I am writing on behalf of this Council to submit some brief comments on taxation matters which I hope you will consider when preparing your forthcoming Budget.

Mortgage Tax Relief

Although the increase in the level for tax relief on mortgage interest last year may have been seen in some quarters as a pre-election give-away, we know that your predecessor recognised the way in which the limit, unchanged since 1974, was inhibiting the expansion of the housing stock. We believe that the arguments in favour of an increase remain true today and we ask for a further rise in the limit. In particular we emphasise the effect on home improvements, which is often overlooked. Building societies in 1983 lent about £2 billion in further loans on dwellings. Such finance is invariably connected with home improvements as the societies do not generally make further advances unless the money is invested in the home. The CSO estimates that total expenditure on home improvements and repairs by occupiers is around £6 billion. Further advances by building societies are clearly a very significant factor in expenditure on repairs and improvements; if the limit is not raised an increasing number of householders will find themselves taxed on the interest on the further advance so the true cost of the improvement is increased by 43 per cent (more if the taxpayer is in a higher-rate bracket). BMP believes that the failure to raise the £30,000 limit will have an increasingly serious effect on the home improvement market especially in South-East England.

cont/...

DIRECTOR GENERAL NIGEL M CHALDECOTT
SECRETARY MICHAEL H F LORD
REGISTERED OFFICE 70 FINSBURY PAVEMENT, LONDON EC2A 1SX
REGISTERED IN ENGLAND, No 1438817

Industrial Building

The current definition of an industrial building for the purpose of capital allowances is unsatisfactory. BMP believes that what is necessary is a new approach to industrial use classification which would encompass all buildings, their associated services and private roads where the essential purpose is industrial.

VAT

BMP members share the deep concern of the building contractors about the threat of proceedings by the EEC Commission to require the levy of VAT on works of new construction. This would significantly increase the costs of building by institutional investors who would be bound to switch resources away from physical assets towards financial investments.

We believe that increased investment in construction can help the impetus of economic recovery and that any savings on current expenditure, plus the proceeds from asset sales, should be used for capital investment in our national infrastructure.

Yours sincerely

N M Chaldecott
DIRECTOR GENERAL

Budget mps

BRITISH INSURANCE ASSOCIATION

CHAIRMAN: J. J. HOWARD · DEPUTY CHAIRMEN: R. K. BISHOP · B. C. MARSHALL
SECRETARY GENERAL: R. C. W. BARDELL

ALDERMARY HOUSE,
QUEEN STREET, LONDON, EC4N 1TU

TELEPHONE: 01-248 4477

Reference: T. 2019(g)

1st February, 1984.

FINANCIAL SECRETARY
REC. -3 FEB 1984
PRS CST MST EST
Sir P Middleton
COPIES TO
Mr Cassell
Mr Monger
Mr R I G Allen
Mr Griffiths
Mr F Martin
Mr Lord
PS/IR PS/C+E

The Rt. Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
London,
SW1P 3AG.

Dear Chancellor,

1984 Budget - Policy Matters

In the absence of the Chairman in the USA if falls to me to send you the attached memorandum on policy matters which this Association would be very glad to see covered in your forthcoming Budget Statement and in the follow-up legislation.

I hope you will find our suggestions useful.

Yours sincerely,

Deputy Chairman

Enclosure:

BRT.

HM TREASURY – MCU
RECD. -3 FEB 1984
ACTION PS
2ND.
SIGNATURE
REF. No. 14660

BRITISH INSURANCE ASSOCIATION

1984 BUDGET STATEMENT

1. MEDIUM-TERM FINANCIAL STRATEGY

The Association fully supports the Government's objective over the medium-term of continuing to reduce inflation and to secure a lasting improvement in the performance of the UK economy, so providing the foundations for sustainable growth and employment. The firm financial policies followed by the Government are recognised to be an essential means to this end and the Association welcomes the success which has been achieved during 1982 and 1983 in reducing the rate of inflation.

2. REVENUE

The Association believes that there should be a lower burden of taxation for private business in order to improve competitiveness and encourage enterprise. The following measures are designed to achieve this objective for insurance business.

(i) National Insurance Surcharge

The Association welcomes the successive cuts that have been made in this surcharge during the past two years and urges that the surcharge should now be abolished to assist business to improve its competitiveness without adding to inflation.

(ii) Business Rates

The Association welcomes the Government's proposals to restrain abnormal increases in the level of business rates. The proposal to allow all businesses to pay rates by instalments from 1st April, 1985 is also welcomed.

(iii) Value Added Tax

The Association is concerned about the proposed revisions to the rules relating to partial exemption and to the place of supply of services. It is feared that these proposals will raise compliance costs and lead to value added tax entering into the cost of exported services. We urge that further consideration should be given to these proposals.

(iv) Stamp Duty

The Association welcomes the consultations that have taken place over the future of this tax. We are anxious to see the abolition of the tax on transactions in securities and also of the capital duty.

(v) Development Land Tax

This tax raises little revenue (Treasury estimate of £55m for 1983/84) and has a discouraging effect on commercial decisions relating to property. We therefore urge its complete abolition or, failing this, its suspension for a number of years to provide an incentive for an early start to development projects.

(vi) Corporation Tax

The Association welcomes the Government's decision to continue the existing system of corporation tax. Stability and certainty are important for business confidence. We believe that the following adjustments to the taxation base should be made to encourage enterprise and improve competitiveness.

The most important change we would like to see is for an inflation adjustment to be made to the taxation base for insurance companies to reflect their obligation by law to maintain a required solvency margin of assets over liabilities and the absence of any indexation allowance on the disposal of assets relating to general insurance business.

The existing system of granting capital allowances at various rates for expenditure on certain buildings should be revised to a standard rate of allowance granted for expenditure on any building occupied for business purposes.

The taxation system should be neutral as between the domestic and overseas earnings of UK taxpayers. We welcome Government proposals to ease this discrimination and we urge that the Government should go further to improve the effectiveness of double taxation relief by permitting the set-off of foreign taxes against UK advance corporation tax and permitting foreign taxes to be carried either forwards or backwards for credit relief purposes.

3. GOVERNMENT EXPENDITURE

The Association welcomes the Government's determination to restrain public expenditure. We also welcome the recent proposals on regional aid that seek to remove the existing discrimination against service industries and urge that this new approach should be extended to all forms of Government aid to business, many of which continue to provide benefits applicable only or mainly to manufacturing and other "production" industries.

Reference: T. 2019(g)
1st February, 1984.

Budget reps file

BRITISH NATIONAL COMMITTEE
INTERNATIONAL CHAMBER OF COMMERCE
CENTRE POINT, 103 NEW OXFORD STREET
LONDON WC1A 1QB
Telephone : 01-240 5558

CH/EXCHEQUER
REC. 02 FEB 1984
ACTION EST
COPIES TO

HRR/DAC

30 January 1984

The Rt Hon Nigel Lawson, MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

FINANCIAL SECRETARY
REC. -3 FEB 1984
ACTION PPS CST MST EST
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Mr Cassell
Mr Monger
Mr R Allen
Mr Griffiths
Mr F Martin
Mr Lord
PS/IR
PS/C+E

Yours Chancellor.

The members of the ICC United Kingdom, the British affiliate to the International Chamber of Commerce, have asked me to invite you to consider the following points when considering the 1984 Budget. They are all directed at the improvement of the competitive position of British based companies and Groups. Some points have been made in previous submissions but they continue to be relevant.

1. Improving the effectiveness of Double Taxation Relief

(a) Firstly we welcome the Government's acceptance of at least two of the points which we have been making for some years i.e. the need to allow credit for foreign taxes against UK Corporation Taxes before setting off ACT, thus permitting fuller utilization of such foreign tax credits, and providing for carry back of ACT - if only over a rather long transitional period. We look forward to full implementation in the next Finance Act.

(b) The more serious problems of excess and unrelievable ACT remain for a number of our members who have very substantial overseas interests. The income from these sources has frequently borne high rates of foreign underlying and withholding taxes and ACT payable in the UK on dividends paid out of this foreign income is thus effectively a further UK withholding tax (at a

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Chairman: Sir Peter Macadam — Deputy Chairman .K.Durham — Joint Hon. Treasurers: W.K.Gardener. A.G. Tritton
Director: G.N.F.Wyburd — Deputy Director: A.H.J. Muirhead

rate of three-sevenths of the dividend). We urge you to permit the set off of foreign taxes against the UK ACT. At the very least it would be equitable if foreign withholding taxes were offsettable so that UK individuals investing abroad via UK companies are in no worse position than direct investors in overseas companies.

(c) The UK is not nearly as generous in the way it affords double tax credit as other developed countries such as the USA and Japan. It behoves the Government to do what it can to help the UK corporate sectors competitive position by obviating the loss of tax credit which currently occurs. We propose the ability to average foreign taxes combined with a two year carry back and six year carry forward as the minimum changes necessary. The precedents set by Japan and the US have been followed in other areas such as CFCs - the proposed legislation on Controlled Foreign Companies - it would be reasonable to follow similar precedents in the area of tax credits too.

(d) The application of UK source rules and legal principles to foreign situations continues to cause problems. It is not always possible to satisfy the basic UK requirement for double taxation relief i.e. that the foreign tax should relate to income arising in that territory. Thus technical service fees taxed in countries such as Pakistan or various S. American countries have a local source under local rules but a UK source under ours. Alternatively the local tax may be levied by reference to turnover rather than net income as under the UK system - again technically no relief may be due. The differences of approach frequently arise in third world countries and it would be reasonable for a pragmatic concessional approach to be adopted by the UK.

(e) I reiterate the point made in previous years regarding time limits for claims for relief such as Group Relief, ACT, set offs etc consequent upon a late change in double taxation relief which itself is covered by Sec 512(2). The fact is that in many cases the time taken to settle corporate taxes in some of the less developed countries is extremely long and it is hard for the UK shareholders in such companies if the consequences of such changes lead to a net additional burden which might be avoided by a more realistic approach to time limits in the UK. It should be made clear by a change in the law or administrative practice that Section 512(2) covers all consequential adjustments to UK liability - whether by the Company itself or the Group to which it belongs.

.../...

2. Overseas Tax Sparing

We repeat the request to provide tax sparing relief on a unilateral basis so that the tax concessions ("pioneer" and similar reliefs) offered by less developed countries are not rendered worthless by the UK system. The expansion of the Double Taxation Treaty network is too slow to deal with this pressing problem.

3. Tax Relief for Exchange Losses

The pound has now fallen to US$1.40 or so and this in the course of 1983 a year when all the pundits forecast a weakening of the dollar. The exchange losses suffered or at the very best accrued in respect of dollar borrowings have been substantial. Once again the UK corporate sector which has borrowed abroad in the past - frequently at the behest of Governments operating exchange controls - has suffered a cost unrelieved for tax purposes.

The principle of tax relief for exchange losses on borrowings - whether long term or on current account - has been accepted by most developed countries with which UK companies compete e.g. USA, Germany, Holland. Certain business sectors within the UK are able to generate appropriate reliefs by way of "currency roundabouts" and similar arrangements but such devices are not open to all. In the interests of both equity within the UK and an improved competitive position outside it we believe it really is time that this very severe problem was faced by Government and the Revenue. It has been a feature of representations to the UK Government since 1974.

We recognise that there are severe Budgetary implications if full relief were to be given for past losses. Our suggestion is that the law should be changed for the future with both profits and losses made taxable/tax allowable and with suitable transitional provisions to prevent any recovery of past losses being taxed. This would permit UK companies to borrow those currencies considered cheapest overall, including potential currency appreciation without worrying about the deductibility for tax purposes of currency losses/interest costs. The urgency of this matter cannot be over emphasised.

This Committee believes that the maximum flexibility should be available to businesses to permit funds to be raised as cheaply as possible. The very welcome moves on Deep Discount Bonds and the payment of Eurobond Interest free of UK withholding tax indicate that the Government has begun to accept this argument. Similarly the proposed extension of

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relief for expenses incurred in issuing equity related loans suggests that the principles involved are not immovable. We urge you to grasp this nettle of currency losses as soon as possible.

4. Group Treatment of Capital Gains and Losses

Again we add our voice to the many which have suggested that capital gains and losses within groups of companies should be aggregable. This is not merely an administrative convenience. While it is true that potential capital gains taxes on UK assets can be dealt with by transferring relevant assets to a 'pooling' company within the Group before disposal this is not always effective when assets are held in other countries.

You will be aware that certain countries such as India/Nigeria and in some circumstances the USA (FIRPTA provisions) seek to assess capital gains even on a straight forward reorganisation within a UK Group. Similar situations arise even among our EEC partners. Thus an intra group transfer of shares in an Italian subsidiary company (prior to resale outside the UK Group) will result in Italian Capital Gains Tax. This gain is not exempt under the UK/Italy Double Taxation Agreement because no UK capital gains tax results; it would have been if the sale to the third party had been made directly. Furthermore, such Italian tax as is levied cannot be offset against UK tax arising on the subsequent sale outside the UK Group since that is a quite different transaction. The ability to group losses and gains would have obviated all risk of foreign taxes under the relevant Double Taxation Agreement or at least permitted credit for the foreign tax paid.

5. Roll-Over Relief for Chargeable Gains on Share Disposals by Companies

There are many cases where UK companies have to dispose of shares in overseas companies in order to comply with Government legislation promoting local participation in such companies. If the UK company were able to invest the whole proceeds, it could expect to maintain its income; but the significant UK tax take on the gains, gains which have often been made over decades, prevents this. If gains could be 'rolled-over' this problem would be solved.

In principle we strongly believe that 'roll-over relief' should be available to companies in respect of gains from the sale of any trade investment - whether UK or foreign. If it is not considered possible to grant relief in respect of all such gains then it would be equitable to do so where the gain is 'forced upon' the parent by way of 'domestication' regulation in an overseas country.

.../...

6. Financing Overseas Subsidiaries - Interest and Capital Loss Relief

This is another topic on which we have frequently made representations. There are two aspects :

Interest Payments : The Revenue generally insists that if loans are made to overseas subsidiaries they should bear interest (Sec 485(6) is applied). If the business situation is such that the subsidiary cannot afford interest or the local capitalisation rules prevent interest being paid the only way out is to inject equity. This is expensive (local capital duties), inflexible (the amount of investment is fixed and cannot easily be repaid) and, most importantly, not what the businessman would do given a free hand. We believe interest free loans should be permitted provided only the Revenue is satisfied that the objective is not simply tax avoidance.

Capital Losses : Capital loss relief cannot be obtained on intra group non trading debts unless the debt owed by a subsidiary is a debt on a security. This again puts barriers in the way business normally acts. We believe that all investment in a subsidiary - whether by way of equity, debts or a security or mere current account loans - which is lost should qualify for capital loss relief if the capital is genuinely lost. Section 136 Capital Loans Tax Act 1979 should be extended to cover intra group loans whether to domestic or foreign subsidiaries and associates; at worst relief should be available in respect of such loans to foreign subsidiaries/associates. If follows of course that gains on such loans resulting from currency movements would also be subject to capital gains tax.

It is perhaps worth pointing out that a new subsidiary is frequently financed by way of current account loans. If the project is not immediately successful further injections of cash may be made in the same way. The question of conversion to loan stock - debts on a security - may be raised at a subsequent date to try to protect the capital loss relief but the capital gains tax basis of the new loan stock will frequently then be challenged by the Revenue. The right to convert the original current account loan to a debt on a security at the original value would be useful but the simpler solution is to allow the original loan to be treated as a chargeable asset for capital gains tax purposes.

Again this request is designed to remove a rigid and bureaucratic approach to an area where the maximum flexibility is needed by businesses.

7. Taxation of International Business - Controlled Foreign Companies

While we are glad to see that the Government has moved still further from the original proposals and we welcome the publication of a list of exempt countries, we remain

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unconvinced that the "scattergun approach" of the legislation is appropriate. We strongly believe that the Government should act only against the specific abuses which all recognise in their present form. The proposed legislation will reduce British competitiveness at the very time when the USA is introducing proposals such as that providing "safe haven" exemptions for Foreign Sales Corporations.

If, in spite of the damage which could be done, it is considered necessary to introduce legislation along the lines of the present proposals there remain a number of important aspects which require to be changed. These range from the whole question of what foreign taxes should be taken into account in determining whether income has suffered lower rates of tax to the treatment of holding companies and the motive test. We shall be making full comments very shortly.

8. Unitary Taxation

You have already received our views on this subject. We welcome the action the Government has taken in making representations to both President Reagan and the Working Group set up by him. You should know that the International Chamber of Commerce has made representations to the President via the US Chamber. (A copy is attached for your use.)

9. Consortium Relief

We see no good reason why consortium relief should be refused to UK resident members of a consortium simply because one or other of the members is not a UK resident. In view of the commercial use of consortia in relation to joint venture operations with foreign business we believe Sec 258 Taxes Act 1970 should be amended to permit consortium relief to the UK resident members.

10. Eurobond Interest

While welcoming acceptance of the need to pay this interest gross we regret the impediments to a straight forward application of the rules so that all such interest on quoted Eurobonds is paid gross regardless of the location of the person "by or through whom" payment is made. All interest on quoted Eurobonds should simply be payable gross. This would recognise the market imperatives. This would keep work which can properly be done in the UK in this country. There would be no enhanced opportunity to evade UK tax.

.../...

We also believe non quoted Eurobonds i.e. private placements should be given similar treatment though here we would accept the need to demonstrate residence outside the UK.

We shall write at greater length to the Inland Revenue about these points but shall be glad to discuss the matter with your officials.

Yours sincerely

Sir Peter Macadam
Chairman

Enc.

INTERNATIONAL CHAMBER OF COMMERCE

Economic Secretariat
1983-11-03 MCP/DW

Document No 180/223
Original nd

COMMISSION ON TAXATION

STATEMENT ON UNITARY TAX SYSTEMS

adopted by the Commission at its meeting of 15 September 1983.

The International Chamber of Commerce (ICC), whose Members represent all economic sectors of international trade, in developed and developing countries, has closely followed the evolution of unitary tax assessment in the United States, a system which multiplies the risk of double taxation. In the 1970's, this became an international issue as the State of California attempted to extend its tax to foreign affiliates of resident companies, including affiliates of non-US corporations doing business in California. The ICC was led to adopt a Resolution (Document No 180/195) which opposed unitary systems of taxation and recommended that, in order to avoid double taxation in all cases where the taxation policies of political subdivisions extend to non-domestic operations, governments should ensure that the terms of an agreement or treaty dealing with taxation of income should bind all authorities having jurisdiction within the boundaries of each contracting State.

The ICC regrets that, since 1979, the US Government has not sought to include provisions such as those referred to above in double taxation agreements which it has concluded with other governments. However, the ICC notes that a number of countries that are parties to Treaties of Friendship, Commerce and Navigation with the United States take the position that those treaties, which bind the states of United States, forbid worldwide unitary taxation of companies of the treaty parties. Furthermore, it notes with concern the US Supreme Court's decision of June, 1983 in Container Corp. of America v. Franchise Tax Board supporting the application of California's unitary system of taxation to a domestic US corporation. While this decision is limited on its face to the tax assessment of a US corporation, and does not deal with the possible impact of US Treaties of Friendship, Commerce and Navigation, it is likely to have international consequences. In particular, it can but discourage trade and investment in the United States by the international business community, discourage investment abroad by US companies, and encourage retaliatory legislative measures by other governments, thereby affecting both US and non-US corporations.

...

It is important that the Supreme Court's approval of unitary tax systems not be extended to the application of such systems to resident US subsidiaries of non-US companies. This action would involve serious policy questions of extraterritorial application of national laws and would draw into question the effectiveness of US Treaties of Friendship, Commerce and Navigation. It would also burden a company with enormous operational problems, such as coordinating the accounting systems for its subsidiaries worldwide, systems which often vary from country to country.

For these reasons the ICC reaffirms its opposition to unitary systems of taxation and maintains that "as a general rule tax should be based on a fair measure of income as computed by reference to the amount which could be expected to arise between independent parties dealing at arm's length".

The ICC urges the Executive and Legislative Branches of the US Government to endorse federal legislation precluding recourse to the unitary system of taxation for business carried out by resident affiliates of non-US corporations and to include parallel provisions in their tax treaties with other nations. Should questions arise in litigation on the use of this method of taxation, the ICC urges the Executive branch of the US Government to express its views on the application of unitary tax systems to resident affiliates of non-US corporations.

-:-:-:-:-:-:-

British Road Federation Ltd
Cowdray House
6 Portugal Street
London WC2A 2HG
Telephone 01-242 1285
Cables Briroadfed London WC2

Chairman A. P. de Boer CBE Director: David Gent

Budget 1984

British Road Federation

APdeB/MRW

CH/EXCHEQUER
REC. 07 FEB 1984
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COPIES TO

3 February 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury
Parliament Street
SW1P 3AG

Dear Chancellor,

I know that in your forthcoming Budget you are being pressed to introduce tax measures to reduce the burden of personal taxation and to assist industry. The Government also continues to receive representations which, rightly, emphasize the importance of increasing public sector capital investment.

It may seem impossible to tackle these three objectives simultaneously without loosening the Government's fiscal stance. Yet the British Road Federation has recently suggested an innovation which could achieve this. The Federation's proposal would offer individuals the opportunity to reduce the taxation of the returns on their savings. These savings would then be channelled into public sector capital investment which would be of great benefit to the construction industry, with its exceptionally high level of unemployment and excess capacity.

The last Conservative Government introduced some tax measures to direct personal savings into productive investment. You will certainly wish to continue this policy. The steps which have been taken to date, notably the Business Start-up and Expansion Schemes, offered tax incentives for personal savings to be channelled into private sector companies. The British Road Federation believes that some areas of the public sector should benefit similarly. However, those areas which should gain need to be clearly defined. One such area is public sector non-housing construction.

This type of investment cannot easily be undertaken by the private sector. It includes roads, other transport investment, sewerage and water supply. To illustrate this difficulty of "privatising" this type of investment, I would like to draw your attention to a proposal to privately finance a 7 mile stretch of local authority road in the West Midlands. The proposal was submitted to the Government last Summer, but no formal reply has yet been received, we understand because of Treasury concern that this form of finance could be more costly than conventional public funding even though:

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Registered in England No 271696 Registered Office as above

- the proposals put forward would mean that the very considerable benefits which should be generated by the road would be available to set against the amounts payable; and

- if the benefits from the road fall short of present forecasts a commensurate part of the costs will be carried by the private sector financiers.

The decline of public sector non-housing construction output - 41% in real terms in the decade 1972-82 - has left a void which has not, and essentially cannot, be filled.

I therefore ask you to consider seriously the British Road Federation proposals explained in the following paragraphs.

The best alternative to privatising public non-housing construction is to encourage the personal sector to lend funds to the public agencies who can undertake the work. In many cases these are local authorities. Local authorities are presently extremely reluctant to borrow directly from the public or on the capital markets because of the inter-action between the high cost of servicing debt and their revenue expenditure targets. Local authorities and other public agencies should therefore be given permission to issue zero coupon or deep discount bonds to finance certain clearly defined capital projects. The annual interest charge on such borrowing would either be nil, or of very small proportions, hence removing one of the major obstacles to raising finance.

The 1972 Local Government Act does not allow local authorities to issue bonds at a discount exceeding ¼% per annum over their life to maturity, with a maximum discount of 5%. The Exchequer is not subject to these limitations. Neither are companies. The Act should be amended.

Apart from giving permission to local authorities and other public agencies to issue zero coupon or deep discount bonds, the tax treatment of these bonds from the investors standpoint must be clarified. To be attractive, and offer the prospect of reducing the tax burden on personal savings, the capital gains on zero coupon or deep discount bonds must be treated inequivocably as such for tax purposes and not made liable to income tax. The Government must therefore go much further than it did in its proposals for the tax treatment of such bonds issued by companies, first made in the 1983 Budget.

As an alternative to zero coupon or deep discount bonds, you might wish to consider allowing the issue of (income) tax exempt bonds. This concession is allowed to municipal authorities in the United States.

(over)

The sums which would have to be raised in this way, and the consequent loss of tax revenue to the Exchequer, need not be great. As far as roads are concerned, local authorities in England are expected to underspend the Government's planned budget for construction of £528 million by £80-90 million. If permission had been given to issue £100 million of zero coupon or deep discount bonds with sufficient advance warning, much of this underspend might have been eliminated.

The result would have been more roads, more work for the construction industry and the opportunity for thrifty individuals to reduce their tax burden.

I therefore hope that you will seriously consider implementing the Federation's proposal in your 1984 Budget. A start can then be made in reversing the reductions in vital areas of public sector construction which have occurred in recent years. This letter has not been written for publication.

Yours sincerely

Tony de Boer

A P de Boer
Chairman

Budget/ops (Pmg)

BANQUE PARIBAS

INCORPORATED IN FRANCE WITH LIMITED LIABILITY

TELEPHONE: 01-588 7557
TELEX: LONDON 886055
TELEGRAMS: PARIBAS LONDON EC2

33 THROGMORTON STREET,
LONDON EC2N 2BA

MANAGEMENT

FINANCIAL SECRETARY
REC. -6 FEB 1984
PPS CST MST EST
Sir P Middleton
COPIES TO: Mr Cassell, Mr Monger, Mr R I G Allen, Mr Griffiths, Mr F Martin, Mr Lord
PS/IR PS/C+E

HM TREASURY – MCU
RECD. -3 FEB 1984
ACTION FST
SIGNATURE
REF No. 14662

The Right Honourable Nigel Lawson, M.P.,
H.M. Treasury,
Parliament Street,
London S.W.1.

2nd February, 1984.

Dear Mr. Lawson,

BUSINESS EXPANSION SCHEME

As a City based merchant banking professional engaged in attempting to raise equity funds for individual start-up businesses under the Business Expansion Scheme, I would like to place on record with your office the principal frustrations we are starting to experience in this market. The two main problems were dealt with, in fact, in the Financial Times leader of January 31st under the heading "Finance for Small Firms":

I The extension of relief to established companies as well as the riskier area of start ups ;

II The key question of which ventures are now attracting support.

The FT pointed out that the likelihood of established companies attracting the lion's share of available money is "acceptable so long as finance available for start-ups does not dry up". It appears to us that the risk of "crowding out" the start-up business is probably at least as great from property or land related projects that seem to clearly offend the spirit at least of Business Expansion Scheme legislation, especially as the money sought for such schemes is in such large amounts. The £15 million currently being solicited from investors for a farming scheme also mentioned in the FT (against approximately £30 million attracted for all Business Expansion Scheme projects to date) seems a significant case in point.

We surmise that the BES was (imaginatively) introduced to stimulate the economy by regenerating an environment in which small businesses can be established and once established, to flourish, thereby creating employment especially in industrialised regions.

... / ...

There appears a real danger that the mere £1.4m required for a project of this very type on which we are currently engaged, and which will, like the farming scheme qualify for tax relief, could actually be "crowded out" by this same attractive scheme, if preliminary reaction we have received from stockbrokers is an accurate indication.

May I, therefore, support the conclusion of the Financial Times, that "the Government needs to examine whether it is feasible to tighten up the rules (without creating too much complexity) so that the original aims of the scheme can be fulfilled"?

It would be helpful if a hint of any such deliberations could be dropped ahead of the forthcoming Budget proposals!

Yours sincerely,

James Stewart

J.A. Stewart

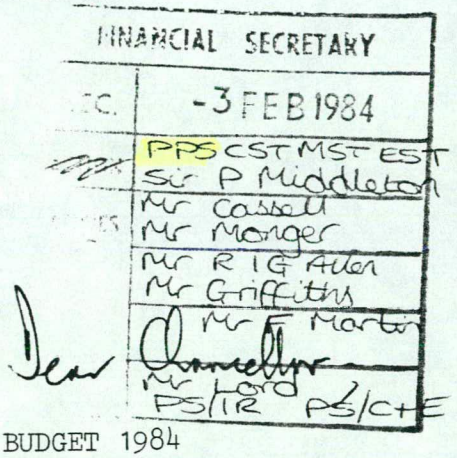
From the President

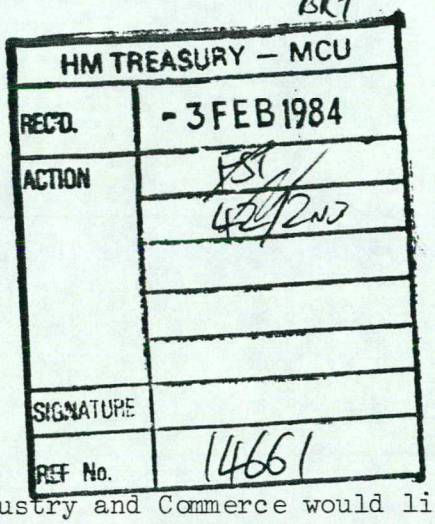
BIRMINGHAM CHAMBER OF INDUSTRY AND COMMERCE
P. O. BOX 360, 75 HARBORNE ROAD, BIRMINGHAM B15 3DH
TELEPHONE 021-454 6171 TELEX 338024
(REGISTERED OFFICE)

The Rt. Hon. Nigel Lawson, M.P.,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
LONDON,
SW1P 3AG.

Our ref BUD/B/RWF/PE

Date 2nd February 1984





BUDGET 1984

The Birmingham Chamber of Industry and Commerce would like to take this opportunity to present to Government the following proposals for the forthcoming Budget.

The Chamber's representations this year are made against a background of continuing Government success in maintaining a low rate of inflation. Nevertheless, we are sure you will be aware that the West Midlands remains one of the most economically depressed regions of the U.K. Consequently, the dominant theme behind our proposals is that there must be determined Government effort to lighten the burden of industrial costs in order to help domestic companies become more competitive in closely contested markets at home and abroad.

West Midlands Chambers of Commerce are, however, encouraged by the outcome of their latest survey among some 400 companies, large and small, in the region. Order books, both home and export, are on an upward trend. It is vital that the forthcoming Budget introduces measures which will turn encouraging signs into firm reality. Our survey provides an opportunity for companies to highlight factors which they believe are important for their future prospects. Those which topped the list in the latest results are the need to curtail interest rates and, of course, a reduction in local authority rates. Birmingham City Council is playing its part by lowering the rates for the second year running. We should very much like to see Government action on the former.

Continued ...

We believe it is possible for the Government to take a number of steps to encourage industry, in a manner which will not set Britain back on a course of spiralling inflation. We urge you to adopt the following few, but vital, measures:-

National Insurance Surcharge: Last year's Budget brought about a welcome reduction in this tax on employment. However the Surcharge is still a significant factor in industry's costs, and we are looking to the forthcoming Budget for its abolition.

Personal Income Tax: We believe that the improvement of personal incentive, and an attack on the poverty and employment traps can be brought about by increases in income tax thresholds. This has a number of advantages over moves to adjust tax rates. Notably, it leads to a reduction in administrative and collection costs, whilst at the same time encouraging employed people at the lower end of the wages ladder.

Benefits in Kind: We continue to lay great emphasis on the need for more equitable taxation of benefits in kind. At present, employees earning in excess of £8,500 are classified as "higher paid". A revision of this earnings limit up to a more realistic level is long overdue. We also believe that the Government should broaden its treatment of the taxation of benefits in kind, and should no longer concentrate for revenue - raising purposes on car and car fuel benefits.

Small Firm Schemes: Chamber members welcomed the extent of the help given to small firms in last year's Budget package. After consulting widely, the Chamber is more convinced than ever of the value of the Government's Loan Guarantee Scheme. We place a great deal of importance on its life being extended beyond the original May deadline. Consideration should be given to certain minor amendments to the scheme. First, the scheme would be much improved by a reduction in the 3% premium which is payable at present. Second, there appears to be a strong case for establishing a Government monitoring system over the scheme to tighten up its operation.

The Chamber believes that the Government should take credit for the development of the highly attractive "Business Expansion Scheme". Thought needs to be given, however, to widening the scope of the scheme to permit reasonable participation by, and remuneration of, non-executive directors. This would encourage an increase in responsible and worthwhile investment.

We are very concerned, as are all Chambers of Commerce, with fostering the ability of U.K. companies to compete in increasingly difficult markets. Competitiveness is fundamental to the future health of our

Continued ...

economy, and the need to curtail industrial costs in every possible way is paramount. It is essential that the Government should give real assistance in this area since this would go to the heart of companies' needs in a way which official schemes of assistance and encouragement cannot do, however well intentioned.

Yours sincerely

R.W. FORDHAM
President

Director General : M. B. ALTON, F.C.I.S., A.T.I.I.

BRITISH JEWELLERS' ASSOCIAT..

A Member of the British Jewellery and Giftware Federation

Registered Office: *Registered No. 69391 England*

Saint Dunstan's House · Carey Lane · London · EC2V 8AA

Telephone: 01-606 0871 (3 lines)

Chancellor of Exchequer
Rt. Hon. Nigel Lawson M.P.
The Treasury
11 Downing Street
LONDON S.W.1.

HM TREASURY – MCU
REC'D. 27 FEB 1984
ACTION FST 42/2/84.
SIGNATURE
REF. No. 15689

MBA/SY

21st February 1984

Dear Chancellor,

VALUE ADDED TAX

I would refer to the article in the 'Financial Times', dated 20th February in which it appears that the Government is considering ending the eleven week grace period in paying VAT, which is enjoyed by importers.

The manufacturing jewellers and silversmiths in this country have been concerned at this grace period because it is, effectively, giving importers a hidden advantage, very much to the detriment of the manufacturing industry.

In the present economic climate our manufacturing business welcomes any support which it can be given, but even more,it would welcome the removal of a hidden subsidy of this nature.

We would, therefore, ask you to give earnest consideration to proposing "equalising legislation" in the forthcoming Budget, with the knowledge that it will assist the manufacturing industry.

Yours sincerely,

M B Alton
Director General

FINANCIAL SECRETARY
REC. 28 FEB 1984
~~ACTION~~ PPS CST MST EST Sir P Middleton
COPIES TO Mr Cassell, Mr Monger, Mr R I G Allen, Mr Griffiths, Mr F Martin, Mr Lord, PS/IR PS/C+E

From: Graham Bright, M.P.

Bright reps

HOUSE OF COMMONS
LONDON SW1A 0AA

ACTION PS/11C

CHIEF SECRETARY	for brief notes on these
REC.	17 FEB 1984
ACTION	PPS, FST, EST, MST
COPIES TO	S. P. McIlvenna, Cassell, Mayes, 11C Allen, Parkillo, Lovell, Monck, Chivers.

16th February, 1984

Dear Peter,

Many thanks for agreeing to see us together with Brian Jenks.

Those of us who will be coming will be Henry Bellingham, John Browne, John Townend, Brian Jenks and myself.

I thought it would be a good idea to send you some papers outlining the various points that we are pushing for the Budget so that we can probably have a very useful exchange. Please find these enclosed.

Yours sincerely,

Graham

Peter Rees Esq., Q.C., M.P.,
House of Commons

1984 BUDGET PROPOSALS

CONSERVATIVE BACK BENCH COMMITTEE FOR SMALL BUSINESS

The Back Bench Committee for Small Business is well aware of the many measures which have been taken by the Conservative Government since 1979 to assist small business. In particular, it has welcomed the loan guarantee scheme and the business expansion scheme and the committee hopes that the review of this scheme will ensure that it becomes permanent and that it is extended in a number of respects, as explained later in this memorandum. The business expansion scheme which started life as the business start-up scheme is imaginative and has gained the support of business, individual investors and their advisers. It is to be hoped that this scheme will provide a major source of equity capital for small businesses in the years ahead.

The committee has reviewed a number of proposals for amendments or introduction of legislation which would assist small business. However, it recognises that, following considerable assistance in the last four years, there is a need for consolidation and a need to improve communications as to the forms of assistance which are available.

Of primary importance to small business people is the reduction of income tax and corporation tax. The committee hopes that it will be possible to reduce both these taxes over the next two or three years. Meanwhile, the committe's proposals have been limited to a small number of items which are regarded as important and immediately beneficial to those concerned with small business.

1. Corporation Tax

a. Graduated corporation tax with nil rate for the first £5,000 of profit. Details of the proposal are set out in Appendix 1(a). The proposed rates of tax for the lower bands of profit are as follows:-

	Rate of Corporation Tax
First £5,000	nil
£5,001 to £10,000	10%
£10,001 to £15,000	15%
£15,001 to £30,000	25%
£30,001 to £45,000	35%
£45,001 to £60,000	45%
£60,001 upwards	52%

/..2

It is suggested that these rates would apply to all companies. Such a proposal would be easy to administer but more expensive in tax terms. However, it would be feasible to limit the proposal to unquoted companies and to trading income.

b. Enterprise Bonds:- Independent trading companies would be permitted to purchase enterprise bonds and treat the cost as a deduction from taxable profits. When redeemed the proceeds of the bonds would be taxable. Details of the proposal are attached at Appendix 1(b).

2. Business Expansion Scheme

The business expansion scheme has attracted interest and money from investors to a much greater extent than the former business start-up scheme. Businesses requiring risk capital have begun to appreciate that BES should enter into their considerations and, on the other hand, investors now appreciate that BES can provide them with an interesting and possibly successful investment with the added benefit of substantial income tax relief. We believe that the scheme is working and we accept that the Chancellor will want to see whether it is operating in line with his expectations before making any amendments. However, it seems likely that in due course the scheme will need to be developed to meet some of the difficulties which are experienced by the investor who at present has to make a direct investment into a single unquoted trading company or investments in a number of companies through the medium of an Approved Fund.

We would like to suggest that Small Firms Investment Companies (SFICs) should be considered as an alternative to Approved Funds. The business expansion scheme provides for investment either direct into a qualifying trading company or through an Approved Fund. Both these mediums have disadvantages; first the problem of selling the investment either before or after the expiry of the five year period; second, the delay in obtaining tax relief; and third, the fees which may be charged to the investor and to the company requiring capital by the fund managers. Attached at Appendix 2 is a summary of the proposed structure and functions of a SFIC.

3. Loan Guarantee Scheme

As stated above the Back Bench Committee reconfirms its support of the loan guarantee scheme. In reviewing the scheme it is suggested that two areas should be subject to amendment:-

/..3

a. The maximum loan should be increased to £250,000.

b. The premium should be eliminated so that the rate of interest charged to the customer on a loan made under the scheme is reduced.

These proposals are dealt with in more detail in Appendix 3.

4. Capital Gains Tax

As a result of the indexation allowance introduced in 1982 capital gains tax has become a very complicated tax requiring much time to be spent by taxpayers, advisers, and Inland Revenue officials. Over the period of this parliament, it is hoped that steps will be taken to simplify the tax, perhaps by exempting longer term gains.

Even the existing regulations are inequitable in cases where assets have been held for many years prior to 5 April 1981. We propose that there should be indexation from the date of acquisition or 5 April 1965, not simply from 31 March 1982 as at present. Details of the proposal appear in Appendix 4.

5. Capital Transfer Tax

a. Introduce roll over or hold over relief when transferring businesses and agricultural property to the next generation of managers. Details of the proposal are given in Appendix 5.

b. Introduce index-linked certificates of deposit for payment of capital transfer tax at a later date. This is a repeat of a previous recommendation. It would enable an individual to purchase index-linked certificates of deposit for payment of capital transfer tax at a later date or on his death. The index-linked certificates would not form part of his Estate for the purposes of calculating capital transfer tax.

Graduated Scheme of Corporation Tax without Marginal Rate Penalty

There is a need to encourage retention of funds by small companies. Considerable help has been given, notably the abolition of the shortfall distribution provisions relating to trading income, the reduction in the rate of corporation tax for small companies to 38% and the raising of the thresholds for small company rate and full rate.

However, 38% is still too high a starting rate for corporation tax on small companies and it is a discouragement that this rate which applies to the first tranche of taxable profits is not retained after this level of profits - now £100,000 - is exceeded. As a result the tranche of taxable profits between £100,000 and £500,000 is effectively taxed at a corporation tax rate of 55.5% in order to ensure that the full rate of 52% is payable when profits reach £500,000.

Not only does this method of giving small companies some relief from corporation tax mean that there is a disadvantage of a high marginal rate as soon as the limits for relief are exceeded, but also we have the high starting rate of 38%. To overcome these problems, we consider that the small company rate of corporation tax, now 38%, should be retained when the first tranche of taxable profits has been exceeded and that there should be a system of graduated rates of corporation tax leading up to the full rate of 52%. In this way growing companies would not be discouraged from expanding their business by encountering a steep rise in the rate of corporation tax at a particular profit level. At the same time this may well avoid having to take decisions in which fiscal considerations override normal commercial ones, simply to keep taxable profits under £100,000.

We consider that the first £5,000 of taxable profits should be free of all corporation tax, similar to the granting of a personal allowance to an individual, and the next £5,000 should be taxed at a rate of only 10%, followed by the next £5,000 at 15%. In particular, this would give tremendous encouragement to new companies. The next three tranches of taxable profits of £15,000 each would be taxed at 25%. 35% and 45% respectively. All profits in excess of £60,000 would attract the full rate of corporation tax but without losing the reduced rates on the first £60,000.

The effect of our proposals is that a small company would pay corporation tax as follows:-

	Our Proposal	Existing Legislation
Tax on £60,000	17,000	22,800
Tax on £100,000	37,800	38,000

Enterprise Bonds

There is a need to enable the independent trading company to build up a tax free fund for future capital projects and for research and development schemes. At the same time we wish to discourage these trading companies from frivolous revenue expenditure, immediately prior to their accounting date, aimed at reducing or extinguishing their liability to corporation tax and, at the same time, to encourage meaningful capital investment by such companies and to avoid decisions in which fiscal considerations override normal commercial ones based on the ongoing needs of the enterprise.

In order to reduce or to eliminate the incidence of corporation tax on funds retained in a business for future expansion, enterprise bonds should be introduced by the Treasury and funds used by a business to purchase such bonds should be fully deductible from taxable profits in the year of purchase or the preceding year, if purchased within six months of the preceeding year end.

The funds would become taxable when the bonds are redeemed at a later date by the business but would be held for a minimum of one year. We do not consider that there would be a need for the payment of interest on these bonds. Nor do we consider it necessary that the bonds should be indexed - although without doubt indexation would add to their attraction.

It is anticipated that partial or full redemption would be claimed when expansion takes place in the future and when additional development costs are being incurred and taxation allowances available, both in respect of capital expenditure and stockbuilding.

Such bonds could be of immediate advantage to the Treasury insofar as it would receive 100% of the funds concerned and not merely the appropriate rate of corporation tax on the profits retained in the business. The bonds would result in better planning decisions and a more advantageous use of internally generated resources. Furthermore, they would be seen as a positive encouragement to smaller trading companies to maximise their retained earnings and so strengthen the base of the company for future expansion, including any necessary borrowing.

It may well be the contention of the Inland Revenue that such bonds would place an unfair advantage over a company which pays its corporation tax and then uses the balance of its after-tax profits to invest in Government stock. Such an argument, if it is put forward, misses the whole concept of enterprise bonds. They are designed to encourage thrift within companies and to avoid unnecessary revenue expenditure and decisions based on non-commercial criteria. It is clear from the representations that we have received that such bonds would represent an innovative response to a need for encouragement as perceived by the owners of growing, smaller companies.

Small Firms Investment Companies (SFICs) - Structure and Functions

Small Firms Investment Companies could be the next step in the continuing drive to ensure that equity capital is available to independent trading companies. Legislation would have to be introduced to permit their use and the Inland Revenue would have to approve their regulations. The Department of Trade might have to give approval so that, subject to certain conditions, a SFIC would not be required to issue a full prospectus when seeking subscribers for its shares.

The SFIC would be an investment company which would invest in ordinary shares and make long-term loans to smaller companies. The SFIC would obtain its funds from individuals who would subscribe for shares and other institutions which would both subscribe for shares and take up loan capital.

The SFIC would be similar to an investment trust but with the principal requirement that it would have to invest a major proportion of its resources in unquoted trading companies of the sort which now qualify under the BES.

Specific characteristics would include:-

1. An individual subscribing for shares in a SFIC would obtain income tax relief at the end of the tax year in the same way as if he had invested in an individual unquoted trading company. But he could not have a controlling interest or connection with the SFIC.

2. There would be a clawback of relief if the individual sold shares in the SFIC within five years.

3. Any distributions by the SFIC to shareholders would be subject to income tax.

4. A company, for example an investment company, bank or other institution would be able to subscribe for shares purchase shares from existing shareholders or provide loan capital but would obtain no tax relief on making its investment.

5. The SFIC would be required to invest all money subsribed by individuals in accordance with the first point above in subscribing for ordinary shares of qualifying unquoted trading companies and a major proportion of other funds would have to be invested in ordinary shares or in long term loans to unquoted trading companies. However, a minor proportion of its funds could be invested in non-qualifying companies, bank deposits and other liquid investments which would produce income.

/..2

6. The SFIC would be permitted to accumulate profits and could use these, inter alia, for purchasing its own shares.

7. The SFIC would be permitted to go public, to be quoted on a stock exchange or be dealt with on the USM.

8. The SFIC would not be liable to capital gains tax on its capital gains nor to corporation tax on distributions from qualifying unquoted trading companies.

From the point of view of the individual, investment in a SFIC should provide a spread of interests.

From the point of view of the institutional investor, a SFIC will provide an opportunity to invest in a wide range of small companies at a much reduced cost.

The SFIC will have the facility to provide packages of finance to small companies. It will obtain its finance from loans and perhaps other categories of shares as well as from subscription for ordinary shares and will be able to pass loan finance on to the companies in which it invests.

And the SFIC will be able to provide advice and management to the companies in which it invests.

If it succeeds it will build up a track record and expand.

Stockbrokers, accountants, bankers, enterprise agencies and local authorities might co-operate to establish SFICs which would be channelled to a particular type of investment, for example particular to an industry or an area.

LOAN GUARANTEE SCHEME

Increasing Maximum Loan

An individual maximum loan should be increased from the present £75,000 to £250,000 and to £500,000 in areas of high unemployment or where there is the prospect of substantial export orders. It is a matter of continuing concern to us that smaller companies, particularly manufacturers, engineers and high added value businesses which survive the recession with little in the way of retained earnings, will not seek to expand their businesses quickly if they cannot obtain loan capital.

Reducing Rate of Interest

It is considered that the banks should have an upper limit placed on the amount of interest chargeable on the Government guaranteed portion of the loan under the scheme. For example, if interest is charged at 2½% over bank base rate on the whole of the loan there is an effective rate of 12½% over base rate on the portion of the loan for which the bank is at risk. This is an excessive rate of return and is well out of line with the original recommendations, namely that the gross return to the bank for the guaranteed portion of the loan should be lower than on their normal basis to give them some incentive to take on the whole of the risk themselves, and not just off-load existing marginal customers. A reduction in the rate of interest to 1% over base rate on the guaranteed portion of the loan is recommended.

The Government should limit its guarantee premium to 1% or even consider abolishing it altogether. Other countries do not charge such an excessive rate as the current UK one of 3%. Providing our existing scheme is tightened up and the regulations strictly enforced, there is no reason to anticipate an excessive loss rate under the scheme.

It goes without saying that the scheme should now become a full permanent scheme. It has proved its worth as a means of encouraging new business and with the new business a considerable number of new jobs must have been created.

Capital Gains Tax - Indexation

The proposals for indexation made in 1982 do not contain any direct assistance to those whose gains accrued before 6 April 1982. This was recognised in part by the Chancellor in the extension of the annual exemption of the first £3,000 of net gains, accruing to an individual, to £5,000 and by statutory indexation of this threshold in the future, thus raising the figure to £5,300 in 1983.

The question which is of concern to us is whether the proposal for the calculation of indexation in respect of assets acquired before April 1981 is equitable to the taxpayer, at the same time recognising the need to keep the administration of indexation as simple as possible. It has to be appreciated that the future indexation in respect of assets acquired before April 1981 will be based on historical cost/allowable expenditure and not on the value of such assets in March 1982. The effect of this proposal, for example, will be for an asset purchased in say 1970 for £2,000, with a current value of £8,000 and assuming inflation in 1982/83 of 9%, to attract indexation relief based on cost of £180 whereas, based on current value the relief would be £720. We consider that to base the indexation relief, in such circumstances, on current value is a fair reflection of the impact of inflation on the value of the asset during 1982/83, particularly when account is taken of the fact that it has not been possible to devise a scheme to index past inflationary gains. Regrettably, this underlying problem will be compounded for each additional year that the pre-April 1981 assets are held after 1982.

Although, as stated previously, we recognise and accept the reason for the increase of the annual exemption to £5,300, it is worth considering if this is the fairest way of using available Exchequer resources to recompense the taxpayer who exercises thrift and care in accumulating his savings over many years, whether as an employee or an entrepreneur. The availability each year of an exemption threshold for capital gains equivalent to £9,000 at today's retail prices is surely going to encourage speculation and place emphasis on short term gains rather then encourage the longer term holding of assets. In addition, "bed and breakfasting" operations enable investors in listed companies to take advantage of the annual exemption, whereas investment in unquoted businesses and assets generally confer no such advantage in any practical way as these assets are not readily realisable.

It is our considered opinion that the calculation of future relief for inflation in respect of assets held at April 1981 should be applied to some measure of market value at March 1982 and not by reference to the original cost of such assets. In order to avoid the problems associated with the computation of market values, the indexation allowance could be computed by reference to the indexed increase in the cost from the date of acquisition (or March 1965 if later) to March 1982. This proposal would be in keeping with the principle of the calculation which is embodied in the present proposals.

Rollover of Capital Transfer Tax when handing on Independent Trading Companies to the Next Generation

The increase of the starting point for CTT in recent Finance Acts will certainly assist companies worth up to £120,000 to avoid CTT on gifts of shares in family companies to the next generation of managers, always providing that the family house has been gifted to the surviving widow. Furthermore, the reduction of the higher lifetime rates of CTT and the amendment of the lifetime accumulation rules in 1981 will help to reduce the impact of CTT on gifts of shares worth in excess of £120,000.

Despite these changes and the increased business reliefs related to CTT introduced in the Finance Act 1983, independent businessmen often have to consider complex avoidance schemes which involve artificially reducing the value of shares and the dictation of timing of changes in shareholdings without recognition of the level of maturity of the recipient. Furthermore, many of the options depend in part on future events which cannot be foreseen.

It must be appreciated that when the major portion or all of an individual's or group of individuals' assets are committed to a successful enterprise, the only resources to meet CTT are represented by the shares in the company or by increased remuneration or distributions from the company so eroding its retained earnings and therefore its ongoing viability. This is highly inefficient in commercial terms and will often denude the company of much needed resources. One alternative would be to sell shares in the company to meet the CTT but many entrepreneurs are unwilling to do this and therefore the decision is taken simply not to expand the business and not to create the problem which will inevitably arise with the successful growth of the business and passing it to the next generation of managers.

The present situation is that it is now possible to defer capital gains tax liabilities on gifts of business assets and shares in independent companies to the next generation of managers but that capital transfer tax remains payable, albeit over ten years. In addition, there is conflict between the lifetime transfers at lower rates of capital transfer tax, but with a deferment of capital gains tax liability to the next generation, and transfers on death at higher rates of capital transfer tax but with no liability to capital gains tax.

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We consider that it is imperative that full deferment of capital transfer tax should be given on gifts of shares in unquoted trading companies to the next generation of managers who are wholly employed in the business, such transfers not resulting in the company losing its existing tax status nor in the transferor acquiring some value from the transfer. The liability should be deferred until any ultimate transfer results in the acquisition by the transferor or the transferee of either or both cash (or its equivalent) or an interest in a listed company or other readily marketable asset.

14 FEB 1984

CHEQUER
14 FEB 1984
EST Public.

THE BUILDING SOCIETIES ASSOCIATION

3 Savile Row, London W1X 1AF
Telephone: 01-437 0655

ECONOMIC SECRETARY

REC'D	15 FEB 1984
ACTION	Mr L Watts
COPIES TO	PPS FST CST MST Sir P Middleton Mr Cassell Mr Lankester Mr Pirie Mr Gordon Mr McAllen Mr Hopkinson

13 February 1984

Dear Chancellor

SAVE-AS-YOU-EARN

I should like to raise with you two points regarding the SAYE Scheme run by building societies.

The first concerns the £20 limit on monthly contributions. This limit was introduced in September 1971 and is now therefore very much out of date. The National Savings limit is of course £50 but as their scheme is now index-linked section 415 Taxes Act 1970 would permit us to have this limit only if our scheme were to "correspond" to the National Savings scheme i.e. it would need to be index-linked also. With one or two exceptions, societies have not wished to move into the field of index-linked investments or mortgages and have therefore had no alternative but to stay with the SAYE Scheme in the form operated by National Savings and by societies in 1971.

The obstacle to an increase in the limit arises presumably from a technicality i.e. the wording of section 415. If this problem could be overcome we should indeed be most grateful.

The second point concerns the policing responsibility which societies and the Association have. Societies in their systems have an ongoing check to ensure that none of their investors has a contract in excess of the £20 limit. The Association for its part carries out a 6-monthly check to enfore the rule that no individual should save with more than one society. The check is into approximately 12½% of all savers and the complete alphabetic range of surnames is covered once every four years.

The Council considered recently the results of the 1983 checks and noted that duplications between societies as revealed by the checks were minimal compared with the numbers of accounts covered. For purposes of comparison, the results for the four previous years are appended. We should like to propose that reliance may in future be placed wholly on the standard declaration form which each saver has to sign so that the costly and time-consuming effort that goes into these checks may be avoided.

2/...

We do hope that you will be able to consider each of these proposals favourably.

Yours sincerely

Herbert R Walden
Chairman

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

		1980	1981	1982	1983
(A)	Number of SAYE accounts checked	126,000	115,000	91,000	92,000
(B)	Duplications where the same individual has accounts in more than one society (the individual then has to close these accounts)	206	194	108	113
(C)	Percentage which B bears to A	0.16%	0.17%	0.12%	0.12%

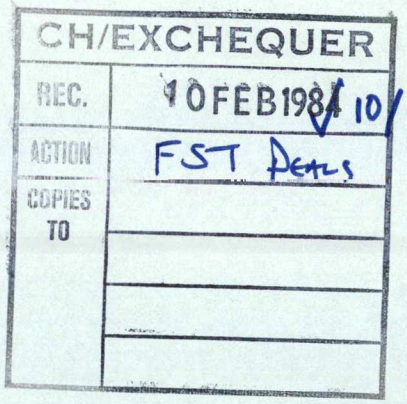
BRITISH AGGREGATE CONSTRUCTION MATERIALS INDUSTRIES

25 Lower Belgrave Street
London SW1W 0LS

Telephone 01-730 8194

Robert Phillipson
Director General

Burgess yrs



9 February 1984

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1

Dear Chancellor

The aggregates industry - a sector with a £2 billion annual turnover, employing 40,000 people - is heartened by the economy's return to growth. But the industry is concerned by forecasts which predict a decline in the growth rate in 1985 and, more particularly, by the NEDO forecast of a fall in construction output in that year.

Because our industry depends for well over half its workload on public sector clients, the balance of public expenditure is of far more concern than its totality. We naturally support the government in its attempts to rein back the state sector and to reduce taxation burdens. However, the promise to redress the imbalance between capital and current spending - once such a constant theme of your colleagues - has not been kept. Indeed, since 1979, the share of capital expenditure in total public expenditure has nearly halved, from 12 per cent to seven per cent in 1982. Here we fully support the CBI's budget representations which ask for more infrastructure spending to reduce business costs and increase international competitiveness.

We welcomed your July announcement that capital budgets could in future carry forward five per cent of unspent budgets to the following year. But it was noteworthy that you introduced this measure as a way of reducing spending this year. While it is sensible to allow such flexibility to avoid wasteful scrambles to spend in February and March (at a time when resources can be least effectively spent), it is also sensible to allow overspending in one financial year with borrowing from the next - 'carry backward'. Such a measure would improve the efficiency with which public resources are used. There is now an effective moratorium on new road contracts in England and Wales because of good physical progress in the financial year. This means an agreed programme is being held back.

Finally, in the debate which you have rightly encouraged on long-term public expenditure, we would urge you to consider the future need for renewal of and additions to the nation's infrastructure. If Britain is to retain its role as a prosperous and growing industrialised country, room must be made for such provision which is all the more necessary because of the downturn in investment over the last decade. Whatever the level of 'privatisation',

certain responsibilities must stay with government. For too long have these arguments been brushed aside as special pleading; economic growth requires a better and fully maintained road network and efficient urban structures; a prosperous nation demands better schools and hospitals - and fewer collapsing sewers - and a more pleasant environment.

There are two possible short-term futures: either continued and improving prosperity is once more in sight which should make it easier for government to provide for these basic needs; or the economy is shortly to slow down which would justify putting a greater share of public resources into productive expenditure to sustain growth.

Yours sincerely

Robert Phillipson
Director-General

RHP/FAE/37L

Budget reps.

The British Hotels Restaurants and Caterers Association

CH/EXCHEQUER
REC. 27 FEB 1984
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40 Duke Street, London W1M 6HR
Telephone: 01 · 499 · 6641

From: Clive Derby, *OBE, Chief Executive*

24th February 1984

DEAR CHANCELLOR,

Now that your Budget Statement is imminent, I am writing to urge that in its final framing, you will include as a priority, an increase in the level of Industrial Building Allowances for hotels.

You will not need to be reminded of the truly massive contribution already made to the economy by our industry but we have now received firm evidence from a number of hotel groups that their investment plans are being seriously restricted by the inadequacy of the present 20 per cent allowance. They have advised us that given an increase to 75 per cent or even 50 per cent (costing an additional £20 million or £10 million respectively), the level of investment would soar and could in the case of some companies double.

New hotels and extensions will mean more jobs for those who build them and those who make the furniture, fixtures, fittings and equipment used in them. When they are completed, thousands of newly recruited staff will be needed to service them.

This is surely what the Government wants and what can be achieved at a relatively insignificant cost.

The industry looks to you to give hotel investment the impetus it urgently needs - please do not fail us on this occasion.

You will also have before you at this time all our previous submissions on the subject of VAT which at 15% on hotel accommodation and restaurant meals is one of the highest in Europe. Whilst we are fully aware of the many competing representations being made to you at the present time, we would again remind you that six of our EEC partners have a specially reduced rate of VAT for hotel accommodation and in some cases restaurant meals.

We look forward to your Budget Statement with interest and keen anticipation in the expectation that it will contain measures to encourage our industry to commence a new era of expansion and development.

YOURS SINCERELY,

Clive Derby

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury
Parliament Street
London SW1P 3HE

British Agricultural and Garden
Machinery Association Limited
Church Street
Rickmansworth
Hertfordshire WD3 1RQ
Telephone 0923 720241
Telex 893872

Director General
Jonathan Swift Dip M Cl Agr E

FINANCIAL SECRETARY
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Mr Cassell
Mr Monger
Mr R I G Allen
Mr Griffiths Mr Bostock
Mr F Martin
Mr Lord PS/IR PS/C+E

JS/MAB

22nd February 1984

Chancellor's Private Office,
Parliament Street,
London,
SW1P 3AG

Dear Chancellor,

BUDGET REPRESENTATIONS

The President and Executive Committee of this Association have requested me to bring to your notice the following points which we suggest would assist the agricultural and horticultural machinery dealer sector in its vital role within the agricultural industry by attacking business overheads.

We earnestly suggest that you should:-

1. abolish the National Insurance Surcharge.
2. reduce the rates burden on business.
3. make available to service-based industry, grants similar to those given to manufacturers. Many of our members carry out assembly work for manufacturers.
4. reintroduce the Investment Allowance.
5. raise the ceiling of the second rate of personal taxation to allow principals and senior management in smaller businesses to reap a better reward for their endeavours.

Your consideration and action on these matters would, we believe, be consistent with Government policy of maintaining steady growth while encouraging enterprise and investment.

Yours faithfully,

Director General

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HM TREASURY — MCU
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SECRET

BofE Budget A48
Representations

BUDGET ISSUES

1 The March 1983 medium-term financial strategy presented a path for the PSBR until 1985/6; presumably the 1984 statement will present figures for a longer period ahead. On what basis should they be derived? In 1979 the judgment was made that the fiscal position, as measured by the PSBR, was too lax, and should be tightened, over a period of years, and allowing for cyclical effects.

2 Such has been the success of this policy over the last four years that, as a percentage of GDP, the PSBR has been reduced from 5 1/2% to about 3 1/4%. At this level the general qualitative judgments which could serve in 1979/80 have to give way to a more explicit judgment as to the nature of the fiscal equilibrium which is the ultimate goal. In this paper this issue is considered from several angles, none of which provides a basis for a definitive judgment. It is important to distinguish fiscal flows eg the PSBR as a proportion of GDP, and stocks, eg public sector debt as a proportion of nationao wealth (or of GDP). Logically prior to these questions are perhaps those relating to the measurement of fiscal stance; is the PSBR the appropriate concept? Is its treatment of asset sales the most helpful? Would it be better if in this arithmetic public sector capital formation were treated differently? Despite the possible logical priority of these questions it may be easier to abstract from them initially in the hope of resolving them in the light of broader principles if any can be identified.

Fiscal Strategy

3 Other things being equal lower taxes and a larger PSBR now mean higher taxes and a smaller PSBR, later. Thus the path of tax rates and of the PSBR are closely related. Welfare economics tells us something about the former; namely that tax rates should vary smoothly if at all. This is because the deadweight burden of distorting taxes rises more than proportionately with their rates. Thus tax rates of 30% and 20% in two successive years will, generally, raise less revenue and cause more distortion than a steady 25%. To this extent it is uneconomic to plan to change tax rates at a future date; it would generally be better to make the planned changes immediately - if slightly smaller.

4 Of course a reassessment of expenditure plans, or of revenue prospects (at given tax rates) will make unplanned tax rate changes appropriate from time to time - indeed almost as frequently as prospects are assessed. In principle these revisions should as often be up as down.

5 There might be political reasons for a government which hoped to be able to cut expenditure, and thus taxes, but which could not risk the failure that would be implied in a tax rise, embarking on a programme of expenditure reduction, while refraining from reflecting its probable success in immediate tax cuts. In this case the prospect of future tax cuts might not only serve as an incentive to the expenditure reductions but also reflect a proper caution in the face of political penalties on tax increases. On the other hand the

consequences of private agents predicting future tax cuts could be perverse and particularly damaging to total revenue. For example the anticipation of a cut in the corporation tax rate could induce an investment boom as firms strove to qualify for investment allowances against the higher rate of tax. Similarly a prospect of reduced VAT makes deferral of consumption attractive, and the prospect of national insurance surcharge reductions makes deferral of employment and production attractive. Income tax combines many of these effects - though to a modest degree.

6 An economic exception to the general rule that tax rates should be held approximately constant arises if, for example, war is believed liable to break out with certain probability at any time, and taxes would have to go up if it did. In this case the failure of war to break out might actually make a small cut appropriate. The idea here is that the expected tax change should be zero - being made up of a large increase with a low probability of war breaking out and a small cut with a high probability of continued peace. In this last case one would expect the ratio of debt to GDP to rise rather rapidly in war time and fall rather slowly, as a rule, in peace time.

7 More generally the evolution of the debt depends on the planned path for public expenditure relative to the tax base. If expenditure is to fall as a proportion of the tax base, then constant tax rates imply a deficit in the immediate future, to be made up by subsequent surpluses, sufficient to redeem both the initial and additional debt.

8 This approach presents a number of problems. To calculate the appropriate tax rates, and borrowings, for today, one needs to know

the path which will be chosen for expenditures (and transfers) for the whole future as well as the path of the tax base - which should depend on the tax rate. The statement that expenditure should fall as a proportion of GDP is not only imprecise but, in the limit, unconvincing, in that it may imply that the share of public expenditure in GDP will eventually become trivial.

[A numerical example might help at this point] (See Annex)

9 Thus a minimum information requirement would involve specifying a long run target share of expenditure in GDP as well as the speed possibly quite slow, of the process by which these levels are to be approached. This paper throws no light on the question of either an appropriate level or an appropriate speed of approach, what the argument so far does, however, clearly suggest, is that there is no case for varying tax rates in such a way as to reduce cyclical variation in the PSBR/GDP ratio. This conclusion, which depends in no way on any "stabilising" effects of deficits, does not, of course, preclude adjustments to reassessments of the long term prospects in the light of experience.

10 These arguments for smoothing tax rates and minimising tax distortions over a long period are stronger than those focussing on the effects of debt/income ratios on real interest rates. This is for two reasons; first the existence of a free international capital market weakens any link between real market rates and domestic financial policy. Secondly even if such links exist it is clear that the benefits of lower real interest rates in the future, which might be brought about by reducing the debt income ratio, can only be bought at the expense of higher, or less rapidly falling, tax distortions than otherwise.

Capital expenditure and asset sales

11 The emphasis on tax rates enables us to take a view on the questions of asset sales and the capital content of expenditure programmes. The guiding principal is that additional debt can be relatively freely incurred in finance of projects which will generate adequate returns to remunerate and redeem the debt, without resort to tax revenues.

12 It should immediately be clear that replacement investment could not qualify on this basis; adequate user charges would have to provide for this and if they do not, there is no alternative to recurrent tax finance.

13 Secondly it should be noted that a project might, in principle, finance itself not from user charges but by so enlarging the tax base as to generate, through the given tax rates, sufficient general revenue. In either case the return has to exceed the cost of the debt. This calculation can only be done with any precision in the case of direct returns such as those earned by Public Corporations. What evidence we have is disappointing, in that, despite the various real "hurdles" their investment programmes have, for decades, been required to clear, the PCs gross operating surpluses have barely exceed their capital consumption (depreciation) (and stock appreciation). [An appendix could be used to present data on this.]

14 Thus though there seem to be potentially powerful arguments in this area there is no clear basis for a general approval of "additional" borrowing for investment of the type we have seen by the PCs in the post-war period.

PROFITABILITY AND VALUATION OF PUBLIC CORPORATIONS

£ million

Source: Blue Book

		1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	Table
Replacement cost of PCs' fixed assets	i	27,200	32,800	48,300	58,900	68,100	77,000	87,300	104,000	120,800	126,900	128,100	11.7
PCs' gross trading surplus (including revenue subsidies) after deducting stock appreciation	ii	1,627	1,913	2,220	2,689	4,107	4,701	5,053	4,923	5,704	7,123	8,662	6.2
PCs' capital consumption	iii	1,477	1,674	2,176	2,836	3,397	4,011	4,541	5,200	6,243	6,880	7,258	11.5
PCs' GDFCF		1,774	2,073	2,859	3,920	4,965	4,779	4,943	5,624	6,651	6,899	7,221	
Net Income (before tax and interest)	iv = ii-iii	150	239	44	- 147	710	290	512	- 277	- 539	243	1,404	
Value at 20 x = net earnings	v = ivx20	3,000	4,800	880	-3,000	14,200	5,800	10,240	- 5,540	-10,780	4,860	28,080	
Tobins 'q' approx	vi = i ÷ v	0.10	0.15	0.03	-0.05	0.20	0.07	0.11	- 0.05	- 0.09	0.04	0.22	
Apprcx rate of return on assets	vii = v ÷ i%pa	0.60	0.70		-0.3	1.0	0.25	0.55	- 0.3	- 0.4	0.2	1.1	

15 Asset sales have many of the features of negative investment, thus if it is reasonable in practice to include investment expenditure as increasing the PSBR, so may asset sales reduce it. There are, however, three reasons for hesitation;

(i) the arbitrariness of the 51% rule which determines whether or not expenditure by an entity in which the government has a share stake is liable to be part of the PSBR.

(ii) The suspicion that the asset sold are not typical of public sector assets, and that they may offer a positive real return as large as that paid on the gilt-edged securities sales of which are reduced by the asset sales - ie these PSBR reductions may not reduce future demands on tax revenues. One should, of course, recognise the possibility that assets transferred to the private sector may subsequently earn enhanced profits. Where these come from increased operating efficiency (or even the exploitation of monopoly) it can account for good money being offered for assets which earn little or no surplus in public hands.

(iii) There must be questions about the sustainability of revenues from asset sales; within a given regime it may be reasonable to resume that public sector investment will, like recurrent expenditure, be fairly steady from year to year. Is the same true of asset sales? Both windfall income and expenditure should be capitalised if there is an adequate capital market. Does this apply to the receipts from asset sales?

These doubts may be sufficient to warrant the presentation of data on a basis on which receipts from asset sales do not reduce the PSBR the following table sets out alternative measures of the fiscal position

% GDP AT MARKET PRICES

	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78
PSBR	1.6	1.7	3.8	6.0	9.0	9.5	6.6	3.7
PSBR excluding receipts from sales of assets other than council houses	1.6	1.7	3.8	6.0	9.0	9.5	6.6	4.1
PSBR excluding sales of assets including council houses	1.6	1.7	4.1	6.1	9.0	9.5	6.6	3.9
PSFD	-0.2	1.2	2.9	4.6	6.7	7.4	5.6	3.9
PSFD excluding receipts from sales of council houses*	-0.2	1.3	3.3	4.7	6.7	7.4	5.6	4.0

*Before 1976 Q4, data on cash receipts from sales of council houses were not collected. A series for cash receipts before this date has been constructed by multiplying the number of houses sold by a price series obtained by deflating the average price of a council house in 1976 Q4 by PILG (deflator for transfers of land and existing buildings).

% GDP AT MARKET PRICES

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84*	1984/85*	1985/86*
PSBR	5.4	4.9	5.6	3.5	3.3	3.3	2.2	1.6
PSBR excluding receipts from sales of assets	5.4	5.3	5.8	3.4 ≠	3.4	3.7	2.9	2.2
PSBR excluding sales of assets including council houses	5.6	5.6	6.1	4.0	4.1	4.3	3.3	2.6
PSFD	4.3	3.9	5.0	2.4	3.1	3.2	2.5	1.9
PSFD excluding receipts from sales of council houses	5.0	4.1	5.2	2.9	3.8	3.8	2.9	2.2

* Bank short-term forecast.

≠ In 1981/82, receipts from sales of assets are recorded as negative in the National Accounts. This is due to the unwinding of advance payments for North Sea oil, which had been received in 1979/80. This unwinding effect more than offset receipts from sales of actual assets in that financial year (1981/82).

16 Possible Procedures

I. Make long term forecasts of national income (demographic trends, etc) with due allowance for special revenues (or expenditures if any) such as North Sea oil revenue, to assess the "tax rate" necessary to equate the present value (at an appropriate real discount rate) of revenue to the present value of (non-interest) expenditure (on present scales of pensions etc, but otherwise taken to be a constant proportion of national income) plus existing debt.

II. Compare this "tax rate" with the present one:

(a) If higher consider feasibility of eliminating the excess by a five year expenditure control programme.

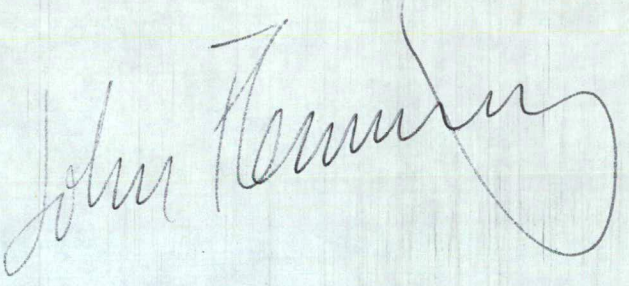
(b) (i) If lower cut taxes immediately by that amount;

(ii) if further expenditure restraint is suggested by policy, implement it, and reduce taxes pari-passu.

III. The resulting programme would fit neatly into the MTFS format with tax cuts at b(ii) appearing as prospective "fiscal adjustments".

17 Envoi

In this note I have attempted to derive some fairly practicable guidelines for fiscal policy from Milton Friedman's notion of rationality - as reflected in his consumption function work - as involving forward looking behaviour. Others, notably David Hendry, have modelled consumption as essentially adaptive behaviour involving convergence on a desired consumption/income ratio. It would not be difficult to apply something similar to public finance - eg that the rate of change of the debt/income ratio should be some proportion of its deviation from a target level - but it would be somewhat arbitrary to proceed in this way.



ANNEX

An example

The following example does not do full justice to the argument of the text in that the size of the tax base (national income, Y) is taken to be unaffected by the rate of tax. This is, of course, inconsistent with the logic of the arguments for tax rate stabilisation - the arithmetic may be illuminating nonetheless.

The economy is assumed to grow at 3% pa and the real interest rate is taken to be 4½% pa. The inherited stock of debt is equal to 50% of income, as also is the initial level of non-interest government spending.

In this case growth of spending in line with national income could be financed by a constant proportional tax rate of 50.75%. This compares to interest inclusive expenditure of 52.25% of Y. The deficit of 1½% of Y is added to outstanding debt of which it represents growth of 3% - in line with that of income. Thus the debt income ratio stays at 50%.

If non-interest spending could be frozen for five years - during which it would fall to 43% of Y - and then grow in line with income, the tax rate could be reduced immediately to 44.05%. This would involve an initial deficit of 8.2% of Y. The deficit would fall steadily but the debt/income ratio would rise over the five years from 50% to 70% of Y. With other expenditure of 43% and debt interest of 3.15% of Y total expenditure at 46.15% would imply a deficit of 2.1% of Y or 3% of the debt - as required.

If it were thought that a subsequent government might reverse the cuts in expenditure relative to income it could be argued that it would be inappropriate to cut the taxes as far as 44.05%. It seems reasonable, however, that the successor government should itself incur the odium of the reversed tax cuts.

More to the point might be dangers of upsetting the capital market if even the temporary freeze on expenditure were not entirely credible. In that case one might, despite dangers mentioned in the second half of paragraph 5 above, prefer to reduce taxes in the line with non-interest expenditure keeping the debt/income ratio constant at 50% throughout - which requires a constant deficit of 1½% of Y. In this case the tax rate could, after a five year freeze on expenditure be reduced to 43.75%.

THE SHAPE OF THE 1984 BUDGET:
NOTE BY THE BANK OF ENGLAND

1 This note offers proposals for tax changes that might be introduced in the forthcoming Budget. The latest economic forecasts suggest that while tax increases may be avoidable, there may be only limited scope for (net) tax reductions, if the PSBR target already outlined for 1984/85 is to be met (paras 6-8). There is however thought to be a strong case for beginning to reduce the main "tax expenditures" as part of a longer term process (paras 9-11). Such changes might increase the scope for tax reductions elsewhere, for example reductions in the NIS or stamp duty on securities dealing or some modest increases in personal allowances.

Economic Background

2 Recent assessments of economic prospects all tell a similar story, and Bank forecasts diverge little from those of the Treasury. The UK economy is now well into the third year of recovery. Though the rather different behaviour of the three measures of GDP makes the exact extent of recovery difficult to measure, growth in the last year or so has probably been in the range 2-3%, amounting to 5-6% since the low point of the recession in early 1981. This is a slower rate of recovery, but spread over a longer period, than that experienced both in the early and the mid-1970s.

3 The upturn has not been accompanied so far by any significant rise in the rate of inflation; indeed the marked slowing of inflation since 1980 has itself contributed to the recovery. Domestic labour costs are rising more slowly than at any time in the last decade, and retail price inflation is back below 5% a year. Profits appear to have grown sharply in the last two years or so, though from a very low level, and the financial position of companies is improved. This development is partly a consequence of a third characteristic of the recovery, namely

that it has been heavily concentrated on consumer spending. Business spending, at least on fixed investment, has so far been more subdued, with the consequence that there has been a build-up in corporate liquidity.

4 Our assessment is that continued growth of domestic final spending is to be expected. Consumer spending is likely to continue to expand, if less rapidly than in the last 18 months; and it should be reinforced by a recovery of industrial and commercial fixed investment, where the recent Department of Industry Survey indicated 7% growth in 1984. More uncertain is the behaviour of stocks and external trade. Bank forecasts assume that companies will keep stock/output ratios roughly constant, and suggest less restocking than shown in the Industry Act Forecast. Nevertheless we expect faster growth in imports, and weaker export performance. These differences make for slightly slower growth of GDP in our December forecast than in the Industry Act Forecast: 2½% in 1984 compared with 3% (about the same as our estimate of growth in 1983). This difference is not a large one. On inflation prospects, we are less sanguine than the Industry Act Forecast of 4½% pa at the end of the year, believing that consumer prices might be rising by as much as 6% pa. Wage settlements continue at a high level, with no assurance that productivity growth will be as rapid as in the last couple of years. In addition, our forecast in common with most others assumes only a relatively slow rate of depreciation of sterling. We believe, however, that there is a risk of a more substantial fall in response to an emerging current account deficit together with already high net structural capital outflows.

The Monetary Background

5 This paper does not consider monetary policy next financial year in detail, but one general factor is relevant to Budget decisions. The rate of monetary expansion in the current target period so far has tended to be on the high side, and there are signs that the rate of increase in bank lending is now

accelerating. The forecasts suggest that monetary expansion will moderate next financial year, but such forecasts are highly uncertain. There is therefore a risk that there will be upward pressure on interest rates. It is difficult to evaluate how real this risk is, but it may need to be borne in mind in considering the extent and composition of any tax reliefs. There must be a question whether further stimulus needs to be given to consumers' demand, which has been strong. A move to higher interest rates would discourage investment; and this risk may constitute some reason for directing tax reliefs to industry rather than to persons (see further paras 16-17 below).

The PSBR in 1984/85

6 Last year's FSBR indicated a target for PSBR in 1984/85 equivalent to £8 billion, and this is the basis for our thinking about this year's Budget. The aim for subsequent years, which might affect the presentation in the Financial Statement, will no doubt need further consideration and be the subject of separate discussion.

7 As regards the prospects for the PSBR in 1984/85, Bank forecasts, completed somewhat later than the Industry Act Forecast, suggest a somewhat lower figure on present policies than the latter. The Autumn Statement suggested that a small increase in taxes (after indexation) could be necessary if the PSBR were to be kept down to 2½% of GDP (£8 billion) in 1984/85. However, North Sea revenues are now expected to be higher than was then thought. Our own forecast, incorporating higher oil revenues, suggests £7-7½ billion on unchanged policies (with full indexation/revalorisation of taxes). Any forecast at this date must however be uncertain, and the prospect will need closer assessment nearer the Budget.

8 Given that the figure of £8 billion has already been indicated, market considerations in our view dictate that no significantly higher figure should be planned for. This view is supported by various considerations. From the market viewpoint,

an overshoot of the PSBR target next year would be more damaging than an undershoot, more particularly since we are not yet assured that this years's PSBR target will be met. The PSBR forecast for next year takes credit for large asset sales, which the public is liable to see as, in some sense, an artificial element; and the financing of the PSBR is anyhow likely to be complicated both by the large volume of asset sales in prospect and by the possible demands on the equity market by companies.

Possibility of reducing "tax expenditures"

9 Given the rather tight budgetary prospect for 1984/85 and the prospects that even in later years the scope for tax reductions is likely to prove limited, there is a strong case for looking closely at the size of some of the allowances now contained in the tax structure (so-called "tax expenditures"). Major changes could not be made quickly, but over time a considerable reform of the tax structure, perhaps particularly with regard to the treatment of owner-occupied housing and pensions, might be achievable and might enable quite significant reductions in personal taxation to be made. It would be appropriate to start on this early in the life of the present Parliament.

10 As examples of the potential scope for savings in the general area of "tax expenditures", the cost in 1982/83 of mortgage interest relief was more than £2 billion; of life assurance premium relief around £600 million and of tax exemption of pension commutation about £400 million.

11 Detailed discussions, in which the Bank has been involved, are already in train on a number of ways in which a start could be made in reducing various tax expenditures. It is not appropriate in this note to go into the details of the various schemes under consideration. Not surprisingly they bristle with social and political difficulties and raise many questions of administration, equity and potential avoidance. But in the Bank's view it is desirable that every effort should be made to overcome such difficulties even if any resultant schemes are

initially rather modest in scope. As an example, in the housing subsidies field a first step might be to tighten up the eligibility of loans for home improvements etc for mortgage interest relief. A desirable further early step would be the limitation of relief to the basic rate of income tax. In other fields, serious consideration should be given to ways of reducing or phasing out tax benefits in relation to commutation of pensions and life assurance premiums. Anything done here would have to be very carefully considered and gradual in its impact: but this only strengthens the case for making an early start.

Possibility of Additional Taxation of Financial Services

12 Another proposal for increasing the scope for general tax reduction is some form of consumer credit tax. Here too there are many difficulties to surmount and we understand it may not be feasible to put in place a satisfactory tax in 1984/85 and most unlikely in any case that a full year's revenue could be raised. But the Bank, which has been involved in the discussions, supports the idea in principle, not merely because of the revenue which could be raised, but also because it could be helpful to monetary control. It would, however, in our view be essential that any such tax be applied to mortgages as well as other consumer credit. Otherwise it would simply further encourage borrowing on mortgages for purposes other than house-purchase - a development which has already reached levels that are disturbing on grounds of both equity and economic policy.

13 A consumer credit tax could not be imposed along with separate additional taxation of the banks, to which the Bank remains averse. There is no evidence that banks are excessively profitable, and with increasing competition from building societies and National Savings in the retail deposit and lending markets, and competition from overseas banks in the wholesale (or company) markets, the potential for super-normal profits looks low. Moreover, the prudential problems of raising taxation on banks are no less now than last year when they were regarded as the critical factor weighing against such proposals. The

problem is not of excessive profits but of inadequate capital, which requires higher profits (to rebuild capital directly and permit the future raising of more external capital if required).

Proposals for tax reduction

14 The above considerations suggest that, even if a determined effort is made to cut tax expenditures, the scope for reducing taxes in 1984/85 will probably be rather limited. A judgment on exactly how much could be done will not be possible until nearer the Budget. In the meantime the following paragraphs indicate the Bank's preferences for tax reduction.

15 We propose that a small part of what is available should be utilised to reduce by half the stamp duty on equities, which might cost some £0.2 billion. This would be very valuable in the context of the present evolution of the Stock Exchange. It would help to free capital markets by reducing the cost of dealing - stamp duty being far more significant than brokers' commission and jobbers' turn - and to improve the attractions of London versus other centres trading in UK securities. This is proposed as a step towards a later complete abolition of stamp duties on equities. Such an interim step would preserve some stamp duty advantage for jobbers, which would be helpful until alternative market-making arrangements are established. We remain opposed to a countervailing levy (as has been proposed) of stamp duty on dealings in government stock. We would also see disadvantage in reducing stamp duty on house purchase until it was possible to make substantial cuts in tax reliefs bearing on owner-occupier housing (the structure of rates of duty might however advantageously be smoothed). Lower stamp duty on house purchase could at present have undesirable effects on house prices and on the broad monetary aggregates.

16 Last year the Bank advocated the abolition of the NIS as a way of improving labour cost competitiveness, and reducing inflation or widening profit-margins. These considerations remain important. There is some risk of a re-acceleration of

inflation: Treasury forecasts may be too sanguine and the exchange rate may be more likely to fall than rise. Another important consideration now is the effect on investment, a recovery in which might be an important element in the growth of the economy in the next few years. We do not favour abolition of the NIS as part of a revenue-neutral package for companies (to which some consideration has been given) in which, at the same time, capital allowances were reduced and changes were made to the present arrangments for stock relief. That seems likely to us to reduce investment incentives. The abolition of NIS without these accompaniments might cost £¾ billion (assuming full recovery from the public sector). We still see this step as very desirable, even though with the recent recovery of profits the case may appear less pressing than last year. It would help to moderate inflation and might also give some encouragement, even though a fairly indirect one, to investment.

17 There is, however, also a strong case for using a good part of whatever scope exists for cutting taxation to reduce income tax in a way that would mitigate the "poverty trap" caused by the overlap of social security and income tax. This might take the form of increasing the tax threshold by raising personal allowances and perhaps to raising child benefits so that dependants' supplementary benefits could be reduced. Complete elimination of the "poverty trap" would cost far more than will be possible in the next Budget, but it would be desirable to take as large a step as possible in this direction.

18 Our recommendations are a compromise between these competing considerations:

(a) We start from the assumption that the PSBR next year should be of the order of £8 billion.

(b) Our present forecasts of the PSBR suggest that there should be some room for net fiscal adjustment next year. But the scope for tax reductions will need to be reconsidered in the light of the final pre-Budget forecasts of the PSBR next financial year.

(c) As much additional leeway as possible should be created by saving on tax expenditures and any additional space that might be gained by a new consumer credit tax, which we support on merits.

(d) Stamp duty on equities should be halved, which would cost relatively little (£0.2 billion).

(e) The NIS should be abolished (£¾ billion, assuming recovery from the public sector).

(f) Whatever scope remains, if any, should be devoted to raising income tax personal allowances and perhaps child benefits, to mitigate the poverty trap.