PO-CH/NL/0014

PART C

START 7-03-84
ENDS 6-01-84

PO -CH /NL/0014

PART C

1984 BUDGET
REPRESENTATIONS L - R

DDs 25 years NA ?? 25/08/94

PO -CH /NL/0014
PART C

CLOSED
CONTINUED ON:-
PART D

(PWP)

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HM TREASURY - MCU
RECD. - 8 MAR 1984
ACTION FST
42/2ND.
SIGNATURE T.O.
REF. No. 16478

Rt. Hon. Nigel Lawson MP
Chancellor of the Exchequer,
The Treasury
Parliament Street,
London, S.W.1.

7th March, 1984

Dear Chancellor,

Enclosed are copies of two recent reports from the Low Pay Unit. The first, Setting Record Taxes Straight, shows that between 1978/79 and 1983/84, personal taxes (including NIC) have risen by £9.1 billion in real terms. What is of particular concern to us is that the greatest increases in tax burdens have been suffered by the low paid. It is now widely accepted, as you yourself have acknowledged, that "the poor pay far too much income tax". (Daily Telegraph, 30.1.84) Clearly, this situation has exacerbated the poverty trap with its implications both for work incentives and family hardship.

The report therefore urges you to raise personal allowances by around £700 so that low paid workers (single person, £86 per week) have their direct tax burden restored to 1978/79 levels. We would also ask you to raise child benefit in line with personal allowances and to consider the reintroduction of a reduced rate band of taxation.

It is our belief that these measures could be paid for without harming the average wage earner's standard of living. One source of revenue might be the restoration of the contributions of capital taxes and corporation taxes, as a share of total revenue, to their 1978/79 levels. Another would be the abolition of the national insurance ceiling. Most importantly, we feel that tax relief should be limited to the basic rate.

The report "Unequal Fringes" reveals that fringe benefits are of great importance to the already well paid, adding 50 per cent to the typical director's salary; they are of little value to the low paid. In some industrial sectors, they constitute about a third of the 'average' employers' remuneration, while in less well paid sectors the fraction is about one-sixth.

Like the previous Chancellor of the Exchequer, who himself described fringes as "an inefficient and often wasteful way of rewarding effort - and unjust", we feel that these benefits are grossly inequitable and economically inefficient. They disguise the true extent of divisions within industry and create resentment while also reducing labour mobility by imposing high costs of quitting. Moreover, they represent an inefficient means of creating incentives - and they create economic distortions in areas of the economy.

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We therefore propose that these imbalances, created by fringe benefits be corrected. Specifically, our report calls for the following measures:

1. Tax advantages for fringe benefits should be withdrawn.

2. An improved State pension scheme should be the right of all workers (with maximum and minimum pension rights);

3. in the event of sickness, all workers should be immediately entitled to normal basic wages; and

4. all employees should be entitled to at least four weeks annual holiday on full pay.

We hope that you will take the opportunity, in this and future budgets, to attempt to achieve a more efficient and equitable system of taxes and financial rewards for employees.

Yours sincerely,

Chris Pond

Chris Pond
Director.

FINANCIAL SECRETARY	
REC.	14 MAR 1984
ACTION	Mr Mace - IR
COPIES TO	PPS CST MST EST
	Mr Monger
	Mr Allen
	Ms Seammen

Mr Ridley
Mr Lord
Mr Portillo

London Chamber of Commerce and Industry

Budget mps

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HM TREASURY — MCU
REC'D. 10 FEB 1984
ACTION FST
42/2ND
SIGNATURE TO
REF. No. 14979

FINANCIAL SECRETARY
REC. 14 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

8th February, 1984

The Rt. Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
11 Downing Street,
London, S.W.1.

Dear Chancellor,

Since the 1983-84 Budget, there have been stronger signs of improvement in the economy and a welcome return to profitability in sectors of our industry. However, this has been from a very low level, and the rate of return on capital is still very low (one half of pre-1973 levels for industrial and commercial companies). With this in mind, the Chamber would view an increase in taxation, both general and on industry, in the next Budget with great concern. There is still massive under-utilisation of human and physical capacity. With this background, set out in detail in our "LCCI Economic Report", January 1984, may I draw your attention to the more general views of the Chamber on the next Budget and related aspects of economic policy, which are set out below :-

<u>General</u>

1. We take the view that some stimulus to the economy will still be needed in 1984-85. The previous year's expansionary factors - consumption and stock-building - are likely to play a much smaller part, and the Chamber is not as optimistic as the Treasury on the outlook for private investment and exports. We therefore regard the possibility of an increase in taxation as particularly unwelcome.

2. The Government should not over-react on any further deterioration of the £/$ exchange rate. Any likely fall in the oil price has now probably been discounted and the Government should not try to offset the change by increases in UK interest rates. Indeed, it should take every opportunity of continuing the downward trend of UK interest rates, both real and nominal, with the objective of improving the incentives to capital investment in the private sector.

3. I enclose a copy of our "Economic Report" which elaborates on our view of the background.

Cont./....

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Taxation

4. The specific Chamber proposals outlined below assume that in your Budget full indexation will be applied to income tax bands, and allowances and excise duties.

Business Costs

5. The Chamber's Technical Representations, already presented, are attached for further reference. Many of the technical representations are aimed at the reduction of industrial and commercial costs and the improvement of efficiency. In this context, the Chamber is pressing for the final abolition of NIS (both on the grounds of industrial costs and as a tax on jobs at a time of high unemployment).

6. There is a danger that reduction in the rate support grant will adversely affect industrial costs in some areas. The Government should take steps to offset this, bearing in mind the need for stability in the burden on industry and commerce during the interim period before rate-capping becomes effective.

7. It is possible that energy costs to industry may fall in real terms in 1984, but the Government should not set public corporations' targets for return on capital which are unrealistic, nor limit access to private capital markets in respect of revenue-earning projects, thus forcing unnecessary increases in public sector charges.

Encouragement to Enterprise

8. Further measures should be taken to promote the spread of new and effective process technology and spending by commerce and industry on applied research. These are likely to be of a fiscal nature.

9. The 1983 Business Expansion Scheme is welcome and is closer to the proposals first put forward by the London Chamber in 1978. However, we believe that steps should be taken to make the Scheme more attractive and to ensure that the help goes where it will provide the greatest number of new jobs.

10. We also believe that the time is right for the expansion of profit-sharing schemes and a change in the taxation of share option and share incentive schemes to bring them more in line with those of our competitors, such as the United States.

11. Further attempts should be made to adjust the combined impact of the tax and social security system on the incentive to work. It will be difficult to deal adequately with this until computerisation allows the introduction of a system of negative income tax. Moves to deal with the "poverty trap" in the meantime should not impede progress towards this end. Any scope

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for major reductions in personal taxation should be directed to lowering tax and National Insurance contributions for taxpayers whose earnings are only just above the lowest tax threshhold.

Public Expenditure

12. In order (a) to provide a stimulus to the economy which places little strain on the balance of payments and (b) to deal with the serious current and future deterioration of the physical infrastructure of the country, there should be an increase in public capital expenditure of about £1.5 bn. spread over, say, the eighteen months following the Budget, mainly on projects involving the building and civil engineering industry.

13. On a final general theme, the Chamber strongly recommends a return to the old and long-standing distinction between "above the line" (current) and "below the line" (capital) expenditure, and is not able to accept the Treasury arguments for a single accounting basis. The clear distinction between current and capital expenditure is essential for control of both, and for the flexible approach required on the latter in different stages of economic growth. The PSBR derives from the sum of the revenue surplus on current expenditure and the deficit on capital expenditure, but the latter should be split between general infrastructure and revenue generating capital. The PSBR itself is not an absolute measure : its ratio to GDP is more important than its size. Currently the measure of PSBR is distorted by the proceeds of privatisation sales. It is a questionable principle to include such one-off items in general revenue account, and the Chamber will be submitting a more detailed memorandum on this subject.

Yours sincerely,

Tommy Macpherson

R. T. S. Macpherson
Chairman
Economic Affairs Committee

Encs.

London Chamber of Commerce and Industry

Agenda item	Reference
6	C/83/51
Date 14 November 1983	
THE 1984 BUDGET TECHNICAL REPRESENTATIONS	

The taxation committee's proposed technical representations for the 1984 Budget and Finance Bill on:-

- i Corporation Tax
- ii Personal Tax
- iii Capital Taxes
- iv Taxation of Small Firms
- v Value Added Tax

are attached. The representation on non technical matters are due to be made at the end of the year.

1984 BUDGET

LCCI Technical Representations - Corporation Tax

1. Groups of Companies

1.1 S29 FA 1973

Transactions should not be caught by Ss 29 and 30 FA 1973 when effected for bona fide commercial reasons, and should be afforded a Revenue clearance procedure. Experience indicates that the Revenue operate these sections frequently and inflexibly and they continue to unnecessarily influence and impact upon normal trading deals.

1.2 Intra-Group Company Loans

Sec. 136 CGTA 1979 allows losses on loans to rank for capital gains tax relief in certain circumstances. This relief is still denied however in the case of loans between group companies or if the borrower is non-resident. Yet those must be the most common situations where losses on loans are incurred. As long as the loans were advanced for bona fide commercial reasons we believe all losses on loans should rank, for relief equally with share capital or other securities. This should also include losses arising from guarantees on behalf of fellow group companies.

1.3 Consortium Relief

We appreciate the expansion of the relief made available in the 1981 Finance Act, but we feel that there should be complete freedom of surrender, ie sideways as well as up and down. Particularly, the surrendering company should not be denied group relief for those losses remaining in any one year after a surrender to a consortium company as currently happens through the effect of Sec. 263(5) TA 1970.

The consortium vehicle continues to be very popular to pool limited resources, particularly in capital intensive situations, and full freedom of consortium relief should be available.

1.4 Transfers of Assets within a Group

There seems no justification for the rule that it is only if part of a trade is being transferred also that tax depreciable assets may be transferred between companies in the same group at tax written down values. Where this is not the case the group suffers a balancing charge in one company and allowances are restricted to 25% on a reducing balance in the other. This unwarranted cost can only be avoided by transferring assets at unrealistic values but there are strong commercial and accounting objections to this. It should be possible to elect for assets to be transferred at tax written down values as was the case before the 1971 legislation.

1.5 Section 278

This section was quite reasonably introduced as anti-avoidance legislation. It does however lead to problems in perfectly normal commercial situations where a purchaser will invariably seek an indemnity. It therefore seems to us that at the very least there should be a clearance procedure introduced to cover non-avoidance situations.

1.6 Losses

The use to which surplus losses can be put is restricted even within a single company although in practice the Revenue does not normally seek to separate trade streams. In groups however such restrictions are imposed merely because for good commercial reasons separate corporate entities are used for different activities. A further problem arises with charges and their effect on losses - creating distortions in financing which might lead to the use of bank financing when other sources might without the tax effect be more economic. A case thus can be made for allowing group relief surrenders of surplus losses in years other than the year in which the loss arose and also for not restricting losses brought forward to a specified type of income.

1.7 Grouping Capital Gains and Losses

It should be possible to offset capital profits and losses in a group of companies. The Revenue have for many years argued that this is not necessary since assets can be moved freely within the group before disposal. But with the growing tendency of Courts to question transactions prompted by tax rather than commercial considerations it is essential that the offsetting of group profits and losses is given statutory authority.

1.8 Rollover Relief on Group Assets

The Revenue interpret section 115 CGTA 1979 in such a way that they look only at the use of the asset disposed of in the actual company making the disposal regardless of transfers within the group. This can produce strange results both in the taxpayer's favour and against, but it does not seem sensible and the legislation should be changed or the Revenue alter their practice.

2. Time Limits

It is felt that a review is overdue of the various time limits set down for the claim or surrender by companies of losses, allowances etc, but of specific importance we wish to point out the following:

2.1 Stock Relief Clawback

The LCCI Tax Committee does not believe that either the clawback provisions or the six year restriction on group relief losses are fully justified. It is certainly not defensible if a business suffers a clawback charge but previous losses are not allowed against it because they have become time-barred. Losses derived from stock relief should, as a minimum, always be available against clawback.

2.2 Tax Credit Relief

In a number of instances where agreement of final foreign tax liabilities can be delayed for many years due to the laws of the particular overseas Revenue authority, agreement of any UK liability on that income is similarly delayed pending finalisation of the tax credit relief. Whereas S512(2) permits adjustment to be tax credit relief in the assessment concerned outside the normal limits, it is often the case that further adjustments which would be necessary to surrenders in a group (ACT and/or losses) are time-expired. This clearly frustrates the purpose of Sect. 512(2) and where an adjustment to tax credit relief in any assessment is made under the section, corresponding adjustments to group relief and ACT surrender claims should not be time-barred.

2.3 ACT and Loss Carry Backs

Under TA 1970, Section 177(3A) the claim may be made to carry back first year allowances for up to three years. Under FA 1972, Section 85(3), the set-off of surplus ACT against losses must be claimed within two years. Thus the ACT claim period unfairly restricts the operation of Section 177(3A) and it is considered that this should be amended. In the case of Groups of companies there should be complete freedom of use of ACT without the constraints of time limits in which surrender for example must be made.

3. Offsetting ACT against Corporation Tax on Capital Gains

The present system of capital gains tax results in double taxation on the ultimate shareholder of a company. In the case of group structures there can be a cascading effect resulting in multiple taxation. We strongly urge that ACT on dividends should be available to set-off against capital gains tax which would greatly ease this problem. This would be particularly appropriate at the present moment where many companies have surplus ACT yet can find themselves paying further tax on capital gains.

4. Closure Costs

The limitation placed on termination payments by Section 41(2) FA 1980 by reference to statutory redundancy payments is unjustly restrictive, not only on the amount paid by UK businesses but it also excludes any payment at all by overseas branches which are closing down. The wording of Section 41(1) is sufficient to ensure that only genuine redundancy payments are allowable and the restriction in Section 41(2) should be removed.

5. Abortive Expenditure

Companies regularly incur expenditure which does not result in the creation of an enduring asset for the benefit of their trade, but which because arguably it is of a capital nature is not relieved for tax purposes. Examples of this would be the costs of failed take over bids and investigations into the feasibility of using new processes, projects etc where no plant and machinery is actually acquired. Expenditure of this type would under normal accounting procedures be written off against profits, and should in our view be similarly allowable for tax purposes especially where incurred for a genuine trading purpose.

6. Overseas Income and Tax Credit Relief

It is common practice for "Third-world" countries (particularly Central and S. America) to levy withholding taxes on fees for technical services rendered by non-residents substantially outside of the country, including the element of the payments which represent reimbursed expenditure. In the invariable absence of a Double Tax Treaty and by virtue of S498(6) ICTA 1970, and the "source" concept the UK Revenue refuse to give double tax relief, UK Companies are experiencing severe disadvantages compared to their international competitors through having to increase their prices appropriately. There is every reason to suspect this additional cost of contributing to the lack of competitiveness of British companies in tendering for contracts in certain countries.

7. Capital Allowances and Buildings

7.1 We are still concerned at the way the Revenue and the Courts draw distinctions between buildings and plant. In our view capital allowances as plant and machinery should be given for all fixtures and fittings of a nature less permanent than the buildings in which they are situated. This problem has been further highlighted by the confusion following the recent case of Stokes v Costain Property Investments Ltd.

7.2 The relief afforded by S14 FA 1975 to insulation provided in industrial buildings to prevent loss of heat should be extended to include all forms of energy conservation, eg insulation for cold stores.

7.3 Tax relief in some form should be given for commercial building, albeit perhaps only 5% p.a. without initial allowance.

8. P11D Limit

We consider that the administrative burden of the P11D procedure and the problems it can cause in employee relations are out of all proportion to the revenue it yields. We believe that the threshold should be substantially increased to a figure of say, £20,000. If indexed to current day value the original limit of £2,000 set by S41 1948 Finance Act, would be approximately £25,000.

9. Management Expenses

The definition of management expenses is far too narrow, and in our view does not fairly cover the costs of running a holding company - particularly of a conglomerate group. The solution would be to allow all costs of a type which would be allowable for Case I purposes if the company were carrying on a trade.

10. De-Mergers

10.1 De-merger provisions were introduced to assist the fragmentation of inefficient businesses. A de-merger will crystallize any potential capital gains within the company and this is considered to be a disincentive and unfair consequence of de-merging. We can see no reason why clearance cannot be introduced and such gains exempted accordingly.

10.2 Also the de-merger provisions do not apply to the hiving-off of part of a trade although we understand in practice the Revenue do not take the point. However, it is preferable that de-merging part of the trade should be allowed by law and not by Revenue practice.

1984 BUDGET

LCCI TECHNICAL REPRESENTATIONS - PERSONAL TAXATION

1. Rates of Taxation on Personal Income

We have commented before that the jump between the basic rate and the first higher rate is too great at 10%. We still believe this to be so, but we would also emphasise that the jump from nil to 30% is even higher particularly when one takes account of the national insurance contribution of 9% for employees not contracted out.

2. Investment Income Surcharge

We believe the investment income surcharge is a disincentive to investment in British business. For those who have retired the surcharge is inequitable where the individual has invested his savings for old age himself, perhaps through not having been in a position to do so through a pension scheme and we repeat our suggestion that it should not apply to people over 65.

3. Call-out-Expenses

There are many employees whose duties require them to make a second appearance at work to meet emergency situations, or ordinary events such as high tide late in the evening in the case of discharging cargoes. In such circumstances it is almost impossible for the employer to avoid having to reimburse the employee for the additional travelling cost involved, perhaps also with a meal, and if this is taxed, to gross it up as well. We believe the time has long past when the Revenue should make a realistic reappraisal of its attitude to such anavoidable employment expenses which should not be liable to tax on reimbursement by an employer.

4. Exepnses of Multi-directorships (Section 189)

Relief under this section is being refused by the Revenue where a single set of expenses has been incurred wholly, exclusively and necessarily in the performance of the duties of two or more employments. Consequently, a person with say four directorships who for reasons of business convenience and economy has one office, one secretary, one telephone etc., is not being given relief on the grounds that none of the expenses were incurred in respect of any one employment only. On the other hand, despite the considerable inconvenience and added cost such a person with four offices, four telephones, four secretaries etc., would be entitled to relief under Section 189.

Such an anomalous and inequitable situation should be remedied by legislation or concession.

5. Private Residence and Overseas Jobs

a) An individual who takes an overseas employment retains his exemption form capital gains tax on his principal private residence in the UK provided that he lived in it both before and after working abroad. He does not get this exemption if after going abroad he is a first time buyer of such a house, nor if he changes his principal private residence whilst abroad. Similar problems arise with mortgage interest which would otherwise be deductible from any UK income. We feel that full relief should clearly be available in all these situations.

b) Individuals who are self-employed abroad and who have private residences in the UK have exactly the same problems as those with an employment overseas and there is no reason why they should not have the same treatment for capital gains and for mortgage interest relief.

c) We would add that in connection with the new MIRAS scheme there is an urgent need for clear guide lines to be made public to meet the situation of individuals going abroad or returning to the UK. The scheme, if it is to wrok properly, needs to have clear cut rules which can be implemented without the need for intervention by professional advisers or Inspectors of Taxes.

6. Section 21 Finance Act 1983

Companies who provide for example mobile staff on assignment with flats in central London are finding that the new taxable benefit will in many cases substantially exceed the current market rent, sometimes by as much as 50%. Such accommodation is not provided as a perk, nor with an option to buy and the market rent ought to act as a ceiling to the taxable benefit. This would not provide valuation problems as there is a reasonable rental market in London.

7. Removal Expenses

a) The present state of business is causing sizeable upheavals in many companies with both expansion and contraction in particular locations. These changes can only lead to increased efficiency if employees are able to move from one work place to another, often with a change of residence.

The cost of wuch relocation is naturally high and extra statutory concession A.5 relieves the reimbursement of the removal expenses from tax, provided "that the expenses are reasonable in amount and their payment is properly controlled". Serious problems are being encountered by businesses because unrealistic conditions are being imposed on local tax offices by their head office which interprets the reference in their concession to "reasonable in amount" as meaning only the level at which the Civil Service itself reimburses similar costs.

Despite the published concessions companies which have properly controlled systems of reimbursement and only meet expenses which are realistic and reasonable in amount are being required by the Revenue to tax a substantial part of these reimbursements merely because they exceed what seems to us to be arbitrary Civil Service levels - and this particularly applies where the new house is dearer than the old one and it is necessary to give some support in meeting the higher mortgage interest payments.

The net result of what seems to us to be the failure of the Inland Revenue to administer properly its own published concession, is that many companies have to bear increased costs because unavoidable expenses have to be grossed up for tax purposes merely to get the right employee in the right place at the right time.

b) A further problem in dealing with removals is the burden of stamp duty on private residences. This affects business in two ways. Firstly, for individuals who have to meet the cost of the tax themselves it is one of the larger features which make them reluctant to move. This therefore hinders the flexibility of labour necessary for the commercial world to operate efficiently. Secondly, this increases employers' costs where an employer is paying for a removal.

We believe that no stamp duty should be charged on properties costing £100,000 or less.

8. Interest on Additional Assessments

The present administration machinery between Collectors' and Inspectors' offices is not working well, particularly in cases where by agreement with the Inspector part of the tax charged on an estimated assessment is deferred. It often happens that the Collector continues to attempt to enforce collection of the full amount. The situation will be worsened by the effect of S69 FA 82 because where estimated assessments are too low taxpayers will be penalised unless they pay tax in excess of the amount charged. If they want to pay the extra tax, however, there appears to be no administrative machinery for Collectors to cope with it. Quite apart from the difficulties of working this system we believe S69 to be ill-conceived and it should be repealed.

We would also reaffirm out belief that it is inequitable that where an individual over-pays tax he received no repayment supplement at all for up to 12 months.

9. Entertaining Expenses - Schedule D Case V

In computing the taxable profits arising from a trade carried on outside the United Kingdom, either by an individual or by a partnership, Section 411 Taxes Act 1970 operates so as to disallow entertaining etc., expenditure, which is contrary to the intention behind Section 411(2) and can produce inequitable results. Section 411(2) was enacted to encourage the earning of foreign currency, but provides relief only for trades carried out in the United Kingdom and not for those carried on overseas.

Take, for example, the case of an overseas firm of architects, most of whose partners are UK resident, which incurs considerable entertaining etc., expenditure in obtaining a contract for work outside the UK. In computing the UK taxable profits, this expenditure will be disallowable, thereby possibly cancelling the advantage of the 25% deduction given for foreign earnings.

Section 411 was enacted before the changes which brought Case V profits more generally within the charge to UK income tax, and Section 411(2) should be amended so as to remove the restriction on the relief.

LONDON CHAMBER OF COMMERCE AND INDUSTRY

1984 BUDGET REPRESENTATIONS

CAPITAL TAXES SUB-COMMITTEE

CAPITAL GAINS TAX

Deemed Market Value

The Revenue used to maintain that under Section 29A Capital Gains Tax Act 1979 when a UK resident receives an asset by way of gift from a non-resident or by way of a capital distribution from an overseas trust, the acquisition value is nil rather than the market value at the time of disposal. They have now accepted in relation to trusts that this interpretation was wrong but have sought to amend the law in FB 1983, C.61. It is not clear why the market value should not be the appropriate base and it is particularly inequitable in view of the fact that the anomaly can be avoided by the donee receiving a gift of cash rather than an asset and subsequently purchasing the asset out of the cash.

Similar problems arise on the liquidation of an overseas company where assets pass to UK residents where the Revenue are disallowing any base cost for the assets.

Rollover Relief

The purpose of rollover relief is to ensure that taxation is only levied when a business ceases to reinvest the proceeds of sale of its business asets. It seems therefore that there ought to be no distrinction between movable and fixed plant and the distinction ought to be abolished. This has particular application to the case of farming machinery where it is not uncommon for the machinery to be sold at a profit.

Value Shifting

The purchase by a company of its own shares is the subject of a clearance procedure. However, this does not extend to the potential capital gains tax charge which can arise under Section 25(2) Capital Gains Tax Act 1979. This ought to be rectified.

Valuation

Under Section 114 Finance Act 1980 it is now possible to negotiate the value on a transfer of land in advance of the transaction. This has proved a very beneficial and administratively convenient development and we would suggest that similar valuation procedure should be extended to capital gains tax on proposed gifts in unquoted shares.

Losses

At present an individual or a partner is not able to elect for the set-off of trading losses against realised capital gains. This set-off is available to companies and ought to be extended to individuals.

Retirement Relief

At present retirement relief is not available to an individual who holds shares in a holding company, even though the holding company is a member of a trading group. There seems no reason why the relief should not be extended to such circumstances, especially as it results in tortuous moves being adopted prior to a disposal to ensure that the retirement relief is available.

At present the retirement relief commences at age 60 and rises in bands to age 65. We would suggest in the light of the present state of the economy as well as the tendency towards earlier retirement that retirement relief should commence at age 55 and reach a maximum at age 60.

The Committee welcomes the Chancellor's recent statement that he will be "conducting a full review of this area".

Company Reorganisations

The purpose of Section 278 Taxes Act 1970 appears to have outlived itself and can in certain circumstances give rise to innocent liabilities. We believe that this section therefore ought to be repealed or alternatively that a clearance procedure ought to be introduced.

Non-resident Companies

Section 15 Capital Gains Tax Act 1979 assesses gains arising to a non-resident company on its shareholders in certain circumstances even if no capital payments have been received by the shareholders. This may give rise to hardship (as was illustrated in the case of Van Arkadie v. Plunkett (1983 STC54).

The rules relating to non-resident trusts were amended in 1981 and the position ought to be brought into line for non-resident companies.

Series of Transactions

Under Section 151 where a person acquires assets in two or more gifts, the valuation applied is arrived at by considering the aggregate market value of the series of transactions together. There appears to be no time limit in determining when a series of transactions commences and ends. It cannot have been Parliament's intention to have an open-ended application of this section and we would suggest that a series should be limited to a three-year period.

Indexation

We still maintain that limiting indexation from April 1982 is very unreasonable and equity demands that indexation should be available from 1965.

CAPITAL TRANSFER TAX

Domicile

Under present rules an individual becomes domiciled in the United Kingdom for capital transfer tax after 17 years' continuous residence. An individual who leaves the UK for an extended period may well retain his UK domicile. There are, we suspect, innocent omissions by individuals who have been residing overseas for many years who believe that their absence from the UK takes them outside the tax net. We would suggest that a similar provision should be enacted which would deem an individual not domiciled in the UK for capital transfer tax after 17 years' continuous non-residence.

Valuation

Although property held on a trust set up before March 1974 can qualify under the surviving spouse exemption, nevertheless if that property is unquoted shares, it is aggregated with property held absolutely by the surviving spouse in valuing the shares liable to capital transfer tax. This would appear to be anomalous and can give rise to a considerably higher tax charge. We would therefore suggest that unquoted shares which are subject to a surviving spouse exemption should be ignored in valuing shares held absolutely by the surviving spouse.

DEVELOPMENT LAND TAX

Pension Fund

The exemption from development land tax granted to charities recently is welcome. However, we believe that in terms of encouraging economic activity the extention of this exemption to pension funds would be of more direct benefit to the construction industry and we would suggest that pension funds should not be subject to development land tax.

LONDON CHAMBER OF COMMERCE & INDUSTRY

SMALL FIRMS' TAXATION SUB-COMMITTEE

1. Business Expansion Scheme

(a) The relief should be extended to all forms of share capital, not merely ordinary shares in the company. This would enable the potential investor to see some prospect of a repayment of his shares if, for example, redeemable preference shares were used, and would enable the individual controlling the company not to water down his controlling interest

(b) Whilst the exclusion from relief for companies dealt with on the USM is understandable, the withdrawal of the relief in respect of shares in a company which, after the acquisition, become so dealt with, seems unreasonable. Perhaps only a company which goes to the USM within 6 months of the share acquisition should be excluded, so as to avoid relief being obtained in respect of companies about to enter the market.

(c) Paragraph 5(8)(9) and (10) Schedule 5 Finance Act 1983 seemed to be a partial re-enactment of a former provision which did not appear to be any longer relevant, as the devices against which the provision was formerly enacted, namely the attempts to dress-up and old business as a new business, or cases where the 50% restriction used to apply, were no longer in the legislation. Clarification as to the purpose of the sub-paragraphs is sought. The effect of the sub-paragraphs does seem to go to prevent relief on occasions where relief should be obtained.

(d) Paragraph 5, Schedule 5 Finance Act 1983 provides an undly restrictive definition of a qualifying company, particularly in the area of overseas operations. A company with an overseas subsidiary would not qualify nor, it seems, would a company whose principal objective was exporting operated through branches outside the United Kingdom.

2. Partners and other Self-Employed Individuals

There are a number of areas in which partners and other self-employed individuals are treated less favourably than employees or companies and these include:-

(a) The rate of tax applicable to profits of a partnership retained within the firm are substantially higher than those applicable to a company.

(b) The scope for pension provisions, in spite of the relaxtions are less generous inter alia, in the area of Self-Administered Funds.

3. Interest Relief Provisions

The provisions relating to interest relief are becoming increasingly complex and some form of consolidation is clearly required. So far as relief for interest on money borrowed to purchase shares, the provisions could be very greatly simplified if instead of specifying a number of categories eligible for interest, the provisions could allow all interest on loans to acquire shares to be allowable, other than shares in:-

(a) companies which are both quoted and non-close, and

(b) investment companies other than the parent companies of a trading group.

The inability to obtain relief, for example, for an individual who acquires shares in an employee-controlled company after it has become so controlled seems unfortunate, particularly if the employee joins the company after it has become employee-controlled.

It also seems inconsistent that money borrowed to invest in a business enterprise scheme qualifying company might, in some circumstances, be allowable but in others not.

LONDON CHAMBER OF COMMERCE AND INDUSTRY

BUDGET REPRESENTATIONS 1984

VALUE ADDED TAX

1. Legislation by Statutory Instrument

We deplore the frequent use which is made of the Statutory Instrument as a means of giving effect to quite fundamental changes in VAT law of a kind which ought to have been subject to Parliamentary scrutiny and debate. The recent episode of the proposed amendments to the Partial Exemption rules is a case in point. The public reaction to the proposals (which were embodied in a Statutory Instrument made at a time when attention was focussed on the Budget speech) led to the withdrawal of the more controversial of the original amendments. It would have been more satisfactory all round if proposals such as these had been included in a Finance Bill.

2. Bad Debts

The provision enabling suppliers to reclaim VAT where debts turn out bad (VATA 1983, S.22) is unnecessarily restrictive.

In particular, it should cease to be a requirement that the creditor should have proved in the debtor's insolvency (S.22(2)(a)) before relief can be given. It ought to be possible to devise procedures for verifying claims which would enable relief to be given in a wider range of circumstances.

In addition, the requirement in S.22(1)(a) that the claimant be the actual supplier of the goods or services prevents relief being claimed where supplier companies have their debts factored by companies outside their VAT group.

3. Invoices

The rules defining the essential contents of a VAT invoice (VAT (General) Regulations 1980, No 1536, para. 9) are rigidly enforced and any failure to comply with the rules, however slight, can prevent the recovery of input tax which has been incurred.

In the Chamber's view, C & E officers should be allowed to exercise their discretion in deciding whether to allow input tax to be recovered where the invoice is "spoilt" by only a trivial error.

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/...

4. **Business Gifts**

The £10 limit on VAT-free business gifts is considered to be too low. A £50 limit would be more appropriate.

5. **Grouping Elections**

VATA 1983, S.29(7) requires grouping elections to be made "not less than 90 days before the date from which it is to take effect, or at such later time as the Commissioners may allow."

It is understood that the 90 day rule is not generally enforced. Its retention does, however, create doubt and uncertainty in cases of acquisitions, mergers, etc. where new groups are created and VAT grouping treatment is desired at short notice. We accordingly would prefer to see the rule abandoned.

6. **Partial Exemption**

In determining the non-recoverable input tax of partly exempt traders, the Commissioners are empowered to "allow or direct" the use of a method other than Methods 1 and 2. (General Regns. 1980, para. 24(2)).

If the proposals contained in the recent consultative documents are enacted, many large companies will find it advantageous to use special methods.

We are concerned in this connection that the Commissioners are not required to agree a special method within any specified period of time and we feel that it is only right that they should be subject to a reasonable time limit, say 90 days, in order to protect traders against the very serious cash-flow problems which can arise where a special method is not agreed.

7. **Conference Expenses**

The Chamber is concerned at the potential loss of business to the hotel trade arising from the disallowance of VAT on hotel and cating charges relating to conferences and other occasions which are deemed to include an element of hospitality. This situation is particularly onerous for companies who hold regular conferences and meetings for their self employed agents.

An example of this problem has been the departure from this country of a Pro-Am golf tournament due to the costs of accommodtion etc for the participants being increased due to the VAT there not being reclaimable.

ECONOMIC REPORT JAN. 1984

THE CURRENT SITUATION

The World Economy

After a check to the growth of output in 1983, the economy has probably grown by 2½ per cent in 1983 and may grow rather faster - perhaps by 3½ per cent - in 1984. The recovery in the developed countries is being led by a vigorous rise in activity in the United States and a more moderate one in Japan and the United Kingdom. The recession in the continental EEC countries has continued in 1983, with a decline in GDP in many but a possible growth of 2 per cent in Germany.

Inflation has been slowing down, from over 10 per cent in 1980 to around 5 per cent in 1983; while the rise in unemployment in the industrial countries seems to be slowing down. World trade has begun to recover, after a fall in 1982, despite the check to imports caused by the recession in the industrial countries and by adjustment to debt problems in the developing countries.

The international debt crisis has been held at bay but it has not gone away. Interest rates are still high relative to inflation, even though they have fallen in nominal terms from around 16 per cent in 1981 to under 10 per cent in 1983; while the US has hardened its attitude to the finance of the International Monetary Fund and the International Development Association.

At the moment, so much in the world economy depends on the policies and performance of the United States that it is worth examining what has been happening there in more detail. Monetary expansion was reduced from over 8 per cent in 1980 to under 5 per cent in 1982 and the rate of inflation has fallen from over 13 per cent in 1980 to 6.2 per cent in 1982. Despite the fall in inflation, the narrow version of the US money supply was growing much more slowly than prices through 1980 and 1981 and the continued fall in the real money supply seems to have nipped in the bud the slight US recovery in 1981 and contributed to the fall of nearly 2 per cent in US output in 1982 and the rise in unemployment to nearly 10 per cent. US monetary policy changed sharply in 1982 and, in the first half of 1983, the narrow version of the money supply (M1) was 9 per cent up on the first half of 1982, while the real money supply was growing at 5½ per cent. Real money supply growth, combined with a massive fiscal deficit, has resulted in a rapid growth of US output. In 1983, GNP is likely to be over 3 per cent up on 1982 and growth in 1984 may be 4½ to 5 per cent. As yet, inflation has not been affected by the boom and the inflation rate was down to 3½ per cent in the first half of 1983.

However, the boom seems to have led to another reversal of monetary policy by the Federal Reserve Bank, which has become more restrictive and maintained US interest rates at a high nominal level and, with inflation relatively low, at a very high real level. Since July 1983 M1 has been growing at an annual rate of about 1½ per cent. High interest rates, together with the uncertain world banking and financial situation, have made the United States a magnet for short-term capital, forcing defensive high interest rate policies on other industrial countries. Since most of these countries, unlike the USA, are still struggling out of the recession, high interest rates are most unwelcome. At the same time, the inflow of short-term capital to the United States had made the dollar extremely strong and is helping to worsen the already massive US current account deficit, which is likely to be even bigger in 1984.

Thus, although the US boom is helping to pull one part of the world out of recession and strengthening export demand, its high interest rates are holding back expansion in most other industrial countries; keeping up the repayments burden of developing countries; and causing doubts about the maintenance of US economic growth past the end of 1984. What policies can the European Community countries adopt in such circumstances?

At least 10 to 15 per cent of the EEC economy depends directly on the demand for its exports by fellow-members and, therefore, on the economic policies they are pursuing. The EEC accounts for 24 per cent of world imports (excluding trade within the Community); as much as the USA and Japan together. Surely, Britain would be better off if its major efforts were devoted to persuading its fellow members to co-operate in economic expansion, rather than bickering over the EEC Budget.

The United Kingdom

The UK economy has been recovering since the trough of the recession in May 1981, though more slowly than it did from the 1975 recession. There are still conflicting views about its rate of growth in 1983 but GDP is likely to have been up 2½ - 3 per cent over 1982. Inflation seems to have steadied at around 4½ to 5 per cent. The growth of unemployment has slowed down and employment shows some increases, even in manufacturing industry. The improvement in the economy will, however, be little consolation to the 12,466 companies which went into liquidation in England and Wales in 1983; an increase of 12 per cent on 1982 and over 50 per cent on 1981. Nearly a half of these company failures occurred in London and the South East.

Sterling has been reasonably stable against most currencies but concern about a possible fall in oil prices resulted in a quite sharp fall against the dollar in December. Both the dollar and sterling are overvalued in terms of purchasing power. The dollar is expected to fall over 1984, despite its current strength, and sterling should also edge downwards against the average of world currencies, although the fall may be sharper if the Middle East remains disturbed and if oil prices continue to fall in real terms.

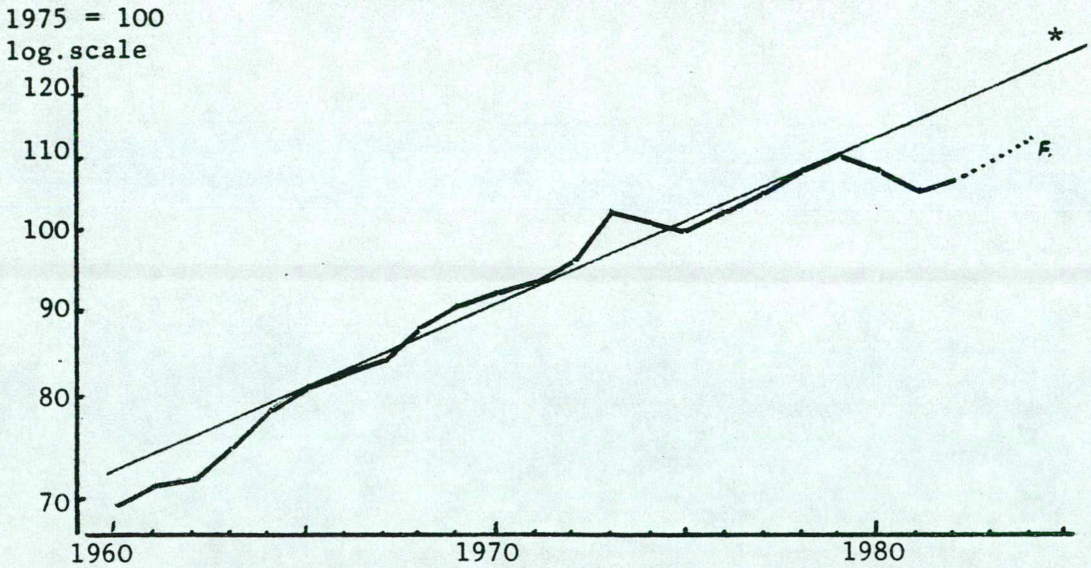
Money supply targets were met reasonably accurately in the fiscal year 1982-83 and, after a temporary loss of control, are coming nearer this year's target limits again. As a result, monetary policy, which has not been so tough in relation to inflation, is tightening a little.* In contrast, fiscal policy, which, in relation to the economic cycle, was very tough in 1980 and 1981, has become rather more relaxed. Together with relaxations in HP credit control, a rise in real earnings and a fall in the savings ratio, this has resulted in a growth of consumer spending which, with the change in company stocks, has fuelled the increases in demand.

The Outlook for 1984

In 1984, the Government expects a year on year growth of GDP of 3 per cent, an increase in the retail price index of 4½ per cent, a rough balance on the current external payments account and appears to hope for a slight fall in unemployment. It expects a fall in the PSBR from £10 bn. in the current fiscal year to £8 bn. in 1984-85 or from 3¼ per cent to 2½ per cent of GDP and the range for its targets for monetary growth will be between 6 and 10 per cent - one per cent lower than the current ones.

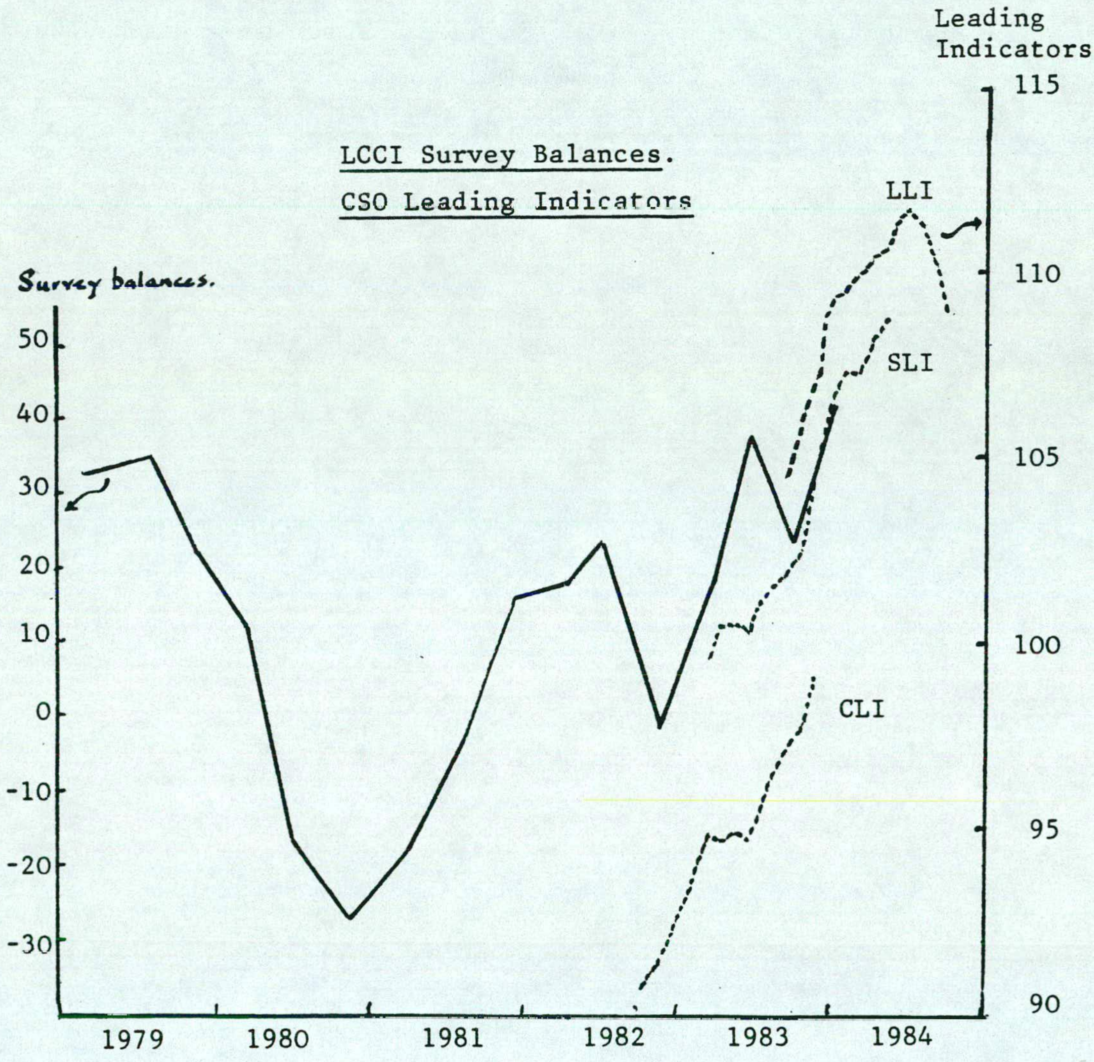
* But private sector borrowing has grown fast in 1983 and the growth has been accelerating recently, which will make monetary control more difficult in 1984 if it continues.

UK Gross Domestic Product
average estimates : 1978 prices



* Estimated growth of productive potential 1965-79
F Treasury forecasts for 1983 and 1984

LCCI Survey Balances.
CSO Leading Indicators



Leading Indicators : LLI = Longer; SLI = Shorter; CLI = Coincident

It is quite possible that these targets and forecasts may be met. It must be said, however, that the Government's forecasts are rather more optimistic than others on virtually every count, except for those of the monetarist model of the Liverpool University group and the supply-side influenced model of the City University Business School. Other forecasters expect GDP to grow between 2-2½ per cent, retail prices to grow by around 6 per cent and unemployment at best to stabilise or to grow more slowly than in the recent past. A comparison of forecasts is given at the end of this commentary.

To a large extent, the differences between forecasters occur in their views on consumer spending, which accounts for nearly 70 per cent of total expenditure. Most factors which promoted the growth of personal consumption (outlined above) are likely to weaken in 1984; the differences reflect the extent to which this will happen.

Home demand is not the only factor on which UK output depends. Export demand should be stronger than in 1983 and the improvement of UK unit costs, both absolutely and relatively to those abroad, should help British industry to increase its exports and resist import penetration more successfully.

The cost improvements and output growth have considerably improved overall profitability in the UK private sector, despite the increase in bankruptcies. They should lead to a growth of private sector investment this year and this is supported by the most recent government investment survey. As suggested in our last Economic Report, the improvement in unit labour costs should result in a growth of jobs and a fall in unemployment during 1984 and signs of this are already appearing.

The 1984-85 Budget

In the light of the analysis above, what sort of Budget does British industry need for the next fiscal year?

Last year the LCCI put forward proposals for a limited fiscal relaxation, mainly in the form of reductions in industrial costs, amounting to a direct stimulus of £3.7 bn. at 1983 prices. Budgetary policy moved in this direction but to a lesser extent - about £2.7 bn. The Chancellor has suggested that the next Budget may move towards ~~an~~ overall increase in the tax burden. Despite the improvements to the economy since last April, our analysis suggests that this is uncalled for. There is still massive under-utilisation of human and physical capital. The Government's own longer leading indicator, which had been rising since early 1982, fell between July and October, suggesting that there could be a check to the upswing of the economy later this year. There are thus strong arguments for further reductions in industrial costs; further efforts to reduce real interest rates (possibly in concert with other EEC countries, as suggested above); and an increase in public investment spending, particularly in projects to improve the housing stock and other aspects of Britain's infra-structure, which have the advantage of a lower import content than most other economic activities.

The PSBR and its control is a central feature of the Government's policy. The public authorities' need to borrow is clearly of importance to the control of the money supply (when borrowing from the banks) and to the behaviour of interest rates (when borrowing from the non-bank public). But forecasts of the PSBR are notoriously inaccurate; the relation between the PSBR and the money supply is imprecise, to say the least; and the relation between the money supply and inflation is variable, both in strength and timing. The outcome for the PSBR for 1982-83 was nearly 17 per cent higher than originally forecast by the Treasury. Yet not only is the increase in real GDP for 1983 likely to be 50 per cent higher than forecast in the Financial Statement and Budget Report of March 1983 but the rate of inflation is likely to be 1 per cent lower. To place so much emphasis on one measure of the Government's economic policy, particularly when no public allowance is made for the impact on it of the economic cycle, is surely misguided.

London and the South-East

The survey taken in September 1983 appeared to show that the progress made over the previous three months in most areas of activity was suffering a set-back. However, the comparable figures for the December survey, showing the balances between the proportion of firms showing increases and those showing deteriorating conditions, moved more favourably for both domestic and export orders, and for production levels, new investment and profits. This improvement has taken the balance figures not only over those for September but also above those for June 1983. This change reflects, in the main, a recovery by small and medium-sized firms. The figures for large firms have either not recovered (domestic orders and production levels), remained at a persistently lower level than smaller firms (export orders and new investment) or continued to deteriorate (profits).

A comparison of the figures over a period of twelve months, rather than a quarter, shows that the balances for the activities discussed above all improved between September and December, appreciably so in most categories.

Firms were also asked to comment on their under-utilisation of capacity. A comparison of their answers with those to a comparable question asked in March 1981 gives a rough indication of the extent of the improvement, though it does allow for the extent to which capacity has been reduced during the recession. In March 1981, 47 per cent of the firms responding could have increased output by 20 per cent or more without any increase in labour or capital equipment. By December 1983, that figure had fallen to 29 per cent. An estimate of the average extent to which the firms could have increased output within their capacity limits suggest that it fell from 25½ per cent in March 1981 to 18½ per cent in December 1983 - a significant improvement but still leaving room for real increases in output.

When respondents to the survey were asked to look ahead at the prospects for the next twelve months, rather than back over the past twelve, their answers suggested a reasonable degree of confidence, though slightly less than in the September survey.

'Balance' figures for next 12 months (%)

	Dec.1983	Sept.1983	June1983
Domestic Orders	58	67	68
Export Orders	40	50	40
Investment	40	46	37

Douglas Vaughan
Economic Adviser
January 1984

COMPARISON OF FORECASTS

(Per cent changes on previous year, except where otherwise indicated)

		HMT(1)	Others(2)
GDP(3)	1983	3	2.2
	1984	3	2.3
Consumers' expenditure	1983	3½	3.1
	1984	2½	1.6
Fixed Investment	1983	2½	3.5
	1984	4	3.6
Exports	1983	½	0.9
	1984	4	3.9
Imports	1983	5	4.6
	1984	5	3.7
Current Account BoP £bn.	1983	½	0.9
	1984	0	0.15
Inflation	1983	5	5.2
	1984	4½	6.1
PSBR £bn.	1983	10	9.1
	1984	8	8.7
Unemployment. Millions	1983	-	3.0
	1984	-	3.0

(1) Treasury forecast in Autumn Statement.

(2) Average of NIESR, London Business School, Phillips & Drew, Society of Business Economists.

(3) Output data used by NIESR and LBS; average estimate used by others. Since output data gives lower growth, the gap between HMT and others is smaller than the table suggests.

Bridges PPS

LIFFE

THE LONDON INTERNATIONAL FINANCIAL FUTURES EXCHANGE

FINANCIAL SECRETARY
REC. 20 FEB 1984
ACTION Mr Munro - IR
COPIES TO PPS EST
Sir P Middleton
Mr Cassell
Mr Monger
Mr Lankester
Mr Allen
Mr Lord
PS/IR

John Moore Esq MP.,
Financial Secretary to the Treasury,
Treasury Chambers,
Parliament Street,
LONDON SW1P 3AG

17 February 1984

Dear Mr Moore,

I believe that you have received a copy of a submission that the Exchange sent to the Bank of England, concerning the application of Schedule D Case VI in the tax treatment of transactions in Financial Futures.

We were able to have a full discussion of the issues involved with the Inland Revenue at a meeting held at Somerset House on 15th February. We received a very sympathetic hearing and I understand they will be reporting to you on their conclusions. We very much hope that it will be possible to include legislation in the forthcoming Finance Bill to eliminate the application of Schedule D Case VI because this is the major deterrent to participation by certain categories of user.

From a survey that the Exchange carried out recently, it is clear that to date, the principal users have been banks and professional trading houses - for whom the tax treatment is perfectly clear. Noticeably absent have been many corporate and institutional users - treasurers, fund managers - who constitute a major portion of those whom the market was designed to serve. So long as there is a likelihood that their financial futures business will be taxed under Case VI, they will stay away from the market.

Whilst the Inland Revenue at a policy level has taken the view that profits and losses from futures transactions take the form of income, not capital, in practice capital treatment is often afforded because this proves to be logical and compatible with the associated cash market transaction.

The Inland Revenue did stress that our proposal represents a significant change and there was little time to consider the necessary legislation for this year. In paragraph five of our submission we suggest the legislative change that would be needed. Our advice is that the change would not be difficult to make.

We appreciate that an important consideration in evaluating any change of this nature is the likely effect on tax revenue. As explained in section six of our submission, we believe our proposals would not reduce tax revenue and in the longer term will lead to an increase in net tax revenue.

Yours sincerely,

John Barkshire

R.R. St. J. Barkshire
Chairman

LIFFE

THE LONDON INTERNATIONAL FINANCIAL FUTURES EXCHANGE

JLF/sj/187

12 January 1984

Bank of England
LONDON EC2R 8AH

For the attention of: D.A. Walker, Esq.

Dear Sirs

Proposals for Tax Legislation
in respect of Financial Futures and Traded Options

We are writing in response to your letter to our Chairman dated 3 October 1983.

We were extremely pleased to note the written reply to a Parliamentary Question issued by the Financial Secretary to the Treasury on 13th December 1983, and the subsequent Press Release and draft legislation published by the Inland Revenue, concerning transactions in financial futures by pension funds. We believe this will facilitate participation in our market by pension funds and that this will prove to be a significant benefit to the pension funds and to the development of the market.

There are two further important matters which we wish to bring to your attention with the request that consideration be given to legislation in the forthcoming Finance Act:

1. Schedule D Case VI

   A number of users and potential users of the financial futures market, including individuals resident in the UK, are or would be assessed to tax under Schedule D Case VI on the results of their transactions. This would often result in a tax rate of 75% arising on gains from such transactions with the consequence that participation in the market is extremely unattractive when compared with alternative forms of investment activity to which different tax rules apply. Furthermore because it is often inconsistent with the tax treatment of the underlying cash market instrument, the effect is to frustrate the use of the financial futures market for investment hedging purposes.

The application of Case VI derives from a case law precedent in 1925 which is widely considered to be of questionable validity. For these reasons, we consider Case VI treatment to be inequitable, inconsistent and inappropriate and we therefore request that Case VI of Schedule D be deemed not to be applicable to the results of financial futures transactions.

2. Capital Gains Tax: wasting asset rules

We wish to be in a position soon to extend the instruments available to be traded on our market to include traded options contracts. Such traded options contracts would be based in some cases upon an existing financial futures contract and in other cases may be in respect of cash transactions such as foreign exchange. Developments in the USA and elsewhere in recent years indicate that contracts of this type are of great use to investors and the financial community generally and we consider that the City of London should offer similar facilities as soon as practicable.

However this type of traded option contract would fall to be treated as a wasting asset under the current capital gains tax legislation. Many users of the contracts who are subject to UK taxation would therefore be able to take into account when calculating their taxable gains only a proportion, and in some cases none, of the option premium paid. We consider that this tax treatment is inequitable and is so heavily adverse that we doubt whether the introduction of such new trading instruments is viable under current legislation. We therefore request that exemption from the wasting asset rules, which was afforded in 1980 in respect of traded options in company shares, should be extended to include option contracts which are traded on exchanges such as LIFFE.

We have set out our arguments in respect of these two matters in more detail in the attachments 1 and 2 to this letter.

LIFFE recognises that financial futures are not entitled to any more favourable taxation treatment than other forms of investment. However, in both of the above cases we consider that the existing tax treatments are inequitable and inconsistent with the tax treatment of other investment activity. We further believe that the legislation which we propose would not have adverse implications for tax revenue or in other respects.

The introduction of the legislation which we have proposed is most important to the development of our market for the following reasons:

(a) As explained in more detail in Attachment 1, the current applicability of Schedule D Case VI severely restricts the extent to which the market can be used for investment hedging purposes and renders the market unattractive to many potential users. As a result, the growth of the liquidity of the market, and therefore its development in competition with markets in the USA and elsewhere, is significantly impeded.

(b) Traded options contracts in respect of financial instruments have proved highly successful in the USA and elsewhere. International use of such contracts is growing rapidly. For example, a major proportion of the business in the options in foreign currencies traded in Philadelphia emanates from Europe. We consider that it is important that similar traded option facilities should be made available in London as soon as practicable. However the success of such a market in serving the international community depends upon the provision of adequate liquidity through the participation of domestic organisations and individuals. This domestic participation will be severely curtailed if the wasting asset provisions of the capital gains tax legislation remain applicable, so much so that a market in such traded options may not be viable.

We understand that for similar reasons the Stock Exchange has also requested that the existing exemptions from the wasting asset rules be extended to include other types of traded options.

The unfavourable and inequitable tax treatment of financial futures and traded options, which our proposals seek to redress, is probably the largest single obstacle to the further development of LIFFE as an international market. Tax treatment of financial futures and traded options is far more equitable in overseas markets, especially in the USA. As a result, some major overseas markets with which LIFFE has to compete have the benefit of much greater liquidity because of the more widespread involvement of domestic participants. This places LIFFE at a significant competitive disadvantage.

The ability of the City to serve the international financial community, and thereby to sustain and increase its level of activity and its contribution to the balance of payments, depends crucially upon the provision of liquid and competitive markets which respond quickly to the development of new products. The LIFFE market, whilst still in its infancy, has already proved itself viable and robust. Its prospects for further development in a highly competitive international sector would be greatly enhanced by the legislation requested in this letter.

We understand that we will have an opportunity to discuss our proposals with the Revenue at a meeting to be held on 26 January. We would also be pleased to attend any further meetings or to provide any further information which would be helpful to you in considering these proposals.

Yours faithfully,

M.N.H. Jenkins
Chief Executive

Enclosures: Attachments 1 and 2

ATTACHMENT 1

THE LONDON INTERNATIONAL FINANCIAL FUTURES EXCHANGE LIMITED

Taxation of Financial Futures - Schedule D Case VI

1.1 This memorandum sets out the reasons for the request, contained in the Exchange's letter to the Bank of England, that Schedule D Case VI should be deemed not to be applicable to the results of transactions in financial futures.

1.2 Section 2 explains the present position for a user of the market who is an individual. Section 3 explains why other potential users of the market are also inhibited from using the market by the possible incidence of Schedule D Case VI treatment and Section 4 summarises the adverse impact on the market of Case VI. Sections 5 and 6 explain the proposed legislation and the reasons why we believe this proposal should be viewed as acceptable. A summary is given in Section 7.

2. Individuals - Taxation of Financial Futures

Outline of Present Position

2.1 Where an individual makes a gain on a futures transaction, the Inland Revenue normally take the view that the gain is taxable as income under Schedule D Case VI. Such income is generally treated as unearned and is therefore liable to the investment income surcharge. Thus, an individual could be subject to income tax rates as high as 75% on gains from futures transactions. By contrast, if the individual were to make a loss, that loss could be relieved only against other Case VI income arising in current and subsequent years.

2.2 The only exception to this treatment is where the individual can persuade the Revenue that he is carrying on a trade. In this case his gains would still be taxable as income, under Schedule D Case I, but he would not be liable to the investment income surcharge, and thus the maximum rate of tax would be 60%. Furthermore, the individual would be able to relieve any loss against all other forms of income, subject to him showing that the trade was being carried on on a commercial basis with a view to the realisation of profit.

Origin of Case VI treatment

2.3 This taxation of individuals under Case VI does not derive from the basis of any legislation enacted by Parliament. The Case VI treatment of futures derives from a 1925 decision of the Court of Appeal in the case of Cooper v Stubbs (10TC29)

Two cotton brokers dealt in cotton futures for their own personal account. The commissioners found that their activities amounted to gambling transactions and did not constitute trading. The courts held that the transactions were not gambling and were therefore taxable. However, as the commissioners had decided, as a matter of fact, that they were not trading there was no alternative but to assess the gains under Case VI instead of Case I.

2.4 Despite its obscurity the Revenue have used this case as authority to tax commodity futures under Case VI. When LIFFE discussed the taxation treatment of financial futures with the Revenue prior to the opening of the market, the Revenue took the view that financial futures were similar to commodity futures and that accordingly individuals should be taxable under Case VI except where they were actively involved in the market, such as being a floor member, and were therefore clearly carrying on a trade.

Anomalies created by Case VI treatment

2.5 Case VI treatment of futures profits made by individuals is not comparable with the methods of taxing similar transactions and does not fit coherently and logically into the UK tax system. The anomalies which arise are illustrated in the following paragraphs.

2.6 Financial futures transactions are undertaken with one of three basic objectives:

(a) To hedge an existing or anticipated position in the cash market;

(b) To improve the investment return on a portfolio; or

(c) To trade in anticipation of a price rise or fall.

Although the use of financial futures to achieve these objectives may be attractive because of their flexibility and on the grounds of cost, all of these objectives can be achieved alternatively by means of undertaking transactions in the relevant cash market. Financial futures are therefore surrogates for cash market transactions. Logic and equity would suggest that both types of transaction should attract the same taxation treatment. However in the case of individuals the results of the financial futures transactions are assessed under Schedule D Case VI whereas the results of transactions in the underlying cash instruments would normally be assessed to capital gains tax. This is because the Revenue regard financial futures transactions as being essentially of an income nature even though parallel transactions in the cash market would be granted capital treatment.

2.7 The anomalies inherent in this inconsistent treatment can be further illustrated by some examples.

(a) An individual who invests in gilt edged stock may wish to hedge his investment by means of taking bought or sold positions in LIFFE's Long Gilt contract. Such positions would normally be closed in due course by taking out equal and opposite positions so that the offsetting positions are settled out without delivery of the underlying Gilt stock. The intention would be that a loss on holdings of Gilts would be offset by a corresponding profit on the futures transaction, or vice versa. However the individual will find that his profit on the futures transaction is taxed under Case VI, possibly at the rate of 75%, whereas his loss on the gilt edge stock may attract relief only at 30% as a capital gains loss. Alternatively, a profit on the gilt edge stock may attract taxation at the 30% capital gains rate whereas the corresponding loss on the futures transactions will be dealt with under Case VI and therefore cannot be offset against the capital gain, and may attract no relief at all.

Although the pre-tax result of the cash and futures transactions are equal and opposite, the after tax result may well prove to be a loss. Clearly this inconsistent treatment renders it very difficult for the individual to utilise the futures contract for hedging purposes.

(b) Instead of settling out the open positions by means of an equal and opposite transaction, as in (a) above, if the individual investor allows his futures contract to run to maturity, so that delivery of gilt edged stock is made, then Case VI would not apply and the result of the futures transaction would effectively fall to be assessed to capital gains tax. This may resolve the inconsistency illustrated in (a) above. However if the investor is obliged to run his futures transaction to maturity, most of the flexibility and cost advantages of using futures transactions are sacrificed and the usefulness of the futures market for hedging purposes is severely reduced.

(c) Many transactions on the Stock Exchange which are accepted by the Revenue as giving rise to capital gains are clearly very similar to financial futures transactions in their short term nature. The purchase and sale within the Account obviates delivery and there is no transfer of legal title. Nevertheless the tax treatment of such transactions is not affected by the absence of delivery. By contrast, as noted in

(b) above, this does not apply in the case of the financial futures market where capital treatment is generally applicable only where delivery takes place. This is clearly inconsistent.

3. Other potential users of the market

3.1 The comments in section 2 above address the position of individuals where the present application of Case VI is established by Revenue practice derived from the case of Cooper v Stubbs. However in the case of many other potential users of the market there exists some uncertainty as to whether they would be assessed under Case VI.

3.2 In the case of companies or others who have established that they are conducting a trade in financial instruments, it will be clear that the results of their financial futures transactions will be assessed under Schedule D Case I. However the position is not clear in the case of companies which are not engaged in such a trade, for example industrial or non-financial commercial companies, and other institutions or organisations who may wish to use the market for investment purposes such as investment trusts and unit trusts. These organisations will be uncertain as to which tax treatment would be applied. The Revenue has granted capital treatment on a limited number of occasions. However, since the Revenue regard financial futures as being essentially of a revenue nature, there is clearly cause for concern that if Case I proves not to be applicable then the Revenue will seek to assess the results of their financial futures transactions under Case VI.

3.3 As noted in section 2 in the case of individuals, the application of Case VI severely impairs the usefulness of the market for hedging purposes because the tax treatment is inconsistent with that afforded to cash market transactions in the underlying instruments. The lack of symmetry in the taxation treatment frustrates the achievement of hedging objectives. This damaging impact also arises in the case of companies and other organisations where Case VI would apply, or where there is uncertainty as to whether Case VI would be applied. Many potential users of the futures markets for bona fide hedging purposes are therefore deterred from using the market.

4. Adverse impact of Schedule D Case VI

4.1 The application of Case VI to the results of financial futures transactions is therefore creating a widespread deterrent to use of the market by non-financial companies, unit trusts, investment trusts and other organisations, as well as by individuals. This is preventing the market from serving in the manner intended a significant proportion of the financial and investing community in the UK. In turn this is restricting the growth of liquidity in the market and is weakening the competitive position of LIFFE as an international futures market.

5. Suggested legislative change

5.1 The differing tax treatments accorded to profits made on financial futures transactions compared with those made on transactions in the underlying cash instruments, arise from the fact that futures transactions are treated as being of an income nature, but not trading, in accordance with a court case decided in 1925 which is widely considered to be a poor precedent.

5.2 We would therefore propose that legislation be introduced to remove from the scope of Schedule D Case VI profits or losses arising from transactions on recognised futures exchanges.

5.3 Further legislation would be required in order to define a recognised futures exchange and to permit relevant exchanges to be so recognised. It is suggested that this could easily be incorporated in S.535 Income and Corporation Taxes Act 1970 which currently defines recognised stock exchanges.

6. Effect of the suggested legislation

6.1 If Schedule D Case VI is deemed not to be applicable, the results of financial futures transactions would fall to be taxed either under Schedule D Case I as trading profits and losses, or as capital gains and losses. We do not believe that it would be necessary to create any new method of taxing financial futures to replace Case VI. The existing legislation should be sufficient. The user of the market will either be treated as carrying on a trade and thus his gains will be taxable under Case I, at rates up to 60% in the case of individuals, or he will be liable to capital gains tax at 30%. There is a well established body of case law to determine whether a person is carrying on a trade which is already applied in the case of those using markets such as LIFFE, the commodity markets, and the Stock Exchange. The overall effect of our proposal should therefore be to significantly reduce the uncertainty as to the tax treatment of financial futures transactions.

6.2 In one respect futures transactions are unlike many other forms of investment and market activity. In the case of futures, ignoring dealing expenses, for each transaction which shows a profit there will be a transaction or transactions which show an equal and opposite loss. If all profits were taxed at a given rate, and all losses attracted prompt relief at the same rate, the net tax revenue would be nil. In practice this does not occur of course. Hedging activity on a financial futures market is not unlike insurance. Those who participate in the market by taking on the risks which others wish to hedge against, such as members who are market makers and other active traders, will generally be assessed under Schedule D Case I; they expect to make a profit from such activity and that profit will fall to be taxed at income rates. On the other hand those who use the market for hedging purposes can therefore be expected, in the aggregate, to make a loss which can be viewed in some respects as an insurance premium for the protection they have achieved. Under our proposals, such losses would often fall to be treated as capital losses. The offset of such losses is restricted and may not therefore arise promptly, or at all in some cases; and where it does arise it will result in relief being afforded at the 30% rate, which is lower than the rates applicable to income.

6.3 In addition the brokerage and commission income derived by market members who are brokers will fall to be taxed under Schedule D Case I, whereas such charges will often fall to be treated as part of the capital loss, or as a reduction of the capital gain, which results to the broker's client.

6.4 The increased use of the financial futures market which would be encouraged by our proposal is therefore likely, we believe, to tend to lead to an increase in net tax revenue rather than a decrease.

7. Summary

7.1 The application of Schedule D Case VI to the results of financial futures is serving as a widespread deterrent to participation in the LIFFE market by a significant proportion of the financial and investing community in the UK. In turn this is restricting the growth of liquidity in the market and is weakening its competitive position as an international futures market.

7.2 We consider that the application of Schedule D Case VI is inequitable and is inconsistent with the tax treatment afforded to other investment activity.

7.3 We have therefore proposed that Case VI of Schedule D be deemed not to be applicable to the results of financial futures transactions. If the proposal is enacted, we believe that existing legislation would provide a sufficient and suitable basis for the taxation of financial futures so that it would not be necessary to create any new method of taxing financial futures to replace Case VI. We believe that this proposal would not reduce tax revenue and in the longer run would tend to lead to an increase in net tax revenue.

ATTACHMENT 2

THE LONDON INTERNATIONAL FINANCIAL FUTURES EXCHANGE LIMITED

Taxation of Traded Options - Capital Gains Tax Wasting Asset Rules

1.1 This memorandum sets out the reasons for the request, contained in the Exchange's letter to the Bank of England, that option contracts traded on an exchange such as LIFFE should be exempted from the capital gains tax wasting asset rules.

2. Developments in Traded Options contracts

2.1 A traded option contract is a standardised instrument by which an option can be acquired and granted to 'buy' or to 'sell' a specified instrument at a particular price on or before a specified date. The market process ensures that the option is competitively priced. Through the involvement of a clearing house, an open obligation can be offset by an equal and opposite transaction and the two transactions can be settled out against each other without the necessity to exercise the option and take or make delivery of the underlying instrument. The clearing house also guarantees the performance of open obligations so that market participants do not have to remain exposed to the risk of default by the counterparty. Traded option contracts are thus an extremely flexible instrument for investment management purposes.

2.2 In recent years a number of overseas exchanges, particularly in the USA, have introduced traded option contracts in financial instruments. Many of these contracts have proved to be highly successful. This success indicates that contracts of this type are of great use to investors and the financial community generally and the international use of such contracts is growing rapidly.

2.3 We consider it to be important that the City of London offers similar facilities as soon as practicable in order to sustain its position as a pre-eminent international financial centre. A major proportion of the business in options in foreign currency traded in Philadelphia emanates from Europe and there is significant European use of other options contracts traded on US exchanges. At present London is not in a position to compete in this rapidly growing international business.

2.4 LIFFE is actively researching the various options contracts which it could introduce for trading in London. The possibilities include options on foreign currencies, on Eurodollar interest rates and on domestic instruments such as

Gilts and an equities index. A number of forms of underlying instrument may be used. A traded option could be in respect of a cash transaction such as foreign exchange, or a futures contract which requires delivery of an instrument (for example, a Gilt edged security), or a futures contract which is based on an index.

2.5 LIFFE would wish to be able to extend the instruments available to be traded on its market to include traded options contracts in the very near future. As explained below, our ability to do this depends crucially upon legislation to remove such contracts from the scope of the wasting asset rules in respect of capital gains tax.

3. Capital Gains Tax - wasting asset rules

3.1 Under existing legislation, traded option contracts of the type we are considering would not be exempt from the wasting asset rules. Where the 'buyer' of an option is subject to capital gains tax on his transaction the premium which he has paid would be subject to the wasting asset rules and would be amortised over the period from the acquisition of the option to the date of its exercise or abandonment. Only the remaining unamortised portion of the premium would be allowable as the base cost for capital gains tax purposes.

3.2 The effect of this treatment is that tax relief is obtained for only a part, and perhaps none, of the option premium paid. This is clearly an extremely disadvantageous treatment which could frequently convert a transaction which was profitable before taxation into a loss making transaction after tax.

3.3 Experience during the first two years of the London traded options market indicates that this treatment served as a major deterrent to participation in the market. We believe it would have the same effect on traded options contracts introduced by LIFFE and that it may not be viable for LIFFE to introduce such contracts whilst this tax treatment would apply. Domestic participation in the market would be severely restricted with the result that the market might fail to develop sufficient liquidity to attract international business.

4. Suggested Legislative Change

4.1 In 1980 exemption from the wasting asset rules was afforded to traded options in respect of shares in a company. We believe that it would be logical and consistent to extend this exemption from the wasting asset rules to include traded option contracts of the type which LIFFE intends to introduce. As explained in paragraph 2.4. such contracts may be based upon a number of different types of underlying instrument.

4.2 We would therefore propose that legislation be introduced to exempt from the wasting asset rules option contracts traded on a recognised financial futures exchange.

4.3 Further legislation would be required in order to define a recognised financial futures exchange and to permit relevant exchanges to be so recognised. It is suggested that this could easily be incorporated in terms similar to S 535 Income and Corporation Taxes Act 1970 which currently defines recognised stock exchanges.

5. Effect of the suggested legislation

5.1 The suggested legislation would afford the same treatment to option contracts traded on a recognised financial futures exchange as that afforded by sections 137 and 138 of the Capital Gains Tax Act 1979 in the case of traded options in respect of shares in a company. We consider that this would be equitable and consistent.

5.2 The option premiums payable in respect of contracts traded on such an exchange would be subject to the normal market processes which ensure that the contract is competitively priced. This process should effectively guard against abuse of the exemption.

5.3 We do not believe that the exemption would have an adverse effect on tax revenue. For a successful market to develop, it would be necessary for sufficient 'market makers' or 'option writers' to participate. It is likely that, in the main, these would be members of the market. They would expect their premium income to exceed any losses on the options granted and the resulting profits would generally be assessed under Schedule D Case I at income rates. In the aggregate these profits would be reflected by corresponding losses of the buyers of options. These losses would often fall to be treated as capital losses. The offset of such losses is restricted and may not arise promptly, or at all in some cases; and where it does arise it will result in relief being afforded at the 30% rate, which is lower than the rates applicable to income.

5.4 In addition, the brokerage and commission income derived by market members who are brokers will fall to be taxed under Schedule D Case I, whereas such charges will often fall to be treated as part of the capital loss, or as a reduction of the capital gain, which results to the broker's client.

5.5 We believe therefore that the development of a traded options market in such instruments is likely, on balance, to tend to lead to an increase in net tax revenue rather than a decrease.

6. Summary

6.1 The international use of traded options contracts in respect of financial instruments is growing rapidly. London needs to be able to offer such contracts for trading in order to maintain its competitive position.

6.2 The wasting asset rules which are currently applicable would be a major deterrent to domestic participation in a traded options market. This would severely inhibit the development of liquidity in the market adequate to attract international business.

6.3 We have therefore proposed that legislation be introduced to exempt from the wasting asset rules option contracts traded on a recognised financial futures exchange.

6.4 LIFFE would be most reluctant to introduce traded options contracts in advance of such legislation because it appears possible that the contracts would fail to attract sufficient activity to become liquid. This may damage potential users' confidence in the contracts to such an extent that it would be difficult to make the contracts successful even if suitable legislation was subsequently to be introduced. LIFFE therefore regards this proposed legislation as of paramount importance to its ability to develop a successful international market in traded options contracts.

With the Compliments of

M P Cornwell-Kelly
Assistant Secretary
Non Contentious Business

The Law Society

PMP

Our reference

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The Law Society

THE CORPORATION TAX TREATMENT

OF GROUPS OF COMPANIES

Memorandum
by
The Society's Standing Committee on Revenue Law

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December 1983

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Clerk of the Committee: M P Cornwell-Kelly

THE CORPORATION TAX TREATMENT

OF GROUPS OF COMPANIES

The Board of Inland Revenue have requested the comments of the Law Society on the tax treatment of groups of companies and have invited recommendations for possible changes. This Memorandum contains the views of the Law Society's Standing Committee on Revenue Law formulated in response to this invitation. In considering the matter, the Committee have been much assisted by members of the Revenue Law Subcommittee of the City of London Solicitors' Company.

In this Memorandum, the Income and Corporation Taxes Act 1970 is referred to as 'the Taxes Act'.

GJ:1390

CONTENTS

PART I - GENERAL PRINCIPLES

THE CASE FOR A NEW APPROACH

1. Each company in a group is at present treated as a separate taxpayer. This treatment recognises that each company is a separate legal person with its own assets and liabilities, and its own members and creditors, and makes its own separate profits and losses. At the same time, there are special rules which apply to members of a group and which do not apply to unrelated companies. These rules recognise that in practice groups of companies frequently operate as a single economic unit and are, at least to a substantial extent, under common ownership.

This approach to the taxation of groups of companies has its merits. It is consistent with the nature of a company as a separate legal person and with the relationship under company law of a company with its members and third parties. It enables account to be taken of the rights of minority shareholders, to an extent which it might otherwise be difficult to achieve. It is, however, open to at least two major criticisms.

First, in many instances it results in groups being treated for tax purposes in a way which is inconsistent with the way in which they conduct their affairs. Many groups operate as though they were carrying on a single business, even though that business may cover a range of widely differing activities carried on by separate companies within the group. In particular, the capital raising activities of the group, and the group's investment in fixed assets, are likely to be dealt with centrally. It is, of course, standard practice for all groups, however they operate, to produce consolidated accounts, as well as separate accounts for each member of the group. If as a matter of commercial reality a group business is conducted as though it were the business of a single company, there is at least a case for treating the group as a single taxpayer.

In reply to that point, it might be said that if the parent company wishes to treat the separate businesses carried on by the separate members of the group as though they were a single business, it should reorganise the group on a divisional basis. The advantages of operating through divisions, rather than subsidiaries, were widely canvassed when corporation tax was introduced in 1965. In general, however, that organisational structure did not commend itself to the business community and it is a structure which does, in any event, involve certain tax disadvantages.

Secondly, the present approach involves immense complexity. This is partly because there is no single definition of a group. The tests for determining whether a group relationship exists vary according to the purpose for which it is necessary to establish that there is such a relationship. For example, there is one test for determining whether a subsidiary may pay dividends to its parent company without accounting for ACT; another for determining whether it may transfer fixed assets to its parent company on a no-gain-no-loss basis; another for determining whether it may make group relief surrenders; and another for determining whether assets may be transferred between the two free of stamp duty. Even that is not an exhaustive list. The resultant complexity is greatly increased by the general tendency for UK tax law to be divided into separate watertight compartments. This is a result partly of the schedular system for charging income tax, partly of the basic distinction between income and chargeable gains, and partly of the rules, themselves a product of the schedular system, relating to the carry forward of losses. Complex tax laws nearly always give rise to loopholes. The exploitation of those loopholes is then identified as tax avoidance. Anti-avoidance provisions are introduced to prevent such exploitation, and these in turn lead to further complexity.

2. There is, therefore, a case for considering the adoption of a fundamentally different approach to the taxation of groups. The approach at present adopted in the UK is by no means universally adopted elsewhere. For example, in the United States there is the concept of a consolidated return under which, it is understood, all companies in a group are to a large extent treated as a single taxpayer. Whether the adoption of some fundamentally different appraoch in the UK would, on

balance, be advantageous is something which requires careful, detailed and expert study. It would be enormously valuable to have such a study carried out by an independent body such as the Institute for Fiscal Studies who would be free of the daily burdens of tax administration and would be able to approach the subject without being influenced by official views previously expressed. It is recommended that the possibility of such a study being made be investigated.

3. Whether or not the present approach to the taxation of groups is changed, consideration should be given to the adoption of a new definition of 'ordinary share capital'. The present definition, contained in section 526(5) of the Taxes Act, is extremely wide. It embraces virtually all forms of share capital, apart from fixed coupon preference shares. It makes it all too easy to create classes of deferred shares, or participating preference shares, carrying rights which make them far removed from equity share capital, or ordinary share capital as that expression is normally understood, for the purpose of achieving a particular, and not necessarily desirable, tax result. The fact that ordinary share capital, as defined for tax purposes, need not constitute equity share capital for the purposes of the Companies Acts, and need not confer the economic interest normally associated with ordinary shares, has facilitated a great deal of tax avoidance.

The history of group relief provides a sad illustration of the need to tackle this problem at its root. In the early 1970s, a number of group relief schemes were carried into effect which, although initially approved by the Government of the day, came to be looked upon as a form of tax avoidance which should be counteracted. Basically, these schemes exploited the definition of ordinary share capital contained in section 526 of the Taxes Act. They were counteracted by detailed and elaborate rules contained in the Finance Act 1973 which left the basic definition of ordinary share capital for tax purposes unchanged, but added a long list of supplementary requirements which had to be satisfied in order to establish a group relationship for group relief purposes. Despite the publication of two subsequent Inland Revenue practice statements, the second of which was discussed at length in advance with representative bodies, those rules continue to create uncertainty and injustice. In the final analysis, they are not even wholly effective for their purpose. A recommendation is made later in this Memorandum that they should be repealed and entirely recast. It is recommended that consideration should at the same time be given to the adoption of a new definition of ordinary share capital to replace that contained in section 526.

PART II - DETAILED REFORMS REQUIRED IN THE PRESENT LEGISLATION

GROUP RELIEF

4. Section 258 of the Taxes Act makes provision for the surrender of trading losses between members of the same group. It also makes provision, in broadly similar terms, for the surrender of trading losses between a consortium company and members of the consortium. The availability of group relief is made subject to further conditions contained in sections 28-33 and schedule 12 of the Finance Act 1973, which were introduced to prevent arrangements under which one group of companies could effectively sell its trading losses, including those derived from capital allowances, to an unrelated group.

The provisions relating to group relief are open to two main criticisms. First, the basic scheme for group relief as set out in section 258 is subject to a number of restrictions and limitations which make it far too complicated and much less useful than it might otherwise be. Secondly, the anti-avoidance provisions contained in the Finance Act 1973 are deeply unsatisfactory. These criticisms raise a number of wider issues. What would be the cost in terms of revenue raised if the existing rules were relaxed? To what extent are the existing rules a necessary part of the scheme of corporation tax? Is it reasonable to reject some of the pleas for amendment of the law which have been made in the past simply on the grounds that the proposed amendments would make an already complicated part of the tax legislation yet more complicated?. Could a better system be achieved by starting again? These, too, are matters on which an independent expert study would be welcome.

5. At present, group relief surrenders may be made on a current year basis only. The losses of the surrendering company may be set against the profits of the claimant company for its corresponding accounting period, with any necessary apportionments being

made where the two companies make up their accounts to different dates. They may not be set against the profits of the claimant company for any subsequent or earlier accounting period. Nor may they be surrendered to the claimant company for carry forward. Nor may the surrendering company surrender losses incurred in past accounting periods. These rules are all consistent with the long-established principle that trading losses may be set against profits of any description for the same accounting period, but may be carried forward only against subsequent profits of the same trade. There is a certain logic in equating profits earned by another member of the group with income of some different description earned by the surrendering company, but there appears to be no compelling need to approach the matter in this way. It is appreciated, however, that any relaxation of the present rules on this aspect of group relief would have to be accompanied by a corresponding change in the rules contained in sections 177 and 178 of the Taxes Act in order that companies in groups should not enjoy an advantage not available to single companies.

6. The provision made for surrender of losses between a consortium company and the consortium members has never been as satisfactory as the corresponding provision made for surrenders within a group. A number of welcome improvements have been made in recent years. There are, however, two further improvements which could usefully be made.

First, it is an unsatisfactory restriction that at present surrenders can be made only between the consortium company and the consortium members themselves and there is no provision for other companies within the same group as a consortium member to become a party to such a surrender.

Secondly, it is an unfortunate restriction that a consortium member is entitled to surrender losses to the consortium company, or to other members of its own group, but not to both. It is not clear why such a restriction should be needed. It is understood that previous requests for a relaxation of the law in this respect have been rejected on the grounds that the provisions relating to the surrender of losses are already quite complicated enough and the proposed relaxation would make them even more complicated. That may be an argument for seeking an entirely new approach to the group treatment of losses, but it is not a very satisfactory reason for not removing what is plainly an anomaly in the existing system.

7. The other major criticism of the group relief provisions concerns the legislation contained in the Finance Act 1973. That legislation has been a constant source of difficulty since it was introduced. Despite valiant attempts by the Inland Revenue to clarify its effect through the publication of practice statements, it continues to create uncertainties and to produce injustice. Moreover, the legislation has been construed by the Courts in ways which were quite clearly outside the contemplation of the draftsman at the time the legislation was framed and which have cast doubt on the effectiveness of the whole scheme of group relief.

8. It is for consideration whether the provisions contained in the Finance Act 1973 are still necessary. At the time they were introduced, the two major sources of tax losses were nationalised industries and shipping companies. There were large numbers of industrial and commercial groups earning large taxable profits (nowadays known as 'taxable capacity') which were only too pleased to gain access to those losses. Since then, the situation has changed in a number of material respects. First, the amount of taxable capacity available to absorb surrenders of losses has reduced considerably, partly as a result of the recession and partly as a result of the introduction of stock relief. Secondly, the attractions of group relief schemes were considerably reduced upon the introduction of the imputation system in 1972 which limited taxable capacity, as previously understood, to profits on which mainstream corporation tax is payable without any credit for ACT. Thirdly, there has been an enormous development of leasing business, both by financial institutions and by industrial and commercial groups, the profitability of which very largely depends upon the availability of capital allowances. Those allowances, claimed by the lessor, represent the tax losses which in earlier days would have accrued to the lessee company, by virtue of

its having purchased the leased equipment outright, and could have been sold by it to the lessor company under a group relief scheme.

It is recommended that consideration be given to whether there is such a need for the provisions relating to group relief contained in the Finance Act 1973.

9. The Finance Act 1973 tightened up the rules in relation to group relief in two main ways. First, it imposed a stricter test for determining whether the necessary group relationship exists. A number of detailed rules were introduced with a view to requiring that a subsidiary should be a 'genuine' 75 per cent subsidiary, in the sense that its parent company had a 75 per cent economic interest in it, rather than merely a subsidiary in which the parent company held 75 per cent of the ordinary share capital, as defined by section 526 of the Taxes Act. Secondly, it provided that, even where the stricter test was satisfied, group relief surrenders could no longer be made if there were arrangements in existence under which one of the parties to a surrender might at some stage move to another group. Corresponding rules were introduced in relation to consortium companies and the whole legislation was enacted in a detailed and elaborate form.

It appears that no attempt was made in 1973 to identify a 'genuine' 75 per cent subsidiary by changing the definition of ordinary share capital contained in section 526 of the Taxes Act, which has been the cornerstone of so many tax avoidance schemes. The approach adopted instead, to graft on a larger number of detailed requirements, has caused many problems, some of which are described below.

The rules relating to 'arrangements' contained in section 29 of the Finance Act 1973 have, if anything, been an even greater source of difficulty. The fundamental problem is to distinguish between commercial arrangements, the existence of which ought not to prevent group relief surrenders being made, and tax avoidance arrangements. The 1973 legislation makes no attempt to draw such a distinction and, as a result, prevents group relief surrenders being made in a number of situations where the necessary group relationship exists and there is no question of tax avoidance. It is, of course, difficult to draw such a distinction without introducing a motive test, which would lead to demands for a clearance procedure. It is recommended, however, that at least some of the inequities created by the present rules would be removed if the mere existence of 'arrangements' did not prevent group relief surrenders being made, but instead the implementation of those arrangements would result in surrenders previously made during the previous six years being disallowed, to the extent that the arrangements were in existence during those years.

10. We would draw attention in particular to the following defects in section 29 and schedule 12 of the Finance Act 1973. The list is by no means exhaustive:

(a) where the parent company of a group agrees to sell one of its subsidiaries to the parent company of another group, the transaction will involve 'arrangement' of the kind mentioned in section 29 of the Finance Act 1973. Once the subsidiary has joined its new group, it will be able to become a party to group relief surrenders within that group. However, it will be prevented from being a party to group relief surrenders within its existing group in respect of all profits and losses arising to it from the start of the accounting period in which the 'arrangements' come into existence down to the date on which it joins its new group. This is an unjustified penalty to impose on normal commercial transactions containing no element of tax avoidance.

(b) Where a company wishes to sell its trade, or part of its trade, the normal procedure is for it to transfer the trade in question to a wholly-owned subsidiary and then sell the share capital of that subsidiary. This procedure is frequently necessary in order to meet the requirements of section 252 of the Taxes Act, but is also a convenient method of handling the transaction quite apart from tax considerations.

Where a parent company, which itself carries on a trade, transfers part of that trade to a newly-formed subsidiary with a view to selling the subsidiary to a third party, the effect of the transaction is to prevent group relief surrenders being made between the parent company and its newly-formed subsidiary and also between the parent company and all other members of the group: section 29(1)(b)(iii) Finance Act 1973. There is no justification for imposing this tax penalty on a normal commercial transaction.

(c) Section 28 and schedule 12 of the Finance Act 1973 require, broadly speaking, that a parent company, in addition to holding 75 per cent of the ordinary share capital of its subsidiary, should be entitled to not less than 75 per cent of any profits available for distribution to equity holders of the subsidiary. Where a surrender is to be made by a sub-subsidiary to the parent company, paragraph 6 of schedule 12 of the Finance Act 1973 provides that the percentage to which the parent company is beneficially entitled of any profits available for distribution to the equity holders of the sub-subsidiary means the percentage to which it 'is, or would be, so entitled either directly or through another body corporate or other bodies corporate or partly directly and partly through another body corporate or other bodies corporate'. Paragraph 6 envisages a full distribution of profits being made by the sub-subsidiary and requires one to identify the percentage of those profits which would be ultimately received by the parent company. The profits would pass through the intermediate subsidiary and, if there were outside shareholders in that subsidiary with substantial rights, it could be that less than 75 per cent of the profits would reach the parent company, in which case the grouping test would not be satisfied. However, it could also be that the whole of any profits received by the intermediate subsidiary would have to be applied by it in meeting outside creditors, who had made normal commercial loans, so that again less than 75 per cent of the profits might reach the parent company. This, too, would prevent the grouping test being satisfied. There is no reason why that should be the result.

(d) Section 29(1)(b)(ii) provides that the necessary group relationship shall not exist if there are arrangements in existence by virtue of which 'any person has or could obtain, or any persons together have or could obtain, control of the first company but not of the second'. In Pilkington Brothers Limited v CIR [1982] STC 103, the House of Lords held that such arrangements were in existence in a case where a listed company held shares in a deadlock company. Their Lordships considered that the shareholders of the listed company had control of that company, but did not have control of the deadlock company. That decision has created widespread doubt. It is inevitable that a parent company, even if it has control of its subsidiary as it normally will have, will not have control of itself. It is no answer to say that the shareholders in the parent company have control both of it and of the subsidiary if there is someone else, namely the parent company itself, which has control of one but not of the other.

(e) Further doubt has been created by the decision of Walton J. in Irving v Tesco Stores (Holdings) Limited [1982] STC 881. In that case, Walton J. considered, obiter, whether control for the purposes of section 534 of the Taxes Act meant control at shareholder level or control at Board level. The case was one in which it had been found that there was no control at shareholder level within paragraph (a) of section 534, and it had been argued that it would nevertheless be sufficient if there was control at Board level within paragraph (b) of section 534. The learned Judge expressed the view, obiter, that such control was sufficient. If that view is correct (and it is understood that the Inland Revenue have accepted it as correct) the availability of group relief will largely disappear. It is quite normal for a subsidiary to have a different Board of Directors from its parent company. That Board will, on the view expressed by Walton J., have control of the subsidiary but will not have control of the parent company, and section 29(1)(b)(iii) will therefore apply.

11. The 1973 legislation on group relief has been an unending source of trouble. It has given rise to problems which were clearly outside the contemplation of

the draftsman. The Inland Revenue have tried to cure those problems through the publication of practice statements, discussed in advance with representative bodies, only to find yet further problems arising. The Courts have construed the legislation in ways which have created further uncertainty. The Law Society has recommended in the past that the legislation should be withdrawn and entirely recast. That recommendation is now repeated with the rider that the matter should be tackled in conjunction with the wider issues now raised generally in relation to groups of companies and specifically in relation to group relief.

CAPITAL GAINS

12. Chargeable gains and allowable losses have never been within the scope of the group relief provisions. By their nature, they are likely to arise at irregular times and in irregular amounts. The rules relating to the surrender of trading losses would therefore require substantial modification if they were to apply to capital losses. There is, however, a good case for allowing companies within a group, which are under a substantial degree of common ownership, to match their chargeable gains with allowable losses and current year trading losses available within the group so that the net amount of tax payable is the same as it would have been had the group been a single company.

Ever since the introduction of capital gains tax in 1965, the accepted practice has been for groups of companies to rely on the provisions of section 273 of the Taxes Act, under which assets can be transferred within a group on a no-gain-no-loss basis, as a means of enabling chargeable gains to be matched with any available losses. If subsidiary A is about to sell a fixed asset on terms which will result in the realisation of a chargeable gain, and subsidiary B has allowable losses carried forward, subsidiary A will first sell the asset to subsidiary B which will then on-sell to the third party purchaser. In that way, subsidiary A's gain (which may itself have been inherited, either wholly or in part, from some other member of the group) will accrue to subsidiary B and can be set against subsidiary B's allowable loss. The procedure has always been clumsy, but in general has worked satisfactorily. Now, however, as a result of the Ramsay decision, there is considerable doubt as to its continued availability. It is not satisfactory that the matter should be governed by Inland Revenue practice, otherwise than as a temporary measure for the removal of doubt. It is considered that the time has come for new statutory provisions.

It is also considered that no attempt should be made to bring capital gains and losses within the scope of the group relief provisions. As noted above, those provisions are now deeply unsatisfactory and themselves need to be completely recast. The basic group relief rules, as contained in sections 258 et seq. of the Taxes Act, would require major modification in order to provide a sensible system for dealing with chargeable gains and allowable losses, having regard to the irregular nature of such gains and losses. The provisions of section 29 and schedule 12 of the Finance Act 1973 would have disastrous consequences if applied to capital gains. For example, the application of the rules in schedule 12 would be likely to lead to a great many unexpected charges to tax under section 278 of the Taxes Act. We would therefore oppose any attempt to adapt the group provisions so as to accommodate capital gains and losses.

Instead, we suggest that separate, and we hope very much simpler, rules be enacted to deal with capital gains and losses arising within groups. We suggest that where a member of a group has realised a chargeable gain or allowable loss, it and any other member or members of the group should be entitled to elect that the gain or loss, or such proportion thereof as may be specified in the election, shall be treated as having been realised by the other group member or members; and that any payment passing between the parties to the election in consideration of the tax liability thereby assumed should be disregarded for tax purposes, so long as it did not exceed the chargeable gain or allowable loss arising on the disposal.

REPLACEMENT OF BUSINESS ASSETS

13. There is also a need for new legislation on the subject of the replacement of business assets by members of a group. Under section 115 of the Capital Gains Tax Act 1979 a trader who realises a chargeable gain from the disposal of business assets, as defined by section 118, may defer his liability to tax by rolling over the gain into the cost of a new business asset acquired at any time within twelve months before, or three years after the disposal of the original asset. Liability is then deferred until the new asset is itself disposed of, or ceases to be used for the purposes of the taxpayer's trade, unless it is a depreciating asset in which case the period of deferral cannot exceed 10 years from the date on which it was acquired.

These provisions are intended to operate on a group basis, so that a gain realised by one member of a group on a disposal of business assets can be rolled into expenditure by another member of a group on replacement assets: section 276 of the Taxes Act. That section has, however, proved unsatisfactory in at least two respects:

(a) It is defectively worded. Section 276(1) provides for all the trades carried on by members of a group to be treated as a single trade, when they would otherwise inevitably be separate trades. There is nothing in the section, however, requiring expenditure by one member of the group to be treated as having been incurred by another, and the fact that the two are to be treated as carrying on the same trade does not necessarily imply that they are to be treated as the same person. In practice, this defect appears to be ignored by Inspectors of Taxes, who give effect to the manifest intention of the section, but if there is to be new legislation in this area we suggest that it should be remedied.

(b) As a matter of law, a further problem arises for those groups which like to hold their fixed assets in a single company, which then leases out the assets to other members of the group for use by them in their respective trades. If such an asset is sold, rollover relief is not available, notwithstanding the provisions of section 276, if the company making the disposal was not carrying on a trade. It is understood that in practice the Inland Revenue are prepared to treat property-holding companies as trading companies for this purpose, but the point is one which should be covered by the statute rather than by means of a concessionary practice.

GROUP INCOME

14. Section 256 of the Taxes Act enables a 51 per cent subsidiary to pay dividends to its parent company without accounting for ACT and also enables companies within a group to make payments which constitute charges on income without deduction of tax. There are corresponding provisions for consortium companies. In general, the section seems to operate satisfactorily, but there are two improvements which could usefully be made:

(a) The section applies to dividends, but not to other forms of distribution within section 233 of the Taxes Act. There appears to be no satisfactory reason for this distinction. It is recommended that an election under section 256 should be effective in relation to all forms of distribution in respect of which a liability to account for ACT would otherwise arise.

(b) Section 257(2) provides that an election under section 256 'shall not have effect in relation to dividends or other payments paid less than three months after the giving of the notice and before the Inspector is satisfied that the election is validly made, and has so notified the companies concerned; but shall be of no effect if within those three months the Inspector notifies the companies concerned that the validity of the election is not established to his satisfaction'. This subsection is unhappily worded.

Opinions are divided on whether an election is effective once the Inspector has notified the companies concerned that he is satisfied that it has been validly made, notwithstanding that the three month period has not elapsed. Further doubt is created by the use of the word 'but' after the semi-colon when the sense calls for the word 'and'. It is recommended that the opportunity be taken to clarify this subsection.

SURRENDER OF ACT

15. Section 92 of the Finance Act 1972 provides for a company to be able to surrender advance corporation tax in respect of dividends paid by it to its subsidiaries. Again, there seems no very clear reason why the ability to make such surrenders should be confined to ACT referable to dividends and should not extend to ACT referable to other distributions. The section also presupposes that it is only the parent company of a group which will have surplus ACT, the implied assumption being that subsidiaries in a group will have avoided any liability to account for ACT by means of an election under section 256. Provision is made for surplus ACT to be surrendered downwards to a subsidiary, but there is no provision for similar surrenders by a subsidiary to its parent or by one subsidiary to another. This is a drawback, given that elections under section 256 apply to dividends, but not to other forms of distribution.

It is recommended that section 92 of the Finance Act 1972 be amended so that:

(a) surrenders may be made of ACT relating to all forms of distribution, rather than merely of ACT relating to dividends; and

(b) surrenders may be made between any two members of a group, rather than merely by a parent company to its subsidiary.

CAPITAL ALLOWANCES

16. It not infrequently happens that a company in a group wishes to transfer plant and machinery to another member of the group without realising a balancing charge or allowance. Before 1971, it was possible for the parties to make an election under paragraph 4 of schedule 7 to the Capital Allowance Act 1968 that the assets in question should be treated for tax purposes as having been transferred for a sum equal to the amount of unallowed expenditure incurred on the provision of them. The present situation is that:

(a) plant and machinery can still be transferred on those terms if the transfer takes place as part of the transfer of a trade, or part of a trade, within section 252 of the Taxes Act; but otherwise

(b) it is necessary for the parties to sell the assets concerned for a price equal to their written down value for tax purposes, so as to fall within section 44(6)(b) of the Finance Act 1971; and

(c) the possibility of doing that will be excluded if the circumstances of the case fall within section 65(5) of the Finance Act 1980, in which event the disposal will be deemed to take place at market value.

As a result of recent changes in company law, it is not always possible for assets to be sold within a group at less than their market value in the way described in paragraph (b) above. It is not understood why the rules contained in section 65(5) of the Finance Act 1980 are considered necessary.

<u>It is recommended</u> that the capital allowances legislation be amended so as to enable members of a group to elect that transfers of plant and machinery be treated for tax purposes as having been made for a sum equal to the amount of unallowed expenditure, notwithstanding that the transfer does not fall within

section 252 of the Taxes Act and is made for a greater or smaller consideration.

17. A related problem arises in cases where a member of a group transfers its trade to another member of the group, on terms that it will retain the fixed assets, including plant and machinery, used in the trade and hire them out to the transferee company. It is submitted that in principle, and assuming that there is no occasion for the rules contained in sections 64 et seq. of the Finance Act 1980 to apply, such a transaction should have no effect on the transferor's entitlement to capital allowances. As the law stands, it would appear that section 252(2) of the Taxes Act would apply, with the wholly anomalous result that any further allowances would be made to the transferee, rather than the transferor, even though the transferee had not acquired the assets in question and had incurred no expenditure on them. Even if it could be established that section 252 did not apply, the result would still not be satisfactory. A balancing adjustment would fall to be made under section 44 of the Finance Act 1971, as a result of the plant and machinery ceasing to be used for the purposes of the transferor's trade. The transferor would then bring the assets into use for the purposes of a leasing trade, or of leasing activity falling within section 46 of the Finance Act 1971, but by virtue of paragraph 7(1) of schedule 8 to the Finance Act 1971 would be entitled to no more than annual writing down allowances. A similar point arises in cases where a company which carries on two separate trades redeploys plant and machinery (for example, a motor vehicle) previously used in one trade so that it is in future used in the other.

<u>It is recommended</u> that the capital allowances legislation should permit any rearrangements of assets, trades, and assets used in trades, within a group of companies to take place without disturbing the entitlement to capital allowances of a company in the group owning plant and machinery, so long as that plant and machinery continues to be used for the purposes of a trade carried on within the group or of a leasing activity within section 46 of the Finance Act 1971 carried on by the company owning the plant and machinery in question.

PART III - SUMMARY OF RECOMMENDATIONS IN ORDER OF PRIORITY

SUMMARY OF RECOMMENDATIONS

1. Consideration should be given to adopting an entirely new approach to the taxation of groups. That is a matter calling for detailed and expert study. It would be enormously helpful if such a study could be carried out by an independent body such as the Institute for Fiscal Studies (paragraph 2). Even if the present system is retained, such a study would be valuable in relation to group relief (paragraph 4).

2. Consideration should be given to the adoption of a new definition of ordinary share capital, to replace the present definition contained in section 526(5) of the Taxes Act which has been the cornerstone of many tax avoidance schemes (paragraphs 3 and 9).

3. The anti-avoidance provisions relating to group relief contained in the Finance Act 1973 should be repealed and, if provisions of that nature are still required (paragraph 8), should be entirely recast (paragraph 11). At present, they are capable of being activated by genuine commercial transactions and, following recent court decisions, their existence throws doubt on the whole scheme of group relief (paragraph 10).

4. New rules are required for the treatment of capital gains and losses within groups. In the past, a reasonably satisfactory grouping of capital gains and losses could be achieved by somewhat clumsy means, but the Ramsay decision casts doubt on whether this will be possible in future. Capital gains should not be brought within the group relief provisions but should be dealt with separately through a system of joint elections (paragraph 12).

5. Section 256 of the Taxes Act should be amended so as to enable a 51 per cent subsidiary, or a consortium company as the case may be, to avoid the need to account for ACT in relation to any form of distribution, rather than merely in relation to dividends (paragraph 14).

6. Section 92 of the Finance Act 1972 should permit the surrender of ACT relating to all forms of distribution, rather than merely to dividends, and should permit such surrenders to be made by a subsidiary to its parent or to a fellow subsidiary (paragraph 15).

7. Improved provision should be made to enable transfers of plant and machinery, and transfers of trades, to be made within a group without disturbing the availability of capital allowances (paragraphs 16 and 17).

A number of minor recommendations are also made.

Budget reps

Linked Life Assurance Group

12/16 WATLING STREET, LONDON, EC4M 9BB

01-236 0861

1st February 1984

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

Dear Chancellor

The Linked Life Assurance Group is an association of life assurance companies who write mainly, but not exclusively, unit linked business.

I enclose the representations we wish to make to you when considering this year's Budget.

Yours sincerely

Peter Connor
Tax Sub-committee Chairman

HM TREASURY – MCU	
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ACTION	~~FST~~
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REF. No.	14583

FINANCIAL SECRETARY	
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COPIES TO	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 BUDGET - 1984

Linked Life Assurance Group Representations to the Chancellor of the Exchequer

Capital Gains Tax

The group continues to feel that Capital Gains in policyholders life assurance funds should be freed from Capital Gains Tax.

Life assurance companies effectively hold investments within their policyholders' funds, on behalf of policyholders. Currently these are subject to tax at 30% on any gains made. The vast majority of policy reserves are modest and, had they been held by the individual policyholder, would certainly have escaped Capital Gains Tax under the current generous threshold. Virtually all life assurance policy reserves, which are not modest, are associated with non-qualifying policies. For such policies, however, the policyholder is liable to higher rates of tax on any profit made on the policy whether arising from income or capital. Hence, on these policies a double layer of tax is payable in respect of realised Capital Gains.

The Linked Life Assurance Group requests that urgent consideration is given to freeing all life policyholder realised Capital Gains from Capital Gains Tax.

Individual Pension Provisions

At the moment individuals who are in non-pensionable employment or are self-employed, are able to make a provision for their retirement under Section 226 of the Income and Corporation Taxes Act 1970. However, where an individual is entitled to a pension from his employer, even though it may provide very low or even trivial benefits, he may not take advantage of this Section to supplement his pension.

We believe that it is consistent with the present Government's laudable approach encouraging individuals to provide for themselves, that Section 226 be amended so that individuals in receipt of inadequate pensions are able to 'top' them up with individual policies under this Section.

Stamp Duty

The Linked Life Assurance Group feels that the imposition of stamp duty on life assurance policies by indirectly increasing premiums, serves to discourage people from making provision for their dependants.

The Linked Life Assurance Group requests that consideration is given to freeing all life policies from stamp duty.

Continued/...

The duty bears particularly heavily on Term Insurance policies taken out on lives under 40 years old, which are taken purely for the purpose of protection of dependants. In these cases the stamp duty payable can approach or even exceed 50% of the yearly premium.

Currently there is an exemption from stamp duty for Term Insurance policies for a period not exceeding 2 years. The group requests that, if total freedom from stamp duty is not given then, urgent consideration be given to extending this period of exemption to Term Insurance policies not exceeding 10 years, or alternatively, limiting the stamp duty payable to a maximum proportion of a yearly premium.

Offshore and Overseas Funds
Life Assurance Policies Issued by Non-Resident Life Offices

Draft legislation is imminent on this subject. It is the Linked Life Assurance Group's view that this proposed legislation should not apply to expatriates. At the very least, great care should be taken to ensure that expatriates (who are not entitled to benefit from tax advantageous UK pension arrangements) are not unfairly treated.

London Chamber of Commerce and Industry

Budget reps file

69 Cannon Street, London EC4N 5AB. Tel: 01-248 4444.
Telex: 888941 LCCI G

Director: W.F. Nicholas OBE

AAF/MRG

16 December 1983.

John Moore, Esq. ~~QC~~, MP,
Financial Secretary,
The Treasury,
Parliament Street,
LONDON, SW1P 3AG.

Dear Mr. Moore,

I am enclosing a copy of the London Chamber of Commerce and Industry Taxation Committee's technical representations which we will be submitting to the Chancellor in January.

Our Taxation Committee will be very happy to discuss any points which you may wish to raise.

Yours sincerely,

Antony Forwood

A.A. FORWOOD
Chairman,
LCCI Taxation Committee.

Enc.

FINANCIAL SECRETARY	
REC.	19 DEC 1983
~~ACTION~~	PPS CST
COPIES TO	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

A company limited by guarantee and registered in England no. 15993
Registered office: 69-75 Cannon Street, London EC4N 5AB

London Chamber of Commerce and Industry

Agenda item	Reference
6	C/83/51
Date	14 November 1983

THE 1984 BUDGET
TECHNICAL REPRESENTATIONS

The taxation committee's proposed technical representations for the 1984 Budget and Finance Bill on:-

i Corporation Tax

ii Personal Tax

iii Capital Taxes

iv Taxation of Small Firms

v Value Added Tax

are attached. The representation on non technical matters are due to be made at the end of the year.

LONDON CHAMBER OF COMMERCE AND INDUSTRY

1984 BUDGET REPRESENTATIONS

CAPITAL TAXES SUB-COMMITTEE

CAPITAL GAINS TAX

Deemed Market Value

The Revenue used to maintain that under Section 29A Capital Gains Tax Act 1979 when a UK resident receives an asset by way of gift from a non-resident or by way of a capital distribution from an overseas trust, the acquisition value is nil rather than the market value at the time of disposal. They have now accepted in relation to trusts that this interpretation was wrong but have sought to amend the law in FB 1983, C.61. It is not clear why the market value should not be the appropriate base and it is particularly inequitable in view of the fact that the anomaly can be avoided by the donee receiving a gift of cash rather than an asset and subsequently purchasing the asset out of the cash.

Similar problems arise on the liquidation of an overseas company where assets pass to UK residents where the Revenue are disallowing any base cost for the assets.

Rollover Relief

The purpose of rollover relief is to ensure that taxation is only levied when a business ceases to reinvest the proceeds of sale of its business asets. It seems therefore that there ought to be no distrinction between movable and fixed plant and the distinction ought to be abolished. This has particular application to the case of farming machinery where it is not uncommon for the machinery to be sold at a profit.

Value Shifting

The purchase by a company of its own shares is the subject of a clearance procedure. However, this does not extend to the potential capital gains tax charge which can arise under Section 25(2) Capital Gains Tax Act 1979. This ought to be rectified.

Valuation

Under Section 114 Finance Act 1980 it is now possible to negotiate the value on a transfer of land in advance of the transaction. This has proved a very beneficial and administratively convenient development and we would suggest that similar valuation procedure should be extended to capital gains tax on proposed gifts in unquoted shares.

Losses

At present an individual or a partner is not able to elect for the set-off of trading losses against realised capital gains. This set-off is available to companies and ought to be extended to individuals.

Retirement Relief

At present retirement relief is not available to an individual who holds shares in a holding company, even though the holding company is a member of a trading group. There seems no reason why the relief should not be extended to such circumstances, especially as it results in tortuous moves being adopted prior to a disposal to ensure that the retirement relief is available.

At present the retirement relief commences at age 60 and rises in bands to age 65. We would suggest in the light of the present state of the economy as well as the tendency towards earlier retirement that retirement relief should commence at age 55 and reach a maximum at age 60.

The Committee welcomes the Chancellor's recent statement that he will be "conducting a full review of this area".

Company Reorganisations

The purpose of Section 278 Taxes Act 1970 appears to have outlived itself and can in certain circumstances give rise to innocent liabilities. We believe that this section therefore ought to be repealed or alternatively that a clearance procedure ought to be introduced.

Non-resident Companies

Section 15 Capital Gains Tax Act 1979 assesses gains arising to a non-resident company on its shareholders in certain circumstances even if no capital payments have been received by the shareholders. This may give rise to hardship (as was illustrated in the case of Van Arkadie v. Plunkett (1983 STC54).

The rules relating to non-resident trusts were amended in 1981 and the position ought to be brought into line for non-resident companies.

Series of Transactions

Under Section 151 where a person acquires assets in two or more gifts, the valuation applied is arrived at by considering the aggregate market value of the series of transactions together. There appears to be no time limit in determining when a series of transactions commences and ends. It cannot have been Parliament's intention to have an open-ended application of this section and we would suggest that a series should be limited to a three-year period.

Indexation

We still maintain that limiting indexation from April 1982 is very unreasonable and equity demands that indexation should be available from 1965.

CAPITAL TRANSFER TAX

Domicile

Under present rules an individual becomes domiciled in the United Kingdom for capital transfer tax after 17 years' continuous residence. An individual who leaves the UK for an extended period may well retain his UK domicile. There are, we suspect, innocent omissions by individuals who have been residing overseas for many years who believe that their absence from the UK takes them outside the tax net. We would suggest that a similar provision should be enacted which would deem an individual not domiciled in the UK for capital transfer tax after 17 years' continuous non-residence.

Valuation

Although property held on a trust set up before March 1974 can qualify under the surviving spouse exemption, nevertheless if that property is unquoted shares, it is aggregated with property held absolutely by the surviving spouse in valuing the shares liable to capital transfer tax. This would appear to be anomalous and can give rise to a considerably higher tax charge. We would therefore suggest that unquoted shares which are subject to a surviving spouse exemption should be ignored in valuing shares held absolutely by the surviving spouse.

DEVELOPMENT LAND TAX

Pension Fund

The exemption from development land tax granted to charities recently is welcome. However, we believe that in terms of encouraging economic activity the extention of this exemption to pension funds would be of more direct benefit to the construction industry and we would suggest that pension funds should not be subject to development land tax.

Development for Own Use

Section 19A Finance Act 1981 gives a valuable deferral of development land tax where the owner develops land for his own use. The relief is due to run out on 1 April 1984 and was due to be extended to 1 April 1986 in the last Finance Act. We believe that the value of the deferral is considerable and that there is a strong case for the provision to be left in place indefinitely.

DEMERGERS

The legislation introduced in the Finance Act 1980 enabling companies to demerge trades and trading companies has been helpful to many companies wishing to diversify their structure. We believe, however, that the time has come for a review of the difficulties that have arisen in practice. We highlight here two such difficulties

(a) The requirement that a distributing company should be a member of a trading group both before and after the demerger is too restrictive. There seems to be no reason why it should not be possible to demerge investment assets, thereby splitting the investments from the trade. The existence of a clearance procedure should ensure that the system could not be exploited for tax avoidance.

(b) Under the present system there is no relief for gains arising to the distributing company and corporate tax on those gains might well inhibit a demerger. Demerger provisions ought to be extended to cover corporation tax on capital gains.

LONDON CHAMBER OF COMMERCE & INDUSTRY

SMALL FIRMS' TAXATION SUB-COMMITTEE

1. Business Expansion Scheme

(a) The relief should be extended to all forms of share capital, not merely ordinary shares in the company. This would enable the potential investor to see some prospect of a repayment of his shares if, for example, redeemable preference shares were used, and would enable the individual controlling the company not to water down his controlling interest

(b) Whilst the exclusion from relief for companies dealt with on the USM is understandable, the withdrawal of the relief in respect of shares in a company which, after the acquisition, become so dealt with, seems unreasonable. Perhaps only a company which goes to the USM within 6 months of the share acquisition should be excluded, so as to avoid relief being obtained in respect of companies about to enter the market.

(c) Paragraph 5(8)(9) and (10) Schedule 5 Finance Act 1983 seemed to be a partial re-enactment of a former provision which did not appear to be any longer relevant, as the devices against which the provision was formerly enacted, namely the attempts to dress-up and old business as a new business, or cases where the 50% restriction used to apply, were no longer in the legislation. Clarification as to the purpose of the sub-paragraphs is sought. The effect of the sub-paragraphs does seem to go to prevent relief on occasions where relief should be obtained.

(d) Paragraph 5, Schedule 5 Finance Act 1983 provides an undly restrictive definition of a qualifying company, particularly in the area of overseas operations. A company with an overseas subsidiary would not qualify nor, it seems, would a company whose principal objective was exporting operated through branches outside the United Kingdom.

2. Partners and other Self-Employed Individuals

There are a number of areas in which partners and other self-employed individuals are treated less favourably than employees or companies and these include:-

(a) The rate of tax applicable to profits of a partnership retained within the firm are substantially higher than those applicable to a company.

(b) The scope for pension provisions, in spite of the relaxtions are less generous inter alia, in the area of Self-Administered Funds.

3. Interest Relief Provisions

The provisions relating to interest relief are becoming increasingly complex and some form of consolidation is clearly required. So far as relief for interest on money borrowed to purchase shares, the provisions could be very greatly simplified if instead of specifying a number of categories eligible for interest, the provisions could allow all interest on loans to acquire shares to be allowable, other than shares in:-

(a) companies which are both quoted and non-close, and

(b) investment companies other than the parent companies of a trading group.

The inability to obtain relief, for example, for an individual who acquires shares in an employee-controlled company after it has become so controlled seems unfortunate, particularly if the employee joins the company after it has become employee-controlled.

It also seems inconsistent that money borrowed to invest in a business enterprise scheme qualifying company might, in some circumstances, be allowable but in others not.

LONDON CHAMBER OF COMMERCE AND INDUSTRY

BUDGET REPRESENTATIONS 1984

VALUE ADDED TAX

1. **Legislation by Statutory Instrument**

We deplore the frequent use which is made of the Statutory Instrument as a means of giving effect to quite fundamental changes in VAT law of a kind which ought to have been subject to Parliamentary scrutiny and debate. The recent episode of the proposed amendments to the Partial Exemption rules is a case in point. The public reaction to the proposals (which were embodied in a Statutory Instrument made at a time when attention was focussed on the Budget speech) led to the withdrawal of the more controversial of the original amendments. It would have been more satisfactory all round if proposals such as these had been included in a Finance Bill.

2. **Bad Debts**

The provision enabling suppliers to reclaim VAT where debts turn out bad (VATA 1983, S.22) is unnecessarily restrictive.

In particular, it should cease to be a requirement that the creditor should have proved in the debtor's insolvency (S.22(2)(a)) before relief can be given. It ought to be possible to devise procedures for verifying claims which would enable relief to be given in a wider range of circumstances.

In addition, the requirement in S.22(1)(a) that the claimant be the actual supplier of the goods or services prevents relief being claimed where supplier companies have their debts factored by companies outside their VAT group.

3. **Invoices**

The rules defining the essential contents of a VAT invoice (VAT (General) Regulations 1980, No 1536, para. 9) are rigidly enforced and any failure to comply with the rules, however slight, can prevent the recovery of input tax which has been incurred.

In the Chamber's view, C & E officers should be allowed to exercise their discretion in deciding whether to allow input tax to be recovered where the invoice is "spoilt" by only a trivial error.

/...

4. Business Gifts

The £10 limit on VAT-free business gifts is considered to be too low. A £50 limit would be more appropriate.

5. Grouping Elections

VATA 1983, S.29(7) requires grouping elections to be made "not less than 90 days before the date from which it is to take effect, or at such later time as the Commissioners may allow."

It is understood that the 90 day rule is not generally enforced. Its retention does, however, create doubt and uncertainty in cases of acquisitions, mergers, etc. where new groups are created and VAT grouping treatment is desired at short notice. We accordingly would prefer to see the rule abandoned.

6. Partial Exemption

In determining the non-recoverable input tax of partly exempt traders, the Commissioners are empowered to "allow or direct" the use of a method other than Methods 1 and 2. (General Regns. 1980, para. 24(2)).

If the proposals contained in the recent consultative documents are enacted, many large companies will find it advantageous to use special methods.

We are concerned in this connection that the Commissioners are not required to agree a special method within any specified period of time and we feel that it is only right that they should be subject to a reasonable time limit, say 90 days, in order to protect traders against the very serious cash-flow problems which can arise where a special method is not agreed.

7. Conference Expenses

The Chamber is concerned at the potential loss of business to the hotel trade arising from the disallowance of VAT on hotel and cating charges relating to conferences and other occasions which are deemed to include an element of hospitality. This situation is particularly onerous for companies who hold regular conferences and meetings for their self employed agents.

An example of this problem has been the departure from this country of a Pro-Am golf tournament due to the costs of accommodtion etc for the participants being increased due to the VAT there not being reclaimable.

1984 BUDGET

LCCI Technical Representations - Corporation Tax

1. Groups of Companies

1.1 S29 FA 1973

Transactions should not be caught by Ss 29 and 30 FA 1973 when effected for bona fide commercial reasons, and should be afforded a Revenue clearance procedure. Experience indicates that the Revenue operate these sections frequently and inflexibly and they continue to unnecessarily influence and impact upon normal trading deals.

1.2 Intra-Group Company Loans

Sec. 136 CGTA 1979 allows losses on loans to rank for capital gains tax relief in certain circumstances. This relief is still denied however in the case of loans between group companies or if the borrower is non-resident. Yet those must be the most common situations where losses on loans are incurred. As long as the loans were advanced for bona fide commercial reasons we believe all losses on loans should rank, for relief equally with share capital or other securities. This should also include losses arising from guarantees on behalf of fellow group companies.

1.3 Consortium Relief

We appreciate the expansion of the relief made available in the 1981 Finance Act, but we feel that there should be complete freedom of surrender, ie sideways as well as up and down. Particularly, the surrendering company should not be denied group relief for those losses remaining in any one year after a surrender to a consortium company as currently happens through the effect of Sec. 263(5) TA 1970.

The consortium vehicle continues to be very popular to pool limited resources, particularly in capital intensive situations, and full freedom of consortium relief should be available.

1.4 Transfers of Assets within a Group

There seems no justification for the rule that it is only if part of a trade is being transferred also that tax depreciable assets may be transferred between companies in the same group at tax written down values. Where this is not the case the group suffers a balancing charge in one company and allowances are restricted to 25% on a reducing balance in the other. This unwarranted cost can only be avoided by transferring assets at unrealistic values but there are strong commercial and accounting objections to this. It should be possible to elect for assets to be transferred at tax written down values as was the case before the 1971 legislation.

1.5 Section 278

This section was quite reasonably introduced as anti-avoidance legislation. It does however lead to problems in perfectly normal commercial situations where a purchaser will invariably seek an indemnity. It therefore seems to us that at the very least there should be a clearance procedure introduced to cover non-avoidance situations.

1.6 Losses

The use to which surplus losses can be put is restricted even within a single company although in practice the Revenue does not normally seek to separate trade streams. In groups however such restrictions are imposed merely because for good commercial reasons separate corporate entities are used for different activities. A further problem arises with charges and their effect on losses - creating distortions in financing which might lead to the use of bank financing when other sources might without the tax effect be more economic. A case thus can be made for allowing group relief surrenders of surplus losses in years other than the year in which the loss arose and also for not restricting losses brought forward to a specified type of income.

1.7 Grouping Capital Gains and Losses

It should be possible to offset capital profits and losses in a group of companies. The Revenue have for many years argued that this is not necessary since assets can be moved freely within the group before disposal. But with the growing tendency of Courts to question transactions prompted by tax rather than commercial considerations it is essential that the offsetting of group profits and losses is given statutory authority.

1.8 Rollover Relief on Group Assets

The Revenue interpret section 115 CGTA 1979 in such a way that they look only at the use of the asset disposed of in the actual company making the disposal regardless of transfers within the group. This can produce strange results both in the taxpayer's favour and against, but it does not seem sensible and the legislation should be changed or the Revenue alter their practice.

2. Time Limits

It is felt that a review is overdue of the various time limits set down for the claim or surrender by companies of losses, allowances etc, but of specific importance we wish to point out the following:

2.1 Stock Relief Clawback

The LCCI Tax Committee does not believe that either the clawback provisions or the six year restriction on group relief losses are fully justified. It is certainly not defensible if a business suffers a clawback charge but previous losses are not allowed against it because they have become time-barred. Losses derived from stock relief should, as a minimum, always be available against clawback.

2.2 Tax Credit Relief

In a number of instances where agreement of final foreign tax liabilities can be delayed for many years due to the laws of the particular overseas Revenue authority, agreement of any UK liability on that income is similarly delayed pending finalisation of the tax credit relief. Whereas S512(2) permits adjustment to be tax credit relief in the assessment concerned outside the normal limits, it is often the case that further adjustments which would be necessary to surrenders in a group (ACT and/or losses) are time-expired. This clearly frustrates the purpose of Sect. 512(2) and where an adjustment to tax credit relief in any assessment is made under the section, corresponding adjustments to group relief and ACT surrender claims should not be time-barred.

2.3 ACT and Loss Carry Backs

Under TA 1970, Section 177(3A) the claim may be made to carry back first year allowances for up to three years. Under FA 1972, Section 85(3), the set-off of surplus ACT against losses must be claimed within two years. Thus the ACT claim period unfairly restricts the operation of Section 177(3A) and it is considered that this should be amended. In the case of Groups of companies there should be complete freedom of use of ACT without the constraints of time limits in which surrender for example must be made.

3. Offsetting ACT against Corporation Tax on Capital Gains

The present system of capital gains tax results in double taxation on the ultimate shareholder of a company. In the case of group structures there can be a cascading effect resulting in multiple taxation. We strongly urge that ACT on dividends should be available to set-off against capital gains tax which would greatly ease this problem. This would be particularly appropriate at the present moment where many companies have surplus ACT yet can find themselves paying further tax on capital gains.

4. Closure Costs

The limitation placed on termination payments by Section 41(2) FA 1980 by reference to statutory redundancy payments is unjustly restrictive, not only on the amount paid by UK businesses but it also excludes any payment at all by overseas branches which are closing down. The wording of Section 41(1) is sufficient to ensure that only genuine redundancy payments are allowable and the restriction in Section 41(2) should be removed.

5. Abortive Expenditure

Companies regularly incur expenditure which does not result in the creation of an enduring asset for the benefit of their trade, but which because arguably it is of a capital nature is not relieved for tax purposes. Examples of this would be the costs of failed take over bids and investigations into the feasibility of using new processes, projects etc where no plant and machinery is actually acquired. Expenditure of this type would under normal accounting procedures be written off against profits, and should in our view be similarly allowable for tax purposes especially where incurred for a genuine trading purpose.

6. Overseas Income and Tax Credit Relief

It is common practice for "Third-world" countries (particularly Central and S. America) to levy withholding taxes on fees for technical services rendered by non-residents substantially outside of the country, including the element of the payments which represent reimbursed expenditure. In the invariable absence of a Double Tax Treaty and by virtue of S498(6) ICTA 1970, and the "source" concept the UK Revenue refuse to give double tax relief, UK Companies are experiencing severe disadvantages compared to their international competitors through having to increase their prices appropriately. There is every reason to suspect this additional cost of contributing to the lack of competitiveness of British companies in tendering for contracts in certain countries.

7. Capital Allowances and Buildings

7.1 We are still concerned at the way the Revenue and the Courts draw distinctions between buildings and plant. In our view capital allowances as plant and machinery should be given for all fixtures and fittings of a nature less permanent than the buildings in which they are situated. This problem has been further highlighted by the confusion following the recent case of Stokes v Costain Property Investments Ltd.

7.2 The relief afforded by S14 FA 1975 to insulation provided in industrial buildings to prevent loss of heat should be extended to include all forms of energy conservation, eg insulation for cold stores.

7.3 Tax relief in some form should be given for commercial building, albeit perhaps only 5% p.a. without initial allowance.

8. P11D Limit

We consider that the administrative burden of the P11D procedure and the problems it can cause in employee relations are out of all proportion to the revenue it yields. We believe that the threshold should be substantially increased to a figure of say, £20,000. If indexed to current day value the original limit of £2,000 set by S41 1948 Finance Act, would be approximately £25,000.

9. Management Expenses

The definition of management expenses is far too narrow, and in our view does not fairly cover the costs of running a holding company - particularly of a conglomerate group. The solution would be to allow all costs of a type which would be allowable for Case I purposes if the company were carrying on a trade.

10. De-Mergers

10.1 De-merger provisions were introduced to assist the fragmentation of inefficient businesses. A de-merger will crystallize any potential capital gains within the company and this is considered to be a disincentive and unfair consequence of de-merging. We can see no reason why clearance cannot be introduced and such gains exempted accordingly.

10.2 Also the de-merger provisions do not apply to the hiving-off of part of a trade although we understand in practice the Revenue do not take the point. However, it is preferable that de-merging part of the trade should be allowed by law and not by Revenue practice.

1984 BUDGET

LCCI TECHNICAL REPRESENTATIONS - PERSONAL TAXATION

1. Rates of Taxation on Personal Income

We have commented before that the jump between the basic rate and the first higher rate is too great at 10%. We still believe this to be so, but we would also emphasise that the jump from nil to 30% is even higher particularly when one takes account of the national insurance contribution of 9% for employees not contracted out.

2. Investment Income Surcharge

We believe the investment income surcharge is a disincentive to investment in British business. For those who have retired the surcharge is inequitable where the individual has invested his savings for old age himself, perhaps through not having been in a position to do so through a pension scheme and we repeat our suggestion that it should not apply to people over 65.

3. Call-out-Expenses

There are many employees whose duties require them to make a second appearance at work to meet emergency situations, or ordinary events such as high tide late in the evening in the case of discharging cargoes. In such circumstances it is almost impossible for the employer to avoid having to reimburse the employee for the additional travelling cost involved, perhaps also with a meal, and if this is taxed, to gross it up as well. We believe the time has long past when the Revenue should make a realistic reappraisal of its attitude to such anavoidable employment expenses which should not be liable to tax on reimbursement by an employer.

4. Exepnses of Multi-directorships (Section 189)

Relief under this section is being refused by the Revenue where a single set of expenses has been incurred wholly, exclusively and necessarily in the performance of the duties of two or more employments. Consequently, a person with say four directorships who for reasons of business convenience and economy has one office, one secretary, one telephone etc., is not being given relief on the grounds that none of the expenses were incurred in respect of any one employment only. On the other hand, despite the considerable inconvenience and added cost such a person with four offices, four telephones, four secretaries etc., would be entitled to relief under Section 189.

Such an anomalous and inequitable situation should be remedied by legislation or concession.

5. Private Residence and Overseas Jobs

a) An individual who takes an overseas employment retains his exemption form capital gains tax on his principal private residence in the UK provided that he lived in it both before and after working abroad. He does not get this exemption if after going abroad he is a first time buyer of such a house, nor if he changes his principal private residence whilst abroad. Similar problems arise with mortgage interest which would otherwise be deductible from any UK income. We feel that full relief should clearly be available in all these situations.

b) Individuals who are self-employed abroad and who have private residences in the UK have exactly the same problems as those with an employment overseas and there is no reason why they should not have the same treatment for capital gains and for mortgage interest relief.

c) We would add that in connection with the new MIRAS scheme there is an urgent need for clear guide lines to be made public to meet the situation of individuals going abroad or returning to the UK. The scheme, if it is to wrok properly, needs to have clear cut rules which can be implemented without the need for intervention by professional advisers or Inspectors of Taxes.

6. Section 21 Finance Act 1983

Companies who provide for example mobile staff on assignment with flats in central London are finding that the new taxable benefit will in many cases substantially exceed the current market rent, sometimes by as much as 50%. Such accommodation is not provided as a perk, nor with an option to buy and the market rent ought to act as a ceiling to the taxable benefit. This would not provide valuation problems as there is a reasonable rental market in London.

7. Removal Expenses

a) The present state of business is causing sizeable upheavals in many companies with both expansion and contraction in particular locations. These changes can only lead to increased efficiency if employees are able to move from one work place to another, often with a change of residence.

The cost of wuch relocation is naturally high and extra statutory concession A.5 relieves the reimbursement of the removal expenses from tax, provided "that the expenses are reasonable in amount and their payment is properly controlled". Serious problems are being encountered by businesses because unrealistic conditions are being imposed on local tax offices by their head office which interprets the reference in their concession to "reasonable in amount" as meaning only the level at which the Civil Service itself reimburses similar costs.

Despite the published concessions companies which have properly controlled systems of reimbursement and only meet expenses which are realistic and reasonable in amount are being required by the Revenue to tax a substantial part of these reimbursements merely because they exceed what seems to us to be arbitrary Civil Service levels - and this particularly applies where the new house is dearer than the old one and it is necessary to give some support in meeting the higher mortgage interest payments.

The net result of what seems to us to be the failure of the Inland Revenue to administer properly its own published concession, is that many companies have to bear increased costs because unavoidable expenses have to be grossed up for tax purposes merely to get the right employee in the right place at the right time.

b) A further problem in dealing with removals is the burden of stamp duty on private residences. This affects business in two ways. Firstly, for individuals who have to meet the cost of the tax themselves it is one of the larger features which make them reluctant to move. This therefore hinders the flexibility of labour necessary for the commercial world to operate efficiently. Secondly, this increases employers' costs where an employer is paying for a removal.

We believe that no stamp duty should be charged on properties costing £100,000 or less.

8. Interest on Additional Assessments

The present administration machinery between Collectors' and Inspectors' offices is not working well, particularly in cases where by agreement with the Inspector part of the tax charged on an estimated assessment is deferred. It often happens that the Collector continues to attempt to enforce collection of the full amount. The situation will be worsened by the effect of S69 FA 82 because where estimated assessments are too low taxpayers will be penalised unless they pay tax in excess of the amount charged. If they want to pay the extra tax, however, there appears to be no administrative machinery for Collectors to cope with it. Quite apart from the difficulties of working this system we believe S69 to be ill-conceived and it should be repealed.

We would also reaffirm out belief that it is inequitable that where an individual over-pays tax he received no repayment supplement at all for up to 12 months.

9. Entertaining Expenses - Schedule D Case V

In computing the taxable profits arising from a trade carried on outside the United Kingdom, either by an individual or by a partnership, Section 411 Taxes Act 1970 operates so as to disallow entertaining etc., expenditure, which is contrary to the intention behind Section 411(2) and can produce inequitable results. Section 411(2) was enacted to encourage the earning of foreign currency, but provides relief only for trades carried out in the United Kingdom and not for those carried on overseas.

Take, for example, the case of an overseas firm of architects, most of whose partners are UK resident, which incurs considerable entertaining etc., expenditure in obtaining a contract for work outside the UK. In computing the UK taxable profits, this expenditure will be disallowable, thereby possibly cancelling the advantage of the 25% deduction given for foreign earnings.

Section 411 was enacted before the changes which brought Case V profits more generally within the charge to UK income tax, and Section 411(2) should be amended so as to remove the restriction on the relief.

219 5012
S-C

The Hon. Charles Morrison, M.P.

1 MARCH 84
AT 11AM

Budget reps

HOUSE OF COMMONS
LONDON SWIA OAA

9 February 1984

Dear John

Following my telephone conversation with your office yesterday morning, I am writing to confirm that I should be most grateful if you could make available half an hour between now and the Budget to receive a deputation from the recently formed Horse and Pony Taxation Committee, to discuss Capital Transfer Tax and its effect on studs in particular, but also its possible effect on agriculture. You will recall that I am in correspondence with you about this and await a reply to my letter of the 14th December 1983.

I hope very much it will be possible for you to meet such a deputation. Unfortunately, I shall be unavailable abroad from the 16th to the 22nd February inclusive. Thus, the week beginning the 27th February or thereafter would be most convenient. However, I have no doubt your office will liaise with my secretary.

Yours ever
Charlie

FINANCIAL SECRETARY	
REC.	14 FEB 1984
ACTION	Mr Martin
COPIES TO	PPS, CST, EST, MST, Mr Middleton, Mr Cassell, Mr Monger, Mr R Allen, Mr Griffiths, Mr Lord, PS/IR, PS/C&E

John Moore, Esq., MP.

P.S. I have just returned from leading a deputation of the Horseracing Advisory Council to Barney Hayhoe. One of the subjects raised was Stock Relief / Mare Depreciation. I had earlier told Barney that I was hoping to lead a deputation from the Horse and Pony Tax Committee to you and in consequence, he suggested that the Stock Relief issue should be raised on that since it falls within your responsibilities rather than his, even though the Horse and Pony Tax Committee is not specifically involved with this subject.

MORAY DISTRICT COUNCIL

Budget reps

All Communications to be addressed to the Chief Executive

JAMES P. C. BELL, M.A., LL.B.
Chief Executive

Telephone: ELGIN 3451
(STD 0343:3451)

SUB SPE

DISTRICT HEADQUARTERS
ELGIN
MORAY
IV30 1BX

IF TELEPHONING OR CALLING ASK FOR

Mr. Young Ext. 204

24th February, 1984

Our Ref: DY/VC/R381 Your Ref:

FINANCIAL SECRETARY

REC.	28 FEB 1984
ACTION	Mr Lusk - IR
COPIES TO	PPS CST EST
	Sir P Middleton Mr Cassell
	Mr Monger Mr Chivers
	Mr R I G Allen Mr Lord

PS/IR

John Moore, Esq., M.P.,
Financial Secretary to the Treasury,
The Treasury,
Parliament Street,
LONDON.
SW1P 3AG

Dear Sir,

<u>Taxation of Holiday Lettings</u>
<u>1984 Finance Bill</u>

I am instructed to express the Council's concern at the possibility of any detrimental changes being made to the taxation position of self-catering holiday lettings.

The Council have concurred generally with the representations which were submitted to the Secretary of State for Scotland on 15th November, 1983 on behalf of the Scottish Confederation of Tourism (of which this Council, as local tourism authority, is a member); these representations related to the majority of Scotland's self-catering businesses apparently being faced with a transfer from Schedule D Case I of the Income Tax Acts to the less advantageous Case VI. (Case I relates of course to "profits of a trade", and Case VI to ordinary furnished lettings, and it certainly seems inequitable that holiday letting - which by definition is of a short-term nature and involves regular cleaning etc. of the premises - should be treated as anything other than a "proper" business.) The change to Case VI arose from judgments in recent tax cases, and an apparently more stringent attitude on the part of the Inland Revenue, and following the matter having been raised in Parliament on a number of occasions it was understood that legislation would be introduced to remove some (but not all) of the disadvantages under Case VI.

I have now obtained details of the relevant draft Clauses which are intended for inclusion in the 1984 Finance Bill. It is not my intention to comment in detail on the draft Clauses, the Council's position being quite simply that they would view with concern any fiscal changes which might detrimentally affect the viability of any local self-catering units. Were any such units to be withdrawn from the holiday letting market as a result of fiscal changes, or were operators to be discouraged from expanding their businesses, there would clearly be a detrimental "knock-on" effect on other local businesses outwith the accommodation sector. This could be a serious matter for predominantly rural areas such as Moray District.

Any/

John Moore, Esq., M.P. 24th February, 1984

Any fiscal changes which resulted in the accommodation charge to the tourist being increased would equally be a serious matter within Moray District. Although we have so much to offer the visitor who actually gets here, the viability of our tourism-related businesses is already adversely affected by the road and rail distances from the south.

Whilst it may well be that the draft legislation would improve the current position in so far as some businesses are concerned, I understand there might be concern that other businesses (previously dealt with under Schedule D Case I) could be worse off compared to their pre-1983 position. It is hoped that consideration can be given to avoiding such a result.

Rmoy

Yours faithfully,

James A. C. Ben

Chief Executive

THE MINING ASSOCIATION
OF THE UNITED KINGDOM

formerly OVERSEAS MINING ASSOCIATION and incorporating
UNITED KINGDOM METAL MINING ASSOCIATION

Registered Office:— **6 ST JAMES'S SQUARE, LONDON, SW1Y 4LD**

Telephone: 01-930 2399

PMG Budget reps

CH/EXCHEQUER
REC. 06 FEB 1984 16/2
ACTION FST
COPIES TO

3 February 1984

The Right Honourable Nigel Lawson, M.P.
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

Dear Chancellor,

In framing their budget proposals Chancellors have in the past been kind enough to lend an ear to the representations of my Association concerning the taxation of mining companies. Accordingly I attach a short paper which sets out the matters of most concern to our members. I very much hope that it will be possible for you to give consideration to the matters we have raised when preparing your proposals for the coming financial year.

Yours faithfully,

P.A.L. Gordon
President.

From the President

CONFIDENTIAL

13 FEB 1984

~~Fst to deal~~

9th February, 1984

MCCI
Manchester Chamber of Commerce and Industry

56 Oxford Street, Manchester M60 7HJ
Telephone 061-236 3210 Telex 667822 Chacom G

Chief Executive Paul R Saulter MA

Dear Chief Secretary,

A copy of our submission to Mr. Patrick Jenkin on the future of the Greater Manchester Council has either already been sent to you or is enclosed.

Those of our members who are in favour of abolishing the GMC are nevertheless expecting savings to be achieved. Despite some upturn in the economy, many firms in this area are still hard pressed. If the abolition is as badly carried out as previous "reforms" of local government, there will also be adverse consequences for the unemployment level, investment, tax yields, etc., all of which must pre-empt resources available for tax cuts and other areas of public expenditure.

I would add that the White Paper suggestion for the future of the Airport could lead to the profits it makes being diverted to the subsidy of the Greater Manchester PTA. This would be harmful to the economy of the North West, the North Midlands and Yorkshire.

We have made constructive proposals for planning and costing the abolition of the GMC and have set out our views on the future of the Airport. I do not claim that these are the only - or even the best - options open. But I do believe that unless the abolition of the GMC is planned very carefully, the economic (and political) consequences could be unfortunate.

I hope that you will ensure that our anxieties are not ignored in any discussions of this matter in Cabinet.

Yours sincerely,

A. M. Toms

The Rt. Hon. Peter Rees, QC., MP.,
Chief Secretary,
H.M. Treasury.

Mr Anson
Mr Portell
Miss Kelley
Mr Watson

Mr Culpin
PPS FST EST
MST
Sir P Middleton
Mr Bailey

SUBMISSION WITH ACTION COPY ONLY

THE MINING ASSOCIATION OF THE UNITED KINGDOM

Representations to the Chancellor - February 1984

1. MINING CAPITAL ALLOWANCES

In last year's budget speech it was announced that the Inland Revenue would be inviting representations on the subject of Capital Allowances for the Mineral Extraction Industry. The Mining Association duly responded to this invitation in October. Our representations substantially followed the recommendations made by the Working Party on Mining Capital Allowances (which included the Inland Revenue, our Association and other parties) in July 1973 and we now strongly urge that the proposed measures be incorporated in the Finance Bill 1984.

We attach a copy of our October 1983 representations but at the same time wish to emphasize the following two proposals to which we attach the greatest priority:

a) that allowances be given for all expenditure on mineral exploration and appraisal activity and the relief made available against other income of the person incurring such expenditure even if no mining trade is being carried on; and

b) that financial assistance (direct or indirect) by mining companies (including mining finance companies) towards the exploration costs (at home or overseas) of another company which is not then carrying on the trade of mining should be treated as qualifying expenditure.

2. DOUBLE TAXATION RELIEF

HMG is, of course, aware of the dependence of the United Kingdom on overseas sources for most of its non-energy minerals. It follows that much of the income of members of this Association is derived from mining operations in foreign countries where host governments naturally collect mineral rents (in the form of royalties and taxes) in priority to UK taxation. For UK resident companies relief from double taxation is often critical for the viability of a mining project or the continued profitability of an operation.

Our members are therefore extremely sensitive to the regulations applied and, although the Inland Revenue generally understands the problems and makes suitable provision, we wish to draw attention to the need for refinements in the following areas.

a) Creditable taxes

The long accepted principle is that tax relief is given only against foreign taxes charged on income which correspond to income tax or corporation tax in the UK. This treatment has generally been accepted by taxpayers as reasonable on the assumption that the principal foreign tax on mining has been based on profits and thus corresponds with UK taxation. However, mining and other natural resource companies have become increasingly subject to taxes which are not related to profits but, for example, to revenue, deemed revenue or volume extracted. The reasons for such developments may be rivalry between central and provincial taxing authorities, 'a priori' distrust of foreigners' operating accounts or the wish of host governments to stabilise their revenue. While the changes may appear tolerable from the viewpoint of the host government a foreign operator who has to support additional unrelieved taxation at home can be put out of business.

These changes in the character of overseas taxation are tending to discourage UK investors in natural resource projects. We feel that the rules for tax credit relief in the UK need to be adjusted to take more of such overseas taxation into account and we suggest that the problems might be studied by a joint working party including the Inland Revenue. However, as an urgent temporary measure we suggest that the Inland Revenue be allowed some flexibility in applying existing rules with a view to restoring the original principle of relief where this has been eroded by new forms of overseas taxation.

b) Interaction of ACT and double taxation relief

Even where host government taxes are fully creditable against UK corporation tax levied on overseas earnings, ACT represents an additional burden if there is insufficient UK sourced or lowly taxed overseas income to cover dividend payments. In these circumstances ACT largely negates the benefit of tax credit relief.

Our members welcome the provisions originally drafted as Clauses 41 and 42 to the Finance Bill 1983, which were designed to help companies in this situation firstly by allowing surplus ACT to be carried back to prior accounting periods, and secondly by applying double taxation relief before ACT. Although these items were not enacted in 1983 we understand that they will be included in the 1984 Finance Bill.

However, these measures offer only limited assistance and we suggest that this situation can be properly remedied only by extending tax credit relief against corporation tax to cover that part of the liability satisfied by ACT. We fully appreciate that there would have to be a restriction placed on refunds of tax credit claimed by shareholders with no UK tax to pay on dividends received.

c) Tax Sparing

Section 497(3) of the Taxes Act 1970 provides for tax credit relief in respect of amounts of overseas tax which would have been payable under the law of a territory outside the UK but for special reliefs given with a view to promoting industrial, commercial, scientific, educational or other development in that territory. Such relief is only available where implemented by a double taxation agreement.

We would not expect such reliefs to be made available by host governments in respect of highly profitable activities. Where granted in order to make a venture economically viable, the objectives of the host government will be frustrated if the benefits flow to the UK Exchequer and not the investor. We therefore suggest that tax sparing should be made available under the unilateral relief provisions of Section 498.

3. INTERNATIONAL BUSINESS

The Association has written to the Inland Revenue in response to the invitation to comment on the proposed legislation on Controlled Foreign Companies and a copy of our letter is enclosed. The Association also wrote to the Inland Revenue on Taxation of International Business on 10 February 1983 and a copy of that letter is also enclosed. Whilst our criticism of the proposals has been met in relation to the exempt activities test and partially in relation to holding companies and non-wholly-owned companies, we are most disappointed that no action has been taken on the remaining points.

DEB
3 February 1984

THE MINING ASSOCIATION
OF THE UNITED KINGDOM

formerly OVERSEAS MINING ASSOCIATION and incorporating
UNITED KINGDOM METAL MINING ASSOCIATION

Registered Office:– 6 ST JAMES'S SQUARE, LONDON, SW1Y 4LD

Telephone: 01-930 2399

PALG/PAD 25 October 1983

L.J.H. Beighton Esq.,
Inland Revenue
Room 69, New Wing
Somerset House
Strand
London WC2R 1LB

Dear Mr. Beighton,

Capital Allowances for the Mineral Extraction Industries

I refer to your letter of 28 July in which you asked for further representations from my Association on the subject of Mining Capital Allowances by the end of October. My Association has considered this matter carefully and has produced a detailed reply which is enclosed. We would naturally be very pleased to discuss these matters in more detail at your office if you feel this would be helpful.

Yours sincerely,

P.A.L. Gordon
President

Enc:

VIEWS OF THE MINING ASSOCIATION OF THE UNITED KINGDOM ON 'CAPITAL ALLOWANCES FOR THE MINERAL EXTRACTION INDUSTRIES'

1. INTRODUCTION

In 1973, a broad measure of agreement on the changes necessary to the system of mining capital allowances was reached by a joint working party consisting of representatives of the Inland Revenue and of other interested bodies. It is disappointing that, in the subsequent ten years, very few of those changes have been made. We are again being asked for our views on this subject and are responding to that request in the hope that it is now the intention to take action in this area. It would be inappropriate to say that the recommendations of the joint working party should now be implemented and we propose to consider the question in some detail.

The complex system of capital allowances for the mineral extraction industry has grown up piecemeal with different allowances for different types of capital expenditure and the system is now out of step with other systems of capital allowances. The rates of allowance have become outdated following the introduction of first year allowances (now 100%) for plant and machinery and the increase in initial allowances (now 75%) for industrial buildings. There has been a move away from taking account of the wear and tear of assets over their life to a system of giving incentives for capital expenditure. We believe that the system of mining capital allowances should provide an incentive for the development of this country's mineral resources and for UK companies to seek and develop sources of mineral deposits overseas.

What we propose is, therefore, first a simplification of the present system, second an improvement in the quantum and timing of allowances to bring them more into line with other systems and, finally, a method of dealing with certain types of expenditure which cause particular problems. The cost to the Exchequer of these proposals would be low, but the effect on economic activity might well be significant.

2. THE PRESENT SYSTEM OF ALLOWANCES

We do not propose to discuss the present system of allowances in detail because what we advocate are not piecemeal, detailed changes, but a radical reform and simplification. We would wish, however, to draw attention to what we consider to be the main drawbacks in the present system:-

a. The distinctions between various categories of expenditure produce unnecessary complexities.

b. The formulae for writing-down allowances are complex and out-of-date. There is no need, given the present approach to capital allowances as an incentive to investment, for allowances to be spread over the life of a mineral source by means of ever-changing formulae.

c. The limitation on allowances available to purchasers to the lesser of original cost or actual purchase price is unduly restrictive.

d. The test that to qualify for allowances an asset must be likely to be of little or no value when the source is no longer worked is, again, unrealistic and out-of-date.

../2

e. Relief for expenditure is frequently deferred until a source is worked. In an industry where it is frequently many years before it is known whether there will be successful commercial exploitation, this is a disincentive to incur expenditure on exploration.

f. There is no relief for abortive exploration expenditure unless the person incurring that expenditure is already carrying on a trade of mining.

g. Certain expenditure does not qualify for relief at all or qualifies only in such a way that it cannot be effectively relieved. This applies particularly to close-down costs.

3. PROPOSALS

a. Allowances should be given for all expenditure on exploration for, and appraisal of, mineral deposits. The relief should be available against other income of the person incurring the expenditure even if no mining trade is being carried on. So large a proportion of expenditure on these activities is, inevitably, abortive that there is considerable disincentive to incur such expenditure unless tax relief is available.

b. Financial assistance, direct or indirect, by mining companies and mining finance companies (as defined in paragraph 23 of the 1973 report) towards the exploration costs, whether in the UK or overseas, of another company which is not then carrying on a trade of mining, should be treated as qualifying expenditure.

c. For other expenditure on which capital allowances are given there should be no concept of "source". All that should be necessary for expenditure to qualify for relief is that the person is carrying on, or subsequently commences to carry on, a trade of mining (i.e. a trade which consists of, or includes the work of a mine, oil well or other source of mineral deposits).

d. All capital expenditure, which does not qualify for capital allowances as scientific research, plant and machinery or industrial buildings, should qualify for allowances under one overall system.

The categories of expenditure qualifying for these allowances should be:-

i) Expenditure incurred on or in connection with the acquisition of any mineral source or land comprising a mineral source, or any interest in or right over such source or land and expenditure on land ancillary to such land or source, such as land for tipping waste;

ii) Expenditure incurred on or in connection with winning access to a mineral source, whether such expenditure eventually proves successful or abortive;

iii) Expenditure incurred on or in connection with the construction of works relating to a mineral source other than works within section 51(3)(c) Capital Allowances Act 1968;

iv) Expenditure incurred on or in connection with the working of a mineral source, and

v) Expenditure incurred in relation to a mineral source outside the United Kingdom on or in connection with, or by way of contribution to the costs of, the matters falling within section 61(1)(a), (b) and (c) Capital Allowances Act 1968, but irrespective of their possible residual value.

../3

e. There should be no condition that the asset should be of little or no value when the mine is no longer worked or the foreign concession comes to an end. If any value is realised on disposal that will be taken into account in calculating any balancing allowances or charges.

f. Allowances to purchasers of qualifying assets should be based on the full purchase price, subject to normal restrictions in the case of sales between connection persons etc., as is the case with purchases of land and mineral rights overseas from non-resident vendors.

g. First year allowance should be 100% with the person having the right to disclaim all or part of that allowance. Writing-down allowance should be 25% on a reducing balance pool as for plant and machinery.

h. Persons should be entitled to deduct in each year over the anticipated life of the mineral source a proportion of the anticipated closure costs. If such deductions are in excess of actual costs, including the value of land, a balancing charge would arise. If actual costs were higher, the excess would qualify for a balancing allowance available, if necessary, for carry back against profits of earlier years. There will frequently be residual value, as in (d) above, against which to set this relief.

4. PRIORITIES

We have been asked to give an indication of the relative importance which we attach to particular proposals. We find this difficult as what we are advocating is a reform of the whole system of capital allowances for mineral extraction industries, but our proposal for the treatment of exploration expenditure (paragraph 3a and 3b above) represents the most significant improvement which could be made.

London
25 October 1983

THE MINING ASSOCIATION
OF THE UNITED KINGDOM
formerly OVERSEAS MINING ASSOCIATION and incorporating
UNITED KINGDOM METAL MINING ASSOCIATION

Registered Office:– 6 ST JAMES'S SQUARE, LONDON, SW1Y 4LD

Telephone: 01-930 2399

The Board of Inland Revenue,
Room S24,
West Wing,
Somerset House,
London WC2R 1LB

10 February, 1983

Dear Sirs,

TAXATION OF INTERNATIONAL BUSINESS

We welcome the opportunity to comment on the proposals of the paper dated December, 1982 put forward by the Government in relation to the taxation of international business. Set out below are a number of general comments on issues which may affect our members. We have confined our comments to points which have particular relevance to the mining industry.

1. Timing

It is not clear from the paper whether there will be legislation in the Finance Bill 1983 or whether it will be held over until full study has been undertaken by the Government. We would point out that the time allowed for comment is effectively only six weeks leaving rather less than four weeks for effective consultation before budget day. In view of this we consider there should be no legislation in this year's Finance Bill.

2. Company Residence

We note with pleasure that the Government has decided not to proceed with its proposals to change the criteria of what is to be regarded as a company resident in the United Kingdom. Any change in this area would have caused considerable uncertainty for a long time in the future. We are pleased that a Statement of Practice will be issued which will clarify the Revenue's understanding of the present law.

3. Upstream Loans

We are pleased to note that legislation regarding upstream loans will not be introduced until the issue has been studied further. We hope that this topic will be held in abeyance until the Government has had an opportunity of assessing the operation of any tax haven legislation.

4. Section 482 ICTA 1970

We are disappointed that the Government has seen fit to retain Section 482 in its present form. We would have thought sub-sections (1)(b), (c), (d) would be superfluous after the enactment of the tax haven legislation.

5. Section 485

We are surprised at the way the paper tends to belittle the operation of Section 485 and we feel that it would be more sensible for the Revenue to use its powers under this existing legislation rather than to introduce an extremely complex set of provisions which is bound to result in extra work for all UK-based major international groups and the Inland Revenue.

6. Dividend Trap Companies

We are not clear as to why such companies are regarded as unacceptable. In some cases they operate as holding companies for a sub-group in a particular territory or continent so that profits made in one company in the sub-group can be reinvested by cash-hungry companies in another part of the sub-group. Alternatively trap companies may merely avoid the anomalous situations which arise from the arbitrary source rules in the UK double tax relief provisions. Indeed, if the tax havens legislation is eventually enacted in its present draft form we would have thought it would be only reasonable for there to be some relaxation in stringent double taxation relief provisions. We would point out that most countries with legislation comparable with that proposed for the UK have more liberal double tax relief provisions or exempt dividend income from certain sources.

7. Definition of Tax Havens

We are pleased to note that the Revenue will be issuing a list of countries which it does not regard as tax havens. In the interests of certainty in tax matters we hope that this list, or preferably a series of lists so as to avoid undue delay, will be issued as soon as possible. We consider that the list or lists should be brought into effect by statutory instrument. In the case of countries with which the UK has a double tax agreement it will no doubt be possible to issue a list fairly quickly since the Revenue will already have information on its files about the overseas country's tax system. We hope that the Revenue will not regard as a tax haven a country which levies a normal tax rate but which has significant investment incentives for new projects.

8. Motive Test

Paragraph 13 of the paper says that the proposed tax charge would apply only where a main purpose behind the arrangements was deliberately to obtain a significant reduction in UK tax. We do not believe that the motive test incorporated in the draft legislation gives effect to this statement of intention.

We find some difficulty in following whether the motive test which is described in paragraph 43 in relation to holding companies is actually written into the legislation and we find that others who have studied the paper have a similar difficulty.

9. Exempt Activities Test

We expect mining to be considered an exempt activity but for the avoidance of doubt we suggest that the definition of "premises" in paragraph 6(2) of Schedule 1 should include a "mine, quarry or other place of extraction of natural resources".

10. Acceptable Distribution Test

We consider that paragraph 2 of Schedule 1 should provide that the test is satisfied where 50% (or 90%) of the available profits are distributed, whether to UK residents or not.

11. Computation of Notional UK Tax

Although we would not expect there to be many cases where companies carrying on mining or related activities would fail to pass the various tests contained in the proposals, we believe that in case this occurs Schedule 2 should contain special provisions for dealing with major computational differences between UK and foreign tax laws. Particular categories of expenditure where foreign allowances are normally more liberal are exploration, expenditure on new development projects, mine rehabilitation costs and the construction of employee townships. In such cases we believe that the allowances given under the local tax regime should be adopted for the purposes of UK notional tax.

We would of course be glad to discuss these matters with you if you wish.

Yours faithfully,

P.A.L. Gordon
President

THE MINING ASSOCIATION
OF THE UNITED KINGDOM
formerly OVERSEAS MINING ASSOCIATION and incorporating
UNITED KINGDOM METAL MINING ASSOCIATION

Registered Office:– **6 ST JAMES'S SQUARE, LONDON, SW1Y 4LD**

Telephone: 01-930 2399

31 January 1984

The Board of Inland Revenue
Room S24
West Wing
Somerset House
LONDON WC2R 1LB

Dear Sir,

Controlled Foreign Companies

In response to your invitation to comment on the revised draft clauses on Controlled Foreign Companies issued on 31 October 1983 I now have pleasure in enclosing the observations of my Association. You will note that we have confined these to points which particularly concern our members.

We would naturally be glad to discuss any of these points with you further if you should so wish.

Yours faithfully,

P.A.L. Gordon
President

THE MINING ASSOCIATION OF THE UNITED KINGDOM

CONTROLLED FOREIGN COMPANIES

Comments of the Association on the revised draft clauses issued on 21 October 1983

1. Section 482

We are disappointed that the Government has seen fit to retain Section 482 in its present form. The Consultative Document on company residence issued in January 1981 conceded that the need for Section 482 was called into question by the abolition of exchange control and the only apparent reservation was in regard to the residence rules. We find the Revenue's failure to comment further on the future of Section 482 unsatisfactory; we would have thought that Section 482(1) (b), (c) and (d) should either be repealed by the Finance Act 1984 or the Revenue should issue a public statement as to why they are unable to recommend such a course.

2. Definition of tax havens

The Press Release of 31 October makes no reference to the Government's intentions regarding the list of non-tax haven countries issued in March 1983. We assume that the list, updated if necessary, will be issued as a draft statutory instrument but we would welcome an assurance on this point.

3. Acceptable distribution test

The terms of schedule 2 paragraph 2(4) and (5) are designed to improve the position where some shares in the CFC are held by non-residents. Paragraph 2(4) is clearly helpful where the capital structure of the CFC is straightforward and paragraph 2(5) deals with a simple capital structure situation. For a variety of reasons many CFCs may have complex capital structures which were established many years ago. For example, a consortium company may have a separate class of shares for each shareholder so as to facilitate the identification of relationships between them and in some cases to obtain protection under companies legislation in the local territory. In other cases the differing nature of the contributions of the original shareholders may be the reason for having more than one class of shareholders.

If the Revenue's concern is that the use of several classes of shares will enable substantially the whole of the profits to be distributed to tax haven countries so as to avoid the CFC legislation then we think the legislation should be directed at that narrow target rather than the somewhat wider one which will be caught under the present drafting.

4. Exempt activities

(a) holding companies

The relaxation of the definition of exempt activities to include certain holding companies is welcome. The 90% rule may prove to be restrictive where a significant part of a group's profits in a particular area are earned by consortium companies. A suitable relaxation would be the deletion of the words "which it controls and" in both paragraphs 6(3) and (4) of Schedule 2.

(b) effective management

Clarification is sought that in Schedule 2 paragraph 8 (1) (a) the word 'persons' includes individuals and corporations and that 'employed' means 'used' rather than requiring an employer/employee relationship.

5. Motive test

We still cannot see that, even after the modification, the proposed statutory provision (schedule 2 part III) gives effect to the expressed intention of paragraph 13 of the paper on the Taxation of International Business. There is no certainty in these provisions so that the Revenue could have absolute discretion in their enforcement with no effective right of redress in the courts.

DEB
London
31 January 1984

MPG

TAVISTOCK HOUSE
TAVISTOCK SQUARE
LONDON WC1H 9JP

TELEPHONE
01 387 4499
01 380 0472 (Direct line)

Executive Director: Wilfred Aspinall
Secretary: Dr. J.D.J. Havard MA. MD. LLB

MANAGERIAL, PROFESSIONAL AND STAFF LIAISON GROUP

Budget/Reps PO/I

HM TREASURY — MCU
REC'D. -6 FEB 1984
ACTION FST
42/2ND.
SIGNATURE
REF. No. 14692

FINANCIAL SECRETARY
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

WA/JCF/BW/JH

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

3 February 1984

Dear Chancellor

BUDGET 1984

You will recall that we corresponded in August last year on the question of relative levels of income tax and National Insurance contributions and that we undertook to submit detailed representations on tax and economic issues in line with the timetable followed by other representative bodies.

Most commentators are agreed that, whilst it might be desirable for your budget to provide some stimulus to the economy, the Government's viewpoint on public expenditure levels seems unlikely to permit other than a neutral budget on this occasion. It therefore follows that any proposals over and above general indexation will need to be offset by corresponding changes in the opposite direction.

The MPG has as its general aim a movement away from direct taxation into indirect taxation, we would like to see the total burden of income tax and National Insurance contributions returned to at least its 1979/80 level which, for the average earner, would entail a reduction to 27% of earnings and for the employee on twice average earnings to 29.3% of income (see attached). At present, as you will be aware, these levels are 31% and 33% respectively. A step in this direction could be a 1% reduction in the basic rate of income tax at this Budget. Such a move would cost some £1,025 m in a full year. We would favour an increase in Value Added Tax and other duties to offset such a reduction. An increase of 1% in VAT and an across the board revalorisation by 5% on other indirect taxes would more than achieve this. Contrary to popular opinion, this would not be an essentially regressive step since, arguably, VAT falls less heavily on the poor because it is not levied on either food or housing. At the very least, MPG would support full indexation of all tax bands, allowances and benefits. However, we would wish to see a firm commitment to a progressive reduction in direct tax.

To turn to detailed issues, we remain unhappy at the existing limit for tax relief on mortgages which was recently raised by 20% to £30,000. The figure of £25,000 introduced in 1974, if indexed by the increase in average dwelling prices (115%) should by now be £54,000 and should be adjusted accordingly. Similarly, the exemption level of stamp duty on house purchase should now be some £35,000 and in our view the duty should only be levied on the excess over this amount to avoid the swingeing effect of its operation at the margin. The complete abolition of stamp duty on house purchase is another MPG long-term aim and to achieve this in a single budget would require corresponding savings of the order of £400 million to be made, if its effect is to be neutralised.

We believe that the £8,500 earnings limit for taxation of fringe benefits is both an anacronism and also an incentive for tax avoidance. We would therefore wish to see it abolished. On the general issue of tax evasion and the so-called 'black economy' we would support any cost-effective measures designed to recoup the sums involved which estimates have placed as high as £1 billion. The MPG also believes that trade union subscriptions should be eligible for tax relief, since we feel that this will improve the representative nature of trade unions at only a small cost to the exchequer.

I should add that we are of course willing to meet with yourself or your officials to discuss our general views on tax and other economic issues, should you so wish.

Yours sincerely

Wilfred Aspinall
Executive Director

APPENDIX

TAX AND NI CONTRIBUTIONS AS % OF GROSS PAY 1978/79 - 1983/84

		AVERAGE EARNER	1½ x AVERAGE	2 x AVERAGE	3 x AVERAGE
1978/79	Tax	22.45	26.0	28.6	41.5
	Tax + NI	28.95	31.0	32.4	44.0
1979/80	Tax	20.5	23.7	25.6	32.1
	Tax + NI	27.0	28.65	29.3	34.6
1980/81	Tax	21.5	24.3	26.9	33.7
	Tax + NI	28.25	29.4	30.7	36.2
1981/82	Tax	22.4	24.9	28.4	35.6
	Tax + NI	30.15	31.3	33.2	38.8
1982/83	Tax	22.2	24.8	28.4	35.3
	Tax + NI	30.95	31.9	33.7	38.8
1983/84	Tax	21.7	24.5	27.3	34.3
	Tax + NI	30.7	31.7	32.7	37.9

NALHM

National Association of Licensed House Managers
9 Coombe Lane, London, SW20 8NE
President: Don K. Houghton MBII
National Secretary David T. Carter 01-947 3080/5941

ALL COMMUNICATIONS TO BE
ADDRESSED TO:
Mr. D. T. CARTER
NATIONAL SECRETARY

HM TREASURY — MCU BRI	
D.	18 JAN 1984
ACTION	~~EST~~ ~~42/2ND.~~
SIGNATURE	
REF No.	13879

DTC/HOB/MTvW/M.MP.84

12th January, 1984
(dictated 10th January)

Rt. Hon. Nigel Lawson MP,
Chancellor of the Exchequer,
House of Commons,
Westminster,
LONDON,
SW1A OAA.

Dear Mr. Lawson,

BUDGET 1984

It must always be a difficult time for a Chancellor, when considering the right balance in a Budget, which attempts to please everybody in society, but on behalf of my Association we would ask you to give a little thought to considering the effects of the hardy annual - increasing taxation upon alcohol. For the Inudstry to remain competitive, account has to be taken of material costs increasing, along with other inflationary factors, and need to preserve a fine balance to ensure the industry continues to prosper and flourish giving a high quality customer service and priced products to which the customer can afford.

Therefore, we would seek your serious consideration to ensuring the correct balance is obtained on taxation of alcohol which will not reduce the volume or fiscal returns of our Industry's products, for to do so will have the consequential effects, on affecting our members security of employment.

Yours sincerely,

D Carter

David T. Carter,
National Secretary.

FINANCIAL SECRETARY	
REC.	20 JAN 1984
~~ACTION~~	PPS CST MST EST
COPIES TO	Sir P Middleton
	Mr Cassell
	Mr Monger
	Mr R I G Allen

Mr Griffiths

Mr F Martin
Mr Lord
PS/IR
PS/ C+E

H.M. CUSTOMS AND EXCISE
KING'S BEAM HOUSE, MARK LANE
LONDON EC3R 7HE
01-626 1515

FROM: W D WHITMORE

31 January 1984

cc PS/Chancellor
PS/Financial Secretary
Mr Battishill
Mr Monger
Mr Griffiths
Mr Walton
Mr Lord
Mr Portillo

PS/Minister of State

BUDGET REPRESENTATIONS : NATIONAL UNION OF LICENSED VICTUALLERS (NULV)

1. Michael Colvin MP wrote to the Chancellor on 24 January, in his capacity as Parliamentary Adviser to the NULV, requesting a pre-Budget meeting (preferably on 15 February). You asked for advice.

2. The NULV represents publicans and is closely associated with the drink trade's daily newspaper, the "Morning Advertiser".

3. We have no record of the NULV meeting a Chancellor to make pre-Budget representations. However, the Economic Secretary saw a delegation from the Union in 1982 and 1983 and we recommend that the Minister of State sees them this year.

4. If the Minister's diary permits, perhaps a meeting could be arranged as requested for some time during the afternoon of 15 February, without clashing with the meeting already fixed for 3.30 pm. We would, of course, provide official briefing and support.

W D WHITMORE

Internal circulation: CPS
Mr Knox
Mr Freedman
Mr Wilmott
Mr Norgrove

From: Michael Colvin, M.P.

HOUSE OF COMMONS
LONDON SWIA OAA

HM TREASURY — MCU
25 JAN 1984
ACTION Ch/Ex Registry 82/2
SIGNATURE
REF No.

24th January, 1984

CH/EXCHEQUER
REC. 26 JAN 1984 /26/1
ACTION MST
COPIES TO

Rt. Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
HM Treasury,
Parliament Street,
London SW1P 3HE.

My Dear Nigel —

re: National Union of Licensed Victuallers

Further to my letter of 15th December, the Executive of the National Union of Licensed Victuallers are meeting here in the House on Wednesday, 15th February, and I wondered if it might be possible to come and see you on that day? Ideally, immediately after lunch would be the most convenient, but we are very much in your hands, and could be available any time convenient to you.

I enclose, for ease of reference, a copy of my letter of 15th December. — para 2 is the key!

Yours ever
Michael

enc:

15th December, 1983

Rt. Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
HM Treasury,
Parliament Street,
London SW1P 3HE.

re: National Union of Licensed Victuallers

It has been the custom in past years for a deputation from the National Union of Licensed Victuallers to be brought to see a Treasury Minister with their Budget recommendations. Sometimes they have seen the Chancellor and sometimes the Minister of State.

NULV have just broken with tradition in appointing a Member on the Government side - namely me - as their Parliamentary Adviser, and I think it would therefore be particularly appropriate if I were able to demonstrate my "access to Government" by being able to bring them to see you personally.

I would be most grateful if you would consider this when planning your diary for next year. I am well aware of all the pressures that mount up prior to the Budget, but I hope you can help on this one.

CTN MULTIPLES GROUP

COMMONWEALTH HOUSE · 1-19 NEW OXFORD STREET · LONDON WC1A 1PA
Telephone 01-404 0955

Secretary G. MACWILLIAM KAIN BSc (Econ). Assistant Secretary G. HORNSBY BSc (Geog & Econ)

NACMO — THE NATIONAL ASSOCIATION OF CIGARETTE MACHINE OPERATORS

PRESIDENT: REX BLOORE

General Secretary: John Parry, Heywood Industrial Estate, Heywood, Lancashire OL10 2SJ, Tel: Heywood (0706) 624018

National Federation of Retail Newsagents

Representing the Trade in England, Scotland, Wales and Ireland

Member International Distributors of the Press

HEAD OFFICE: 2, BRIDEWELL PLACE, LONDON EC4V 6AR
Telephone: 01-353 6816 (5 lines)

Retail Confectioners & Tobacconists Association

Retail Confectioners and Tobacconists Association Limited. General Secretary Iris Kienlen. The RCTA represents retailers of Confectionery and Tobacco throughout Great Britain.

Registered Office: 53 Christchurch Avenue, North Finchley, London N12 0DH. Tel: 01-445 6344/5

MEMBER OF E.T.V

The Wholesale Tobacco Trade Association OF GREAT BRITAIN (AND NORTHERN IRELAND)

15 TOOKS COURT LONDON EC4A 1LA
TELEPHONE 01-831 7581 TELEX 23485

SECRETARIES WENHAM MAJOR & CLARKE

7 March 1984

BR7

HM TREASURY — MCU
REC'D. - 8 MAR 1984
ACTION FST
42/2ND
SIGNATURE
TO 16430

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
11 Downing Street
London SW1

FINANCIAL SECRETARY
REC. - 9 MAR 1984
ACTION Mr F Martin advice on meeting please.
COPIES TO PPS CST MST EST Sir P Middleton Mr Cassell Mr Monger Mr R I G Allen Mr Griffiths PS/IR PS/C+E

Dear Chancellor

The Budget you will present to the House on 13 March, and specifically your treatment of tobacco taxes and duties, is of major concern to ourselves, who represent the tobacco industry's distributive sector.

Our five associations cover wholesalers, multiple and independent retailers, and vending machine operators. Together, we speak for 38,471 members, who may be corporate or individual; total employment in the sector is estimated to be up to 217,500.

Our members have a very real, and genuine, fear of the effect of any further rise in tobacco taxes. Their continued commercial viability, and consequently the jobs of the people they employ, are threatened.

Sales of tobacco are a vital part of the business of many local shops. If they are forced into closure, the valuable social amenities they provide, too, will be lost.

For these reasons we are asking you to look at tobacco in a quite different way to your predecessors.

2/...

Rt Hon Nigel Lawson MP 7 March 1984

Traditionally, tobacco has been used as a make-weight in balancing the fiscal equation: convenient for the Exchequer but a critical factor for those, like our members, whose commercial viability depends upon the marketing of tobacco products.

Tobacco's prices, both within the distributive trades and at the retail counter, have now reached a premium level and more taxes will have a decelerative effect upon our businesses. As has been demonstrated in the manufacturing sector - with substantial redundancies announced this year by BAT and a major factory closure by Carreras Rothmans - the present price of tobacco, inflated by high taxation, is now high enough to force established businesses into unprofitability, and hence closure.

In order to protect our sales volume and profitability, and therefore employment, tobacco tax levels must now be set not simply to gain revenue, but with sensible regard to maintaining sales. Only this can ensure that the industry, both manufacturers and distributors, is able to resist further contraction.

The correlation between higher taxes and falling sales is clear. The direct impact this has upon the retail business is equally proven: last year over 600 tobacconist's shops went out of business, and one major multiple retailer has announced it is to close 133 outlets.

There are therefore two options open to you. You could once again turn to tobacco for an injection of money into the Revenue, when more businesses will be forced to the wall and jobs will be lost.

Or, and we urge you to take this course, you can leave tobacco alone in your Budget, which will go a long way to help us prosper and thus maintain employment.

The tobacco distribution trade, perhaps more directly than any other, is in your hands. We believe you do not deliberately want to create more unemployment as a side effect of raising tobacco taxes, but that is what would happen.

We therefore urge you, in your Budget deliberations, to put the traditional course behind you, and take a fresh look at tobacco taxation. Only by your leaving tobacco alone will we have the opportunity to trade profitably.

3/...

Rt Hon Nigel Lawson MP 7 March 1984

We would greatly appreciate it if you were able, before Budget day, to spare us a few minutes of your time in order that we may elaborate on these points in person.

Yours sincerely

G MACWILLIAM KAIN,
Secretary, CTN Multiples Group.

JOHN PARRY,
General Secretary, National Association of Cigarette Machine Operators.

KEN PETERS,
General Secretary, National Federation of Retail Newsagents.

HARRY TIPPLE,
Chairman, Tobacco Trade Affairs Committee, Retail Confectioners and Tobacconists Association.

D. Morgan-Jones

DIGBY MORGAN-JONES,
Secretary to the Wholesale Tobacco Trade Association.

Budget reps

MWP

NATURE CONSERVANCY COUNCIL

W H N Wilkinson
Chairman
19/20 Belgrave Square, London SW1X 8PY. Telephone 01-235 3241

FST

January 1984

HM TREASURY – MCU
RECD. -6 JAN 1984
ACTION FST
SIGNATURE
REF. No. 13417

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

Dear Chancellor,

FISCAL INCENTIVES FOR NATURE CONSERVATION

My Council is reviewing the fiscal and financial incentives which concern land management and have an effect on nature conservation.

Fundamental changes are needed to protect the nation's wildlife, and recommendations will be made to Government in 1984. Meanwhile the attached interim submission contains seven recommendations for minor changes to taxation legislation or Treasury policy. These changes would encourage nature conservation and could result in savings for the Government. They have the general support of the land owning, farming, forestry and conservation organisations with which we have held discussions.

My Council seeks your support for the inclusion of these amendments in the Finance Bill 1984.

Yours sincerely

William Wilkinson

FINANCIAL SECRETARY
-9 JAN 1984

PPS CST MST EST
Sir P Middleton
Mr Cassell
Mr Monger
Mr R I G Allen
Mr Griffiths
Mr F Martin
Mr Bostock
Mr Lord
PS/IR
PS/C+E

FISCAL INCENTIVES FOR NATURE CONSERVATION

Memorandum by the Nature Conservancy Council

The Nature Conservancy Council (N.C.C.) has the statutory function, inter alia, of providing advice for Ministers on the development and implementation of policies for or affecting nature conservation.

The Council has reviewed the current tax incentives for nature conservation and has held discussions with bodies concerned with land ownership, farming, forestry and nature conservation.

There are currently in operation two types of tax incentive to encourage conservation of Land of Outstanding Scientific Interest (LOSI):-

(a) The douceur, as applied to Capital Gains Tax (CGT) and Capital Transfer Tax (CTT) when land is either sold to a body listed in paragraph 12, Schedule 6 of the Finance Act 1975 or accepted by the Government in lieu of CTT;

and (b) Conditional exemption from CTT.

Neither of these methods is providing the intended incentive. In Parts I and II of this paper NCC recommends how these incentives can be made effective, at negligible cost to the Government. Part III refers to woodland taxation.

Urgent support is needed for the "voluntary principle" in nature conservation policy, to forestall the continuing loss of wildlife habitats. NCC therefore makes seven recommendations for minor amendments to the Finance Acts or to Treasury policy and wishes these recommendations to be reflected in the Finance Bill 1984.

PART I

Recommendation 1

<u>NCC recommends that the douceur for land should be increased from 10% to bring it into line with the allowance for works of art, etc.</u>

The Douceur is an extra statutory concession whereby LOSI may be sold to NCC (or any other appropriate body listed in Paragraph 12, Schedule 6 of Finance Act 1975) by Private Treaty at a special price which reduces the vendor's Capital Taxation liability by 10%. (The same douceur applies when LOSI is offered to and accepted by the Government in lieu of CTT).

While this concession should in theory attract vendors of LOSI to NCC, since 1975 <u>only two purchases with the benefit of the douceur have been completed by NCC</u> (both relating to CGT only and not CTT). Reasons why it has been little used are:-

(a) When the owner is trying to get the best price for the land, he may do better by selling in the open market and paying the full capital tax. The 10% discount on the capital tax is not a big enough incentive for him to accept the District Valuer's price.

(b) The owner may lose some Capital Gains Tax concessions if the douceur is used.

(c) The use of the douceur also involves the vendor in submitting an application to the Capital Taxes Office with consequent delay in completion of the sale.

(d) Increased legal fees may result, particularly in protracted negotiations.

<u>The 10% Douceur is therefore not attractive to vendors.</u>

The douceur is the only fiscal measure intended to encourage owners to sell land to a conservation organisation. Since recommendations were last submitted to Government in November 1979, the Wildlife and Countryside Act 1981 has come into effect. As a result, possibly very large amounts of compensation for profit forgone will be payable by NCC to owners or occupiers in respect of land within SSSIs. The Government would therefore have added purpose in encouraging the purchase of some of these special sites by NCC, and consequently avoiding payment of compensation year after year.

The potential advantages of the douceur to NCC are:-

(a) It reduces the cost of the land and thereby provides some relief from the current high price of land inflated by agricultural support prices and subsidies.

(b) It improves the negotiating position for land purchase by reducing competition with other bidders.

and (c) It reduces NCC's liability for annual compensation payments.

However, the more important aspect is the need to provide an advantage to the vendor. The douceur should provide sufficient incentive to encourage owners to come to NCC or other conservation body to sell LOSI. Each purchase represents a matter of considerable importance for nature conservation, and it is felt accordingly that a much greater incentive is needed to encourage the voluntary sale of these valuable sites to NCC and other listed bodies.

Works of art, etc. at present qualify for a douceur of 25%. The extra inducement is aimed at keeping them in this country. There is even more need for inducement for scientific land because the wildlife interest could be lost forever, and in many cases this is just what is happening. Irreparable damage to a site may result from many modern agricultural and forestry practices. These risks are considered at least equal to the risk of export in the case of works of art. A higher douceur and relief from CGT penalties could well reduce this trend. It is therefore recommended that the higher douceur be applied evenly to sales of outstanding scientific land and exportable objects.

The cost to the Treasury would be negligible. Although the Treasury would lose capital taxation revenue in respect of these sales of land, NCC (which is Government funded) would recoup at least 75% of the tax in the reduced price, and NCC's liability for annual compensation payments would be reduced. A big incentive would be provided for owners to sell to NCC, resulting in protection of these valuable wildlife sites in perpetuity at minimal cost to Government.

Recommendation 2

NCC recommends that the douceur should also apply to sales of LOSI to specified voluntary conservation bodies.

Government already provides welcome grant-aid to voluntary organisations for purchase of nature conservation sites through the schemes operated by the NCC, the Countryside Commission and the National Heritage Memorial Fund. Valuable assistance at negligible cost to the Government could also be provided if the douceur was applied to sales of LOSI to voluntary organisations.

Voluntary conservation organisations already play a vital part in conserving the national heritage at little cost to the taxpayer. Over 1500 sites are managed by them as nature reserves and a majority of these are of LOSI standard. It is felt that every available encouragment should be given to this work. The potential advantages of the measure are:-

(a) For voluntary bodies the cost of LOSI would be substantially reduced by the douceur, and they would not be subjected to the high prices resulting from competitive bidding. This would result in considerable savings by these voluntary organisations, enabling them to undertake further land purchase to safeguard wildlife thus relieving NCC of some of the burden.

(b) The costs of management which inevitably follow purchase would continue to be borne by the private rather than the public sector. It is perhaps better in many cases for a voluntary body to purchase a site than for a Government body to do so.

The present operation of the douceur creates an anomaly in that voluntary organisations can receive from the Government free of charge land that has been accepted in lieu of CTT, but voluntary organisations are not eligible for the douceur concession when buying similar land.

Paragraph 12 of Schedule 6 of the Finance Act 1975 is weighted strongly in favour of bodies which purchase works of art, heritage objects and historic buildings. Organisations concerned with purchasing scientific land are grossly under-represented being limited to NCC and local authorities.

The mechanism for implementing this recommendation appears to be an amendment to Paragraph 12 of Schedule 6 of the Finance Act 1975.

The amendment to Paragraph 12 could be to include "The Nature Conservancy Council or a body approved by NCC".

A precedent for this is in the Wildlife and Countryside Act 1981 Paragraph 35 (1)(c) where a national nature reserve includes "... any land which is held by an approved body ...". "Approved body" means a body approved by NCC for the purposes of the section. In practice the number of approved bodies would be limited. NCC would be able to endorse applications for purchase of suitable sites by approved bodies.

The use of funds by voluntary bodies is checked by the Charity Commissioners. Undertakings given by the organisation could cover the unlikely event of the disposal of the land; the land would either be transferred to NCC or the proceeds would be reinvested in LOSI. Alternatively, breach of undertakings could give rise to a charge to tax.

For the Government, implementation of this recommendation could result in a net saving. These sites will mainly be SSSIs subject to possible claims for large compensation payments for profits forgone. The loss of capital tax revenue to the Treasury on these few sales of land could be more than balanced by removal of the need to make compensation payments for profits forgone. The recommendation relates only to LOSI and therefore is not open-ended. The use of the concession would not be extensive because voluntary conservation bodies have only limited funds for purchase and maintenance of heritage properties.

Recommendation 3

That NCC be eligible to receive LOSI which has been offered to and accepted by the Government in lieu of CTT.

Government may accept certain property in lieu of CTT under Paragraph 17 of Schedule 4 of the Finance Act 1975. The Government then allocates the property, free of charge, to a body such as a local authority or a voluntary organisation. NCC, because it is substantially funded by Central Government, is not eligible to receive such land although NCC may well be the logical and most suitable body to administer LOSI. For example, land managed as a National Nature Reserve by NCC would at present be allocated to a local authority or a voluntary conservation body. Because transfer to NCC is not possible the only option is for NCC to acquire the land on repayment (using the douceur), and this may not be practicable.

This recommendation is put forward to facilitate transfers of LOSI to the appropriate body entrusted with the legal authority to safeguard these sites. It appears that the Treasury decide on the allocation of the property: Finance Act, 1946 Section 50 (3) states "the property shall be disposed of in such manner as the Treasury may direct, ...".

Cost to Government - NIL

PART II

Conditional exemption from Capital Transfer Tax. (Applicable to Land of Outstanding Scientific Interest (LOSI) only)

Recommendation 4

That the Treasury confirms that SSSIs qualify automatically for CTT conditional exemption.

Claims for conditional exemption from CTT in respect of LOSI have been received from only 61 applicants in the 8 years since the relief was introduced in the 1975 Finance Act.

Additionally, CTT relief on SSSIs appears likely to be even less sought in the future because of the attraction of payments under the Wildlife and Countryside Act 1981 for "profits forgone".

Our discussions with other organisations confirmed that one of the main reasons why CTT conditional relief has been claimed for LOSI in so few cases is that tax planning for this relief is impossible because the Treasury will not indicate in advance whether a property qualifies or not. Landowners therefore plan to meet or minimise the CTT liability on the land in other ways. The result has been to negate the purpose of the legislation which was intended to conserve heritage land for the nation.

The 1983 Treasury Memorandum "Capital Taxation and the National Heritage" states that a SSSI "can be expected to qualify ...". This has still not removed the uncertainty, and a definite ruling is sought to bring relief for SSSIs in line with other tax reliefs.

The general principle of tax relief is that a taxpayer claims a relief knowing that a genuine claim will be accepted - without further reference to the Treasury. The relief will follow automatically.

In practice, the Treasury do support NCC's recommendation on each site, but a more definite statement from the Treasury is urgently needed. The statement could be along the lines of "Land qualifies for conditional exemption if it is within an area designated by the NCC as a Site of Special Scientific Interest in Great Britain. Some land outside these areas might qualify for conditional exemption if it is of the requisite standard".

This would give a SSSI owner an incentive to maintain the scientific quality of the land. Also the owner has the assurance that designated land will qualify for CTT conditional exemption if he maintains the quality. If the land loses its scientific interest, the owner would no longer qualify for exemption. The purpose of this recommendation is therefore to increase the certainty of the safeguard for these sites by increasing the certainty of the CTT relief for owners.

As with Recommendation 2, the implementation of this recommendation could result in a net saving to Government, since where CTT conditional exemption is granted on a transfer of a SSSI, compensation for "profit forgone" cannot be paid to the new owner. The benefit to nature conservation would be considerable.

It should be noted that the four recommendations in Parts I and II are limited to LOSI and are therefore not of general application. The aim of these proposals is to introduce consistency and flexibility into these tax reliefs to assist in the conservation of these valuable sites at negligible cost to the Government.

PART III

Woodland Taxation

Broadleaved woodlands and native pinewoods are valuable habitats which are particularly threatened and are costly to maintain. The recommendations below are for minor changes in the current taxation legislation. Two concern CTT relief for woodland and one the Income Tax provisions.

Two amendments to the CTT legislation are recommended to discourage owners from felling these woodlands prematurely:-

Recommendation 5

Valuation of trees, where CTT liability on death has been deferred, should be based on the value of the growing trees at the date of death and not on the proceeds of the eventual sale of timber.

The present legislation is complex to administer where there are several heirs, and this proposal would result in savings of administrative costs for the Treasury.

There is also at present an incentive for an heir to fell timber first, before the other heirs, to gain the benefit of the lower rate of CTT; the later sales are charged at cumulative higher rates of CTT. The normal basis for CTT (except in this instance) is the value at the date of transfer of the property; it seems illogical to ignore this principle when woodland is valued for CTT deferral.

Recommendation 6

CTT liability on the land on which trees are growing should be capable of deferment in the same way as the liability attaching to the timber.

Again it seems logical that the land should receive the same treatment as the trees on that land, in line with the treatment of woodlands for other CTT purposes. The land is at present treated separately, but this implies that it has a separate value - whch is hardly realistic when under such a long term cover as forestry, particularly broadleaved forestry. Broadleaved woodland is assessed for CTT several times during the life of each crop and deferment of payment of tax on the timber is possible. Deferment of tax on the land would further discourage the owner from premature felling.

Although these two amendments would apply to all woodlands, NCC considers that they would encourage the conservation of broadleaved woodland and native pinewoods particularly.

Recommendation 7

Income tax - Broadleaved Woodlands

It is recommended that the "10 year rule" for Transfer of individual woods from Schedule B to Schedule D should be removed.

Woods can only be transferred individually from Schedule B to Schedule D within 10 years of being planted. If older than that, the whole property must be transfered together. Because broadleaved woodland takes so long to reach the income bearing stage, it would often make more sense for a new owner to transfer the loss-making woods to Schedule D, which would include some over 10 years old, if they are unlikely to yield net income during his lifetime. Because an owner cannot at present do this, there is a tendency for such woods to be neglected. Removal of the 10-year restriction would be likely to encourage the management of broadleaved woodlands which is so important in nature conservation terms, and might even encourage owners to establish more in the first place. This amendment will apply to conifers also, but it will promote the management and planting of broadleaved woodland in particular.

It is estimated that the cost to the Government of the three recommendations above would be negligible.

FINANCIAL SECRETARY

REC. -9 JAN 1984

PPS CST MST EST
Sir P Middleton
Mr Cassell
Mr Monger
Mr R I G Allen
Mr Griffiths
Mr F Martin
Mr Lord

Budget reps

PWP

THE NATIONAL CHAMBER OF TRADE

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Our Ref. LESS/JH

PS/IR
PS/C+E

HM TREASURY — MCU
REC'D. -5 JAN 1984
ACTION EST
SIGNATURE
REF. No.

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

4 January 1984

Dear Chancellor

PRE-BUDGET RECOMMENDATIONS 1984

In presenting recommendations for you to consider prior to your 1984 Budget Statement, we wish to place emphasis upon three main points. First, the need for encouragement to be given to retention of profits in smaller businesses; second, the value of providing for a modest expansion of the personal spending power of the individual; and, third, the help that could be given to the business sector through curtailment of overheads which are influenced by Government (in particular, rates and energy costs). All three are reflected in the following paragraphs, which contain recommendations with regard to specific taxes.

Income Tax - General Although a statutory obligation already exists for adjustment of thresholds to compensate for inflation, we hope that circumstances will permit additional reliefs to reduce the burden of personal taxation. There are clear indications that a modest increase in personal spending power, generated by a reduction in Income Tax, will lead to increased retail activity which, in turn, will stimulate the manufacturing sector without jeopardising the essential policy of controlling inflation.

Business Expansion Scheme Under present arrangements, relief is available only to those not actively engaged in the business and, moreover, is restricted to corporate bodies. We recommend provision of matching relief in respect of fixed investment by persons engaged in the business and also in respect of unincorporated businesses.

Trading Losses We also recommend that the ability to relate trading losses of a new business back to earlier periods of employment be extended to existing businesses, so that in respect of Corporation Tax and Income Tax trading losses can be related back to trading profits of the three preceding years.

.../...

Capital Gains Tax The retirement relief regulation relating to "full-time directorship" is inequitable when rigidly applied to a person whose part-time services often are essential for the future prosperity of his firm before retiring completely and disposing of his shares by gift. In the same way, the restrictive regulations regarding holding 25% of voting rights, or not less than 51% owned by a family, deny many directors the relief to which they should be entitled. None of these restrictions apply in similar circumstances in the case of partnerships. We recommend action to correct these anomalies; and also the situation which can result in a double charge on liquidation of a company when not only the company can be liable to CGT on the disposal of assets but so also can the individual shareholders in the distribution subsequent to the liquidation.

We also recommend that retirement relief be granted in cases where retirement is forced upon a proprietor by a compulsory purchase order, even though he may not have reached the qualifying age for such relief.

Capital Transfer Tax The restriction of business property relief in respect of minority shareholdings is unfavourable in comparison with partnerships, where it appears that no such restriction applies. We suggest that, at the very least, it would be reasonable to allow, explicitly, the aggregation of shareholdings of spouses in arriving at the qualifying "controlling interest".

Value-added Tax We have appreciated Government rejection of the EEC proposals for applying a positive rate of VAT to certain items of business expenditure, such as travel and hotel accommodation, and urge that resistance be maintained in respect of any other suggestions that zero-rated transactions (eg. improvements to property) should be positively rated.

We recommend a substantial uplift in the VAT threshold for registration; and that registration/deregistration below the threshold be at the discretion of the businesses concerned. We would be strongly opposed to any suggestion that there should be more than one positive rate.

National Insurance Surcharge In our recommendations last year we assumed that the iniquitous National Insurance surcharge was being abolished by degrees; and we now recommend that it be removed completely.

That is one of the overheads influenced by Government, to which I referred in my opening paragraph. The following are further examples:

Uncontrollable Costs Probably the most significant of the costs over which businesses are unable to exercise control is that imposed by local authorities in the form of rates. That particular tax takes no account whatsoever of the taxpayer's ability to pay, it has no connection with the profitability of the business, and carries with it no franchise in local elections. This Chamber is very disappointed that the Government has so far been unable to reduce this particular burden, as was anticipated before the 1979 election, and hopes for something more substantial by way of relief than is envisaged by the White Paper on the subject.

.../...

Members also have been dismayed at the cost of services provided by the nationalised (and similar) undertakings, and especially the unnecessary increases (eg. in gas prices) insisted upon by the Government.

We emphasise again that every increase in business overheads will require several times as much additional turnover to accommodate the additional cost if prices are to remain steady, and therefore competitive, and that is particularly the case in the retail sector. Everything possible therefore should be done to reduce the impact upon businesses of all such costs.

Indexation We recommend a general uplift in taxation thresholds, including those related to stamp duties (in which connection we draw attention to our response to the Inland Revenue consultative document "The Scope for Reforming Stamp Duties") in line with the rate of inflation. Special treatment is required in the case of Capital Gains Tax, where reliefs should recognise the extent of inflation since inception of the tax. Alternatively, we support the suggestion put forward by the Institute of Directors for exemption of assets held for seven years or more.

Form P11D It is felt that directors of very small companies suffer by comparison with employees on a similar level of income, with regard to the P11D requirements, and that such directors should be treated as employees in respect of the tax treatment of expenses. Meantime, as it now is four years since the level of remuneration requiring completion of the form P11D was set at £8,500, we recommend that the threshold be raised to at least £14,000.

Business Taxation - General It clearly is desirable that encouragement be given to small businesses to plough back profits in order to facilitate growth and the introduction of new technology. We therefore recommend that taxation of business profits be revised to that end and, in particular, that profits left in the business be exempt from tax whilst such funds remain with the business, provided they are used for increased efficiency or expansion within a specified term (say, five years).

Our members also feel that tax reliefs given to one kind of business should not be denied to other kinds. We therefore look for a revision of the present difference in the treatment of profits of corporate and unincorporated businesses; and hope that you will end the discrimination between industry and commerce in the granting of capital allowances in respect of expenditure on premises.

We again draw attention to the fact that nothing so far seems to have been done about the promised review of Capital Gains Tax, and urge that it be put in hand without further delay.

Finally, we return yet again to the need for any change in taxation of business profits to deal equitably with large and small businesses, and between corporate and unincorporated businesses, and suggest that that objective could best be achieved in the long term by implementation of the Meade Committee proposals for a direct and progressive expenditure tax. That subject was debated at our national conference last year, when a resolution was adopted in the following terms:

.../...

"In view of the disincentive to investment inherent in the existing system of taxation, and the regressive nature of indirect taxation, this Chamber urges Her Majesty's Government to set up a Committee of Inquiry to examine the effects of replacing Corporation Tax and Income Tax by a progressive direct expenditure tax; and then to consult with appropriate organisations on the findings of the Committee".

I would be expecially grateful if you could comment to me upon that resolution, and the prospects for its implementation. We naturally would be pleased to enlarge upon that or any other aspect of these recommendations, if you or your officials could meet us for that purpose.

Yours sincerely,

Leslie Seeney

LESLIE SEENEY
Director General

Budget Reps

17

THE NATIONAL PHARMACEUTICAL ASSOCIATION

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Our ref:- GSR/TC
Your ref:-

FINANCIAL SECRETARY
REC. 31 JAN 1984
PPS CST MST EST
Sir P Middleton
Mr Cassell, Mr Monger
Mr RIG Allen Mr Lord
Mr Griffiths, Mr F Martin
PS/IR, PS/C+E

HM TREASURY — MCU
REC'D. 27 JAN 1984
ACTION FST
42/2ND.
REF No. 14380

20 January 1984

Chancellor of the Exchequer,
11 Downing Street,
LONDON. SW1

Sir,

We are a trade association representing retail pharmacists. On behalf of our 9,500 members we ask you to take the opportunity in your 1984 budget to stimulate trade and employment in the retail sector. We would suggest that a series of measures be used to increase individual disposable income and to produce a fairer distribution of the tax burden over the economy as a whole.

The particular measures we ask you to consider are as follows:

(1) Capital allowances should be granted on buildings used for retailing purposes. It is unreasonable to discriminate against retailing which has a direct influence upon manufacturing output when service industries such as hotels are granted Capital allowances on their buildings.

(2) The remaining 1% employers National Insurance Surcharge should be removed. This surcharge is clearly a disincentive to employ and is a factor aggravating the current level of unemployment.

(3) Under Statutory Sick Pay regulations the employer has to pay National Insurance contributions during sickness. This cost is not recoverable and is a further disincentive to employ people. Employers National Insurance contributions should not be payable during periods of absence due to sickness.

(4) The threshold for PIID "higher paid" employees should be increased. (Unchanged at £8,500 since April 1979.)

(5) In view of the current high level of unemployment and under-utilisation of public transport, the cost of travel to and from work should be allowable for Income Tax purposes. This cost is clearly 100% wholly and exclusively incurred in obtaining taxable income. This measure would encourage more mobility and prevent people rejecting out of hand jobs which are not on their own door-step.

/Cont'd...

(6) Local Authorities should not be allowed to increase their rate demands by a figure greater than the Government published wage Settlement 'norm'.

(7) The threshold for mortgage interest relief should be increased in line with the rate of inflation since March 1974 when the original advance limit of £25,000 was set. The increase to £30,000 made in the last budget was insufficient. Also stamp duty on the purchase of property should be abolished. These measures should free more money for investment and expansion of the smaller business.

(8) Private Sickness Insurance should be allowed for Tax. Especially for the small self-employed business man who is "gambling" with his health and whose presence is usually essential for the continuance of the business.

(9) VAT is an inefficient tax to collect and savings in costs both to Business and to the Revenue could be achieved if VAT was eliminated between Registered Traders and the threshold significantly increased. We believe that this could lead to a reduction in the rate of VAT which would benefit all consumers regardless of their income level and would be a welcome reflationary measure.

Yours faithfully,

T. P. Astill

T.P. Astill
Director
National Pharmaceutical Association

National Federation of Self Employed and Small Businesses Limited

N.F.S.E.

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BM

HM TREASURY – MCU

REC'D.	12 MAR 1984
ACTION	FST
	42/2NJ
SIGNATURE	T.O.
REF. No.	16512

WA/JG

29th February, 1984

Chanceller of Exchequer,
House of Commons,
Westminster,
LONDON,
SW1 OAA

Dear Mr. Lawson,

Budget 1984

We support the points raised by our Federation nationally for the Budget 1984. However we would like to draw your attention to two matters of particular importance to rural Scotland.

1. Petrol Prices. Increases in petrol prices are always reflected inevitably in increases to all goods. We are dependent on transport and this will affect all businesses - not just those retailing petrol. Use of private vehicles is more essential in our rural areas and petrol price increases have a serious effect on the money available for purchases elsewhere. We urge you to restrain from taking action that will result in higher petrol prices.

2. Whisky Duty. There are communities, particularly in the Highlands and North East of Scotland, which are largely dependent on the Whisky Distilling Industry. This has suffered greatly in recent years and many communities and small businesses have been badly hit. There is a case for reducing Whisky Duty. There is absolutely no case for increasing it.

We know that you have been approached by Mr. Albert McQuarrie M.P. on those subjects. We wish you to know that we are 100% in agreement with him.

Yours sincerely,
N.F.S.E. & S.B.,

W. R. Anderson

Mr. W. R. Anderson,
Federation Scottish Secretary.

FINANCIAL SECRETARY

REC.	14 MAR 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

(pup)

The National Edible Oil Distributors' Association

6 Catherine Street, London WC2B 5JJ Telephone 01 836 2460 Telex 299388

FINANCIAL SECRETARY

REC.	- 9 MAR 1984
ACTION	PPS CST MST EST Sir P Middleton
COPIES TO	Mr Cassell Mr Monger Mr R G Allen Mr Griffiths Mr F Martin Mr Lord PS/IR PS/C+E

7 March 1984

Mr John Moore MP
Treasury
Parliament Street
London SW1P 3AG

Dear Mr Moore,

NEODA SUBMISSION ON BUDGET PROPOSALS

NEODA is the only national body representing distributors of edible oil in the UK. Its 50 members are responsible for over 70% of the trade in the UK for large consumer and catering packs of edible oil. Our members supply oils and fats for catering, and to take-away outlets and fish and chip shops.

Our Association would like the following views to be taken into account in considering the Budget Proposals for 1984.

1 We are concerned about the detrimental effect any imposition of VAT on take-away food will have on sales from fish and chip shops, from take-away outlets, and inevitably on our members' sales of oils and fats.

2 We subscribe to the views of the National Federation of Fish Friers, that the imposition of VAT on take-away foods would be a tax on basic foodstuffs eaten in the home, and that such a tax on basic foodstuffs should be resisted.

Furthermore such a tax would be regressive, in the sense that it would hit pensioners, who depend on fish and chips for their main hot meal of the day.

Yours Sincerely

Bob Boad

R P BOAD
President

National Economic Development Office

Millbank Tower, Millbank, London SW1P 4QX
Direct line 01-211 or Switchboard 01-211-3000

Budget/reps folder

13 January 1984

CHEQUER
REC. 18 JAN 1984
ACTION FST.
COPIES TO

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

Dear Chancellor

1984 BUDGET

Having seen a copy of the NTRA letter to you of 31 October on the subject of Capital Allowances for Leasing, I am now writing to you on behalf of the NEDO Consumer Electronics EDC to express my support for their case for a 40% Writing Down Allowance on all rentals, ie including imported products.

The EDC agrees - and has made this point before to your predecessor - that as well as creating markets for new products the rental industry gives essential support to UK manufacture. The change in our stance from our previous correspondence with your department results in a growing realisation that rental is not a historical and geographical anomaly that will disappear as TV sets become cheaper and more reliable, but is a form of distribution that has a future, given equitable tax treatment, and is a real asset to the UK that other countries envy.

This future is based on several developments all working in the same direction to make rental a rational proposition for many products and many consumers. One is the growing need for "user training" as products become more complicated. Another is the accelerated pace of product development, where each year's model is markedly superior, and probably cheaper, than last year's. A third is that products are increasingly being linked together to form entertainment and communications "systems", so that although individual products do get cheaper, the total sum involved per household still represents a considerable outlay.

cont/...

The benefit to the UK is two-fold. Firstly, as the example of Japan shows, an advanced domestic market puts the local manufacturing industry in a strong position vis-a-vis rivals based on more conservative markets. Rental makes the UK market more advanced than it would otherwise be. Both the broadcasters and the consumer electronics manufacturing industry are counting on rental to make DBS work. In the future there will be more and more products which will appeal more to the consumer if a rental company is there to take for him the risk of product obsolescence or of picking the loser in a standards battle.

Secondly, the control of the market that rental can bestow allows companies which have been left behind in product development to start manufacturing years behind their rivals without having to come from behind in market share terms. For example, it would not have been possible for Thorn EMI to have started up VTR production in the UK in 1982 had JVC achieved its leading market share under its own brand name and via its own direct export sales organisation.

To sum up: we believe that what the NTRA is asking for by way of a writing down allowance is equitable; we believe that rental has a future, that rental develops new markets and that the survival of rental is essential for continued UK production of consumer electronic products.

I hope these points will be useful to you in your deliberations.

Yours sincerely

J T Griffiths
Chairman
Consumer Electronics EDC

M.A. of M.B.CHC. Budget/papers file

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 F. Martin, Mr Lord, PS/IR PS C&E

The National Association of Master Bakers, Confectioners & Caterers

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Our Ref: BRF/GW

24th January 1984

HM TREASURY — MCU
RECD. 27 JAN 1984
ACTION BJ
42/2ND.
SIGNATURE
REF. No. 14347

The Right. Hon. Nigel Lawson M.P.,
Chancellor of the Exchequer,
Treasury,
Parliament Street,
London, S.W.1P 3AG.

Dear Chancellor,

PRE-BUDGET RECOMMENDATIONS 1984

This Association represents the craft industry in England and Wales covering in excess of 3250 individual bakery businesses operating over 20000 retail outlets. Basically they are smaller businesses who have been hard pressed in recent years and we would like to place the following recommendations before you in the hope that they will be reflected in the 1984 Budget Statement.

INCOME TAX

1. Personal Allowance: Tax legislation provided that certain personal allowances, tax bands and thresholds should be raised in line with the increase in the retail prices index for the previous year ended 31st December; it is realised that these increases are not automatic but apply unless Parliament approves some different figure or indeed no increase at all. It is recommended that the Chancellor looks favourably upon increasing allowances and tax bands to provide an incentive which will assist in keeping down wage awards as the more of the wage which is retained the more satisfied that individual is.

2. Travel Allowance: It is submitted once more that a local allowance be granted to those bakers who are required to work unsociable hours and travel distances when no alternative public transport is available. Many bakers are faced with this hardship and many are required to spend amounts in hiring taxis or running vehicles in order to arrive at their place of employment in the early hours of the morning. Such an allowance may be a local flat rate allowance granted by concession by Inspectors of Taxes in cases where an employee has to travel in excess of three miles from his home.

3. Form P11D: In determining higher paid employment for the purpose of form P11D the figure used in 1976/77 and 1977/78 was £5,000; in 1978/79 the figure was raised to £7,500 and in 1979/80 the figure was raised again to £8,500. Since 1979/80 this figure has remained constant and it is recommended that urgent consideration be given to increasing this figure to a minimum of £12,000 and be indexed linked not only to relieve

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the employer of unnecessary work but also to recognise the fact that there has been inflation since 1979/80.

4. Investment Income Surcharge: The Government in its recent general election manifesto were committed to reducing taxes on capital and savings; it is suggested that consideration be given to abolishing the Investment Income Surcharge as this is harmful to investment at a time when industry and commerce are crying out for investment to aid employment. The abolition of the Investment Income Surcharge would also encourage persons selling their businesses to leave part of the capital within the business and to receive a economical return on the capital left in the business: this would not only help the seller but also encourage more young people to accept the responsibility of business ownership.

5. Retirement Annuity Relief: election for earlier years: Taxes Act 1970 Section 227 (1BB) is of considerable practical interest to self-employed persons and annuity premiums paid in year of assessment to be treated as paid in the immediately preceding year or exceptionally in the year before that. It is necessary for an election to be submitted, if premiums are to be related back in this manner, before the end of the year assessment in which those premiums are actually paid. In order properly to decide on the most favourable course of action, it is necessary for the tax-payer to review his position for both tax years. It is suggested that some time is needed after the end of the year of assessment in which the premium is made to review matters further. The need for a revision to the legislation to permit due reflection is clearly demonstrated in most cases where the payment is made at the end of the tax year at which time it is often impossible to make the necessary election and in any event it is impossible to consider pension and taxation matters in such a time scale. It is recommended that legislation be amended as three months is insufficient. The election should be required by, say, the 31st October following the end of the tax year in which the payment is made.

6. On previous occasions the Association has made a submission on behalf of its members for an allowance, similar to the industrial buildings allowance, on the building of new or the alteration of business premises or for installing original shop fronts to be granted to those persons incurring such expenditure. The need for such an allowance is as great as ever before in order to encourage expenditure on business premises, the expenditure is after all, money paid out for the purpose of the business - it is a requirement of the business.

7. Stock Relief: The carry forward of losses attributable to un-used stock relief is restricted by the Finance Act 1981, Schedule 9, Para 17 (1) to an accounting period which ended six years or more before the beginning of that subsequent accounting period. In view of the recession experienced within the country it is recommended that this restriction be extended to a period of twelve years to enable those traders who are experiencing difficulty to take advantage of the Relief when trading conditions improve.

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CORPORATION TAX

8. Loss Relief: Taxes Act 1977, Section 177 (2), (3), (3a). Loss relief is available, within limits, for carry back against the Company's profits of an earlier period. Where the losses include capital allowance, which can be substantial if 100% allowances are claimed, the losses can be carried back for up to three earlier periods, taking later years before earlier. It is submitted that earlier periods should be taken first so as to encourage a company to make further capital investments where it has unabsorbed profits of a later period (which would not have been available to it under the present system).

9. Group Relief: At present losses incurred by a group company can be off-set against profits of another company within that group in the same accounting period, it is suggested that this be extended in the case of a wholly owned subsidiary to allow past losses to be utilised by a company within the group or by the parent company. In this way it may be possible to extend the life of a "loss company" and give time for that company to recover.

CAPITAL GAINS TAX

10. Retirement Relief: Capital Gains Act 1979, section 124. Retirement relief is at present available for those individuals who are over the age of sixty when they retire and dispose of their interests in the business. Many tax payers have to retire much earlier than sixty as the Government acknowledged when the Finance Act 1983, section 19 was passed to cover early retirement annuity policies. Tax-payers have to retire early for several reasons: these include serious illness. It is recommended that the retirement relief rules to be amended to allow the seriously ill individual to obtain relief from Capital Gains when he is forced by ill health to sell his business.

NATIONAL INSURANCE

11. The National Insurance Surcharge was reduced from 1.5% to 1% with effect from 1st August 1983. It is now considered that this National Insurance Surcharge continues to be a tax on employment and therefore should be abolished completely.

12. Naturally we would be pleased to amplify on any of these points with your officials.

Yours sincerely,

B R Flint.

B.R. Flint
Director.

Budget Reps.

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The National Organisation for the Widowed and their children

01-940 4818/9047

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HM TREASURY — MCU

RECD.	23 JAN 1984
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FINANCIAL SECRETARY
24 JAN 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

DN/WW

20th January 1984

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

Dear Chancellor

Every year we take the opportunity, as you prepare the Budget, to submit our concerns for your consideration. 1984 is Cruse's Silver Jubilee and we would like to record our appreciation for improvements in the statutory provision for the widowed and their children which have taken place over the last 25 years, coupled with the hope that you will find it possible to take action on all the following issues.

1. Widowed Mothers and Child Dependency Allowance

Due to the reduction in Child Dependency Allowance last November the benefit a widow receives for her child is increased by 30p a week as compared with 65p a week increase for a child with two parents or a divorced or single parent. Even more worrying is that if one discounts Child Benefit - which is available to anyone with dependent children regardless of status - a widow receives less benefit the more children she has. The table below illustrates this:

	Combined Widowed Mothers Allowance and Child Dependency Allowance		
	From Nov 82	From Nov 83	Difference
Widow with 1 child	£40.80	£41.65	plus 85p
" " 2 children	£48.75	£49.25	plus 50p
" " 3 children	£56.70	£56.85	plus 15p
" " 4 children	£64.65	£64.45	less 20p
" " 5 children	£72.60	£72.05	less 55p

We feel this legislation penalises those often most in need and would urge it be reconsidered.

2. Free School Meals, Uniform, Travel etc.

Under present regulations for Supplementary Benefit, only recipients can qualify for free school meals, school travel allowance, extra heating allowance etc. Widowed mothers are

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generally just borderline for Supplementary Benefit and so miss out on these additional sources of help which they have had in the past. We urge consideration of help being available to widowed mothers.

3. Widowed Fathers Allowance and Widowers Pension

We have been sad to see in this last year many more examples of the difficulties a widowed father has to face if his wife dies leaving him to bring up little children alone. We urge that a Widowed Fathers Allowance be introduced and suggest it be based on the same principle as the Widowed Mothers Allowance - i.e. if the wife had been paying or been credited with the full national insurance contributions.

By the same token we would like to see a pension for Widowers in general.

4. Widows Allowance

We feel the six months Widows Allowance should be paid to all widows irrespective of their age - as the needs of older widows can be as great as those under 60.

5. Tax Threshold

We would repeat our concern that when the pension is raised at a faster rate than the tax threshold some widows find themselves liable for tax on part of their state pension if they have any other income at all. We would urge that every time there is a pension increase that the tax threshold be raised accordingly to avoid this. We have always been concerned that the widow, possibly dependent upon her pension for her security, should find it taxed in this way.

6. Overlapping Benefits Rule

We remain concerned that the Overlapping Benefits Rule precludes a widow from entitlement to another benefit on the basis of her own contributions e.g. Unemployment Benefit. We would again urge the review of this rule believing that if the widow is herself contributing she should be in a position to benefit.

Here again we would like to see the widow being able to continue receiving her pension while taking a TOPS course with its accompanying Grant. We feel that because she cannot receive both the Grant and her pension she is put in a very unfair position compared with a married woman, who will have the support of her husband at this time. We like to encourage widows to take opportunities such as this scheme but find the ruling acts as a real deterrent.

7. Funeral Costs and Death Grant

We find more and more widows and widowers unable to meet the escalating costs of their spouse's funeral. The present help available from the Social Services Department is not nearly widespread enough as it only applies to those who are on Supplementary Benefit. Once Widows Benefit has been awarded the widow is not entitled to any help towards funeral costs even if her husband was receiving Supplementary Benefit at the time of his death.

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We would urge serious consideration for a general increase in the Death Grant so as it covers the minimum cost of a funeral.

We would be happy to supply more details of these concerns if required and to meet you or your colleagues for discussion.

Yours sincerely,

Derek Nuttall.

Derek Nuttall
Director.

cc to:

The Rt. Hon. Norman Fowler MP
Secretary of State for Social Services

Mr. Paul Dean MP

The Hon. Greville Janner QC MP

Mr. Cyril Smith MBE MP

Budget reps folder

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LABORE AGRICOLAE FLOREAT CIVITAS

THE NATIONAL FARMERS' UNION

FROM THE PRESIDENT

SIR RICHARD BUTLER

18th January 1984

CH/EXCHEQUER
REC. 19 JAN1984 ✓19/1
ACTION FST.
COPIES TO

The Rt. Hon. Nigel Lawson, MP.
Chancellor of the Exchequer,
Treasury
Whitehall
London SW1

Dear Chancellor,

I am writing on behalf of the three United Kingdom Farmers' Unions to set out our recommendations for your 1984 Budget to which we hope you will give sympathetic consideration.

When I wrote to your predecessor some twelve months ago the industry's income was beginning to recover from a long period of decline and I welcomed the prospects for lower inflation and a more stable economic environment within which farmers could plan their activities. The industry looked forward to reversing the effects of several years of depressed income which had resulted in an historically very low level of investment and heavy indebtedness. In the event our hopes have been disappointed. Farming income is forecast to have fallen by nearly 15 per cent in 1983, in real terms by almost 19 per cent leaving it some 30 per cent below its average level for the decade 1973 to 1982. As a result of this sharp reversal to the industry's climb out of its income recession there is a real danger that investment, which has been recovering since its 20 year low point in 1981, will turn downwards in 1984.

Agriculture is Britain's largest primary industry after North Sea oil and its economic wellbeing has repercussions for the national economy. A healthy and prosperous agricultural industry is an important source of employment not only within farming, the mainstay of the rural economy, but also within a whole range of ancillary industries which depend on farming for their prosperity. The industry continues to make a major contribution to the balance of payments. A decline in the industry's economic performance is manifestly against the national interest. Measures must be taken to arrest the current adverse trend in profitability. I believe that a favourable monetary and fiscal environment has an important role to play in this regard by helping to contain production costs, lowering uncertainty and encouraging investment upon which the productive capacity of the industry depends.

The further fall in interest rates during the past twelve months has been welcomed by farmers and growers. In real terms however, the cost of borrowing remains exceptionally high when account is taken of current and expected inflation. The indebtedness of the agricultural industry has again risen much faster than inflation, and with investment running at a low level it seems likely that farmers may be endeavouring to support current farming operations with bank borrowing as their incomes come under pressure. A further fall in interest rates would have an immediate desirable effect on the industry's income as well as stimulating investment. I cannot over-emphasise the importance attached by the industry to an early reduction in rates of interest.

Apart from monetary policy there are important fiscal areas where changes could provide valuable help in easing cost pressures on agriculture as on industry generally. We have welcomed the successive reductions in the rate of the National Insurance Surcharge and we hope that this tax can be completely phased out at an early date. The Unions believe that it is an unnecessary and thoroughly bad tax presently costing agriculture some £16m per annum. By raising the industry's labour bill, which itself has increased significantly this year following the implementation of two wage awards, the level of employment tends to be reduced. Basic National Insurance contributions already impose heavy additional costs on top of the bill for labour and we are relieved that at least the rates of contribution for employers and employees are to be held in 1984/85 at their current levels.

Fuel also accounts for a significant proportion of the cost of farm inputs and fuel prices to the industry again rose significantly over the last twelve months - on average by some 10 per cent, twice the rate of prices generally. Quite apart from their direct effects on production costs, higher fuel prices have a serious impact on transport costs as well as on the cost of goods and services to all who live and work in rural areas. The Unions again recommend a policy of continued restraint in taxing road fuel and in particular that excise duty on derv should be reduced.

While we are mindful of the constraints underlying the Government's determination to limit public sector borrowing in the control of inflation and of the restrictions this imposes on the scope for reducing taxation, the Unions believe that priority should be given to raising income tax thresholds in preference to a reduction in the rates of income tax, thereby providing some relief from the burden of direct taxation on individuals with smaller incomes in particular.

We appreciate that the Government recognise the need for lower taxation of capital. Agriculture has always been particularly vulnerable to this form of taxation because of the high value of capital required by the industry and the relatively low yield of farmland as its major asset.

We very much welcome the changes in capital transfer tax introduced by your predecessor in the 1983 Budget, in particular the extension of the period for paying tax by instalments and increased relief on tenanted land. This tax is still seen by farmers and growers as a major threat to agriculture, however, and for the majority of owner-occupiers the real burden of tax on death remains significantly greater than when the tax was first introduced in 1974. Although it may not have the same immediate bearing as other taxes on cost levels and cash flow problems, the Unions believe that capital transfer tax is a major disincentive to new and productive investment and has a damaging effect on longer term confidence in the industry.

Our detailed recommendations on capital transfer tax and on other measures are as follows:-

Capital Transfer Tax: Rates and Scales

While we appreciate the indexation of scale bands, the rate structure remains steeply progressive and operates with much greater severity than comparable taxes in other EEC countries. The death rate reaches 50 per cent - the maximum rate applicable to lifetime gifts of whatever size - for estates in excess of £175,000. In relation to current asset values the tax should not be applied at anything like this penal level on estates in this range. We urge that the scale should be greatly widened and that rates of tax should increase very gradually to a maximum of 50 per cent on estates of £5 million and upwards.

We again recommend that there should be a general reduction in capital transfer tax when assets are transferred between members of the family, similar to the consanguinity relief common in other EEC countries. There is particular justification for this in the case of farming and other family businesses where the heir will usually have made a significant contribution to the value of the business.

The capital transfer tax reliefs for lifetime gifts are extremely important to agriculture as a means of building up the share of the farming son or daughter in the business. We again recommend that the annual exemption for gifts should be increased to £5,000, that the present wedding gifts relief should be doubled and that both reliefs should be indexed in line with inflation.

Capital Transfer Tax: Agricultural Relief

We have always held that the value of agricultural land for capital transfer tax purposes should be related to its productive value rather than to its market value. This would be more likely to produce a tax base related to the farmer's capacity to pay. We appreciate that in the short term such a scheme would be unlikely to lead to administrative savings. As an alternative therefore we would recommend an increase in the rates of agricultural relief.

We would again draw attention to inequities arising where land is valued on a vacant possession basis while attracting only the lower rate of relief. For example, the value of land let to an English partnership of husband and wife will be on a vacant possession basis by virtue of the "related property" provisions in paragraph 7 Schedule 10 Finance Act 1975, but where the owner is unable to obtain vacant possession only 30 per cent relief will apply. There are similar anomalies under the "associated operations" rules of Section 44 Finance Act 1975. There may also be lettings where the owner could not obtain vacant possesion within 12 months but could certainly do so within two years. Our recommendation is that, consistent with the broad intention of the scheme of agricultural reliefs, the higher rate of relief should apply in all cases where the starting point for valuing land is vacant possession.

Capital Transfer Tax: Intensive Livestock Buildings

We remain very concerned about the status of intensive livestock buildings for capital transfer tax. Intensive livestock farming, including fish farming, is generally accepted as an integral part of our industry and intensive livestock buildings have for many years been treated as agricultural property by extra-statutory concession under both estate duty and capital transfer tax. Although the definition of agricultural property in paragraph 1(2) Schedule 14 Finance Act 1981 appears to give statutory recognition to this, we believe that it may be of little practical benefit. It would be very unusual for a building to satisfy the requirement that its occupation should be ancillary to that of agricultural land or pasture. If this is the case the legislation has introduced an invidious and artificial distinction between similar farms.

It is appreciated that at the worst the excluded property would usually be eligible for business relief. By the same token, the budgetary and administrative costs of abolishing the test of ancillary occupation would be minimal.

Capital Transfer Tax: The Problem of Funding

Finding cash resources to meet capital transfer tax liabilities is nearly always a problem for family businesses where it is usual for the bulk of assets owned by the family to be in illiquid form. In the case of farming the low level of income in relation to assets can make this particularly difficult. The provision for payment of capital transfer tax by interest-free instalments is of great importance to the industry and the extended payment period is very much to be welcomed. This year we repeat our recommendation that the facility should apply to oustanding instalments of capital transfer tax on transfers effected prior to 10th March 1981 of all land qualifying for agricultural relief.

We also again strongly recommend the introduction of relief for interest on money which has to be borrowed to pay capital transfer tax on land or other business assets. As the farmer sees it, he is being forced to borrow money to ensure his title to the freehold of the farm and should not be treated less favourably than an outright purchaser of land.

Capital Gains Tax: General.

Capital gains tax has a particularly severe impact on farmers and other businessmen whose productive capital consists of land and other valuable and illiquid assets. While we welcomed the introduction of the principle of indexation in 1982 we are very disappointed that the new rules have done little to help long established businesses. The main problem of capital gains tax - inflation prior to March 1982 - remains with us. Most farmers own land which has substantially appreciated with inflation over a number of years. If for any reason part of the land is sold, then - unless there is reinvestment which qualifies for rollover relief - tax has to be paid not on real capital gains, but on the inflationary gains of the 1970s.

The Unions have long favoured the introduction of a system of tapering of gains over, say, a ten year period but it is appreciated that there could be technical and administrative difficulties about this following the introduction of partial indexation. A simpler way of solving the problem would be to introduce an automatic cut-off so that the tax would not apply after the asset had been owned for a certain period. To help farmers and other businessmen holding illiquid assets, we also recommend that a carry-forward of the annual exempt amount of capital gains should be allowed, to be used against the occasional substantial disposal.

Capital Gains Tax: Reinvestment in the Business.

Capital gains tax can operate very harshly when assets are sold to realise funds for the purposes of the business and the form of reinvestment does not qualify for rollover relief. This occurs, for example, when land is sold and the proceeds are used to purchase mobile farm equipment or production livestock, to repay long term loans, to pay capital transfer tax, or to meet pressing current liabilities. We reaffirm our view that where the money is clearly used for the purposes of the business there should be relief to protect the business from capital gains tax. We suggest that this could be achieved by amending the rules for small part-disposals of land. We welcome the proposal to raise the monetary limit under Section 107 Capital Gains Tax Act 1979 and we recommend that the Section be further amended to cover cases where the sum realised exceeds the statutory limit, with corresponding changes in Sections 21 and 108, on condition that the proceeds are reinvested in or used for the purposes of the business. Indeed a broadly similar effect could be achieved by a change in Inland Revenue practice so as to accept that up to say ten per cent of the value of a holding was regarded as "small" for the purpose of these provisions.

Capital Gains Tax: Extension of Rollover Period where Land is Compulsorily Acquired.

We are still very concerned about the harsh and unjust effects of capital gains tax where, for example, the building of a motorway results in a large number of farmers in the same area having to lose land through compulsory purchase. Rollover relief may be lost if adjacent land cannot be bought within the present rollover period. We again strongly recommend that the statutory period for reinvestment should be extended in all cases of land acquisition by compulsory purchase. This should not cause administrative problems since it is already Inland Revenue practice to charge tax and later refund it when qualifying reinvestment is made some time after the disposal.

Capital Gains Tax: Offset against Trading Losses.

We again recommend that farmers who have unused trading losses should be allowed to offset these against capital gains. There are precedents for setting trading losses or income against capital gains and losses in the case of limited companies, and for individuals under Section 37 of the Finance Act 1980.

Capital Gains Tax: Retirement Relief.

The announcement in the 1983 Budget that the capital gains tax retirement relief would be doubled to £100,000 was widely welcomed by farmers and growers. We are pleased that the Government now intend to introduce this provision in the 1984 Finance Bill with effect from 6th April 1983 and we strongly recommend that the relief should be adjusted annually to keep in step with inflation.

Retirement relief is of considerable importance to our older members and we are very pleased that the Government has decided to review its working. We very much hope that the review will embrace the particular problems of farming as well as the general conditions for the relief. Our general recommendations are that the full relief should be available at the age of 60 (with proportionate relief for those aged over 55) and in the case of ill-health the relief should be available irrespective of age, using similar criteria to those laid down for the payment of retirement annuities under Section 226(3) Taxes Act 1970.

In farming it is very common for the business to be jointly owned and run as a husband-and-wife partnership. Where the spouses are of different ages a particular problem can arise with retirement relief. The husband is of an age to retire but the wife is several years younger and little if any relief may be available against her share of the gains. Given that the statutory retirement age for a woman is five years younger than for a man, we think that serious consideration should be given to granting retirement relief to the wife in these circumstances as if she were five years older than her actual age, or (if less) of the same age as her husband. At a minimum it should be possible to set any unused relief of the husband against his wife's gains.

We frequently come across cases where, in various circumstances, the retiring farmer fails to meet the precise requirements of the legislation. The relief should in our view be available wherever a farmer of appropriate age disposes of the whole or part of his farm.

Cases where the relief is denied include that of a retired farmer who has retained ownership of his land while it is farmed by members of his family, a farmer who disposes of his land but retains his stake in his farming partnership or a farmer who has retained shares in his family company until he is no longer of an age to be fully active in the business. While the gifts relief may be available in such cases the retirement relief should also be admitted as a matter of equity. Furthermore, there are often sound reasons why a farmer may wish to sell land to his family, for example to provide funds for retirement or to make provision for non-farming members of the family : in such cases no relief is available against the money gain.

We are also concerned that an owner-occupier who disposes of part of his land, perhaps to provide a nest egg for his retirement, and continues to farm the remainder is required to show that he has disposed of "the whole or part of a business". In many cases the Inland Revenue will not accept that this condition is met where less than 50 per cent of the land is disposed of. This anomaly becomes more apparent as against the disposal of a small number of shares in a company or a small share in a partnership both of which attract the retirement relief.

We think there is a very good case for extending the retirement relief to meet the above cases, generally by reference to the tests applied under Section 126 Capital Gains Tax Act 1979.

Farming Companies

There are often sound commercial reasons for operating a farming business through a company yet there are a number of tax disadvantages where this is done. While the capital transfer tax problems formerly associated with company farming were substantially removed in the 1981 Finance Act there are still important capital gains tax problems.

In the case of company farmed land, retirement relief is available only by concession in certain circumstances. This will no doubt be considered in the Government's review of the relief, and our recommendation on the tests in Section 126 of the Act is again in point. Expenditure incurred by the company on improvements to the land is not deductible in calculating the farmer's capital gains. In the case of land owned by a company there is a double charge on liquidation, first on the gains accruing to the company when its assets are sold and again when the proceeds are distributed to the shareholders. The problems on liquidation in fact go wider than this because the shareholders will be liable to capital gains tax calculated by reference to the market value of the company's assets as reflected in the shares, including trading stock or a herd on the herd basis. We recommend that these anomalies should be rectified.

The capital gains tax effects on liquidation can be particularly unfortunate where the shareholders wish to continue the trade. Just as there are special reliefs from capital gains tax when an unincorporated business is transferred to a company, a family company should be allowed, without capital gains tax penalties, to transfer the assets and the business to the shareholders to continue trading sole or in partnership.

We further recommend, as a corollary of this, that the reliefs and elections available where a sole trader or partnership incorporates - for example as regards stock relief - should be available on disincorporation where the trade is to be continued by the same or substantially the same individuals who were beneficially interested in the company when it carried on the trade.

Farming Partnerships

A broadly similar problem can also arise where a farming business has been carried on in partnership and the partners - perhaps two brothers who originally inherited the business from their father - decide to farm separately. It is virtually certain that neither brother can be accepted for tax purposes as continuing or succeeding to an existing business and the taxation consequences can be severe. The principal problem arises with stock relief, and we think the simplest solution would be to amend the stock relief rules or practice so that paragraph 21 Schedule 9 Finance Act 1981 is extended to partnership changes where the partners of the old partnership succeed to all parts of the trade and all the trading stock of the old partnership.

Purchase of Farm by the Tenant

It is not uncommon for a tenant farmer to be given the opportunity to buy the farm from his landlord. This may be due to financial pressures on a private landlord or, increasingly in recent years, to Government policy requiring public bodies such as the Forestry Commission and the National Coal Board to sell off assets. The tenant will naturally wish to buy the farm, but because of high land values and high interest rates he usually has to sell part of the land to finance the transaction and retain a viable farming business. He may sometimes find it simpler to sell the whole farm and buy a smaller one.

He may, however, run into serious taxation difficulties because the Inland Revenue take the view that a purchase of land followed by a quick resale (in whole or part) has to be treated under special rules. These rules provide that the main part of the transaction (the acquisition and disposal of the freehold reversion) gives rise to a trading profit. The result could be that much of the gain is subject to income tax at rates of up to 60 per cent, at a time when all the farmer's assets are committed to the purchase.

We feel that this penal taxation is most unjust where the tenant intends to stay in farming. A practical solution would be to treat the whole of the gain as being a capital gain with an option to roll it over against the acquisition of the farm.

The agricultural landlord and tenant system has still an important part to play in efficient farm and estate management in the United Kingdom. It is of vital importance that its decline should be arrested, and we have welcomed the Government's decision to introduce changes in the agricultural holdings legislation along the lines of the agreement reached between the National Farmers' Union and the Country Landowners' Association in 1981. We believe the measures will be of positive benefit both to landlords and tenants and will help to provide a more favourable climate for landlords wishing to let land. Complementary fiscal changes are also needed to give impetus to the process of putting new heart into the landlord and tenant system and to remove impairments to the ability of the landlord to provide essential maintenance and to his role in providing capital for investment. We hope that the increase in the capital transfer tax agricultural relief on let land will aid new letting and we believe that other changes to remove the fiscal disadvantages of landlords would help to bolster such encouragement.

These include the introduction of capital gains tax rollover relief on let land, not taxing rents more unfavourably than other forms of agricultural income, at least where the landlord himself manages the land, and bringing rents fully within the VAT system and we so recommend.

Stamp duty on Gifts of Agricultural Land and Buildings.

The Unions have welcomed the opportunity to comment on the Government's review of stamp duty. Our recommendations on those aspects of particular concern to farmers and growers were set out in our submission sent to the Inland Revenue last September. Here we merely wish to reiterate our recommendation that the duty on gifts of land and buildings in particular should be abolished and especially on transfers between a husband and wife which are not in general subject to capital transfer tax or to capital gains tax.

Capital Allowances on Specialised Structures.

The use of specialised structures by the glasshouse industry and by pig, poultry and top fruit producers has become more widespread in recent years. Technical innovation spurred by competition within the EEC has encouraged this trend and we believe it should be accompanied by appropriate fiscal changes. The newer structures generally have a shorter working life than traditional buildings without any alternative use. While treated as agricultural buildings under current Inland Revenue practice they have much more in common with plant.

We appreciate that the Government has recently announced changes in the grant schemes to help the glasshouse sector in necessary capital reinvestment. All these specialist producers are however faced with particular difficulties through competition from other EEC countries and we urge the Government to do everything it can to help these important sectors to remain competitive. We believe there is a good case for a change in legislation or practice so as to treat specialised structures as plant for capital allowance purposes.

It might be administratively simpler to increase the initial allowance for agricultural buildings generally. Such a change would be fully justified in view of the increase in the corresponding initial allowance for industrial buildings by one half in the 1981 Finance Act.

Capital Allowances: Balancing Charges on Plant and Machinery.

We have long held the view that some form of top-slicing relief when balancing charges arise from the sale of farm machinery on cessation of trading should be introduced. We suggest that the relief should take a form analogous to that available under current stock relief provisions (paragraph 6 Schedule 9 Finance Act 1981).

Interest on Compulsory Purchase Compensation

We are very concerned about the present inequitable tax treatment of interest on delayed payments of compensation for land acquisition. The interest is treated as income of the year in which it is paid or made available and this can often result in a charge to tax at penal rates in the year in which the interest is assessed. One way of removing this inequity would be a relief similar to that given under the former Section 31 Taxes Act 1970, enabling the Board of Inland Revenue at its discretion to reallocate interest to the years over which it had accrued.

Interest on Overpaid Tax

We recommend that the rules providing for repayment supplements and interest on unpaid tax should be brought more closely into line. Current interest rates are exceptionally high in real terms, underlining the importance of providing compensation to a taxpayer on an equitable basis when repayments are delayed.

Agricultural Co-operatives

The Unions are at one with the Government in attaching great importance to the successful development of agricultural co-operation. We fully support the recommendations of ACMS for measures to encourage retention of funds by the co-operative, including deferment of tax on distributions so long as the money is retained within the co-operative.

Stock Relief

Exclusion of the first £2,000 of the opening valuation in calculating stock relief discriminates very unfairly against many of our smaller members. While we realise that a 'de minimis' limit may be necessary for administrative reasons, we recommend a short tapered relief where stocks are not substantially above the limit; thereafter relief should be given on the full stock valuation.

Development Land Tax

We have long been concerned that development land tax may cause considerable hardship to farmers and growers whose land goes for development. One case in particular is the glasshouse owner who may well find that after the payment of development land tax he has insufficient funds to reinstate a viable business on an alternative site. There is a very strong case, particularly in such circumstances (which may well be beyond the owner's control), for the introduction either of the form of rollover relief which was available under the former development gains tax, or of a special allowance to take account of the additional cost to the producer of restoring his business.

The Unions also recommend that retirement relief on similar lines to that given for capital gains tax and development gains tax should be available for development land tax.

Cost of Appeals

We are concerned that the present rules regarding the costs of appeals can often operate unfairly, in particular against small businesses. Unrecoverable costs incurred by the taxpayer in an appeal by the Inland Revenue to the High Court or Superior Courts may well exceed the tax at issue, irrespective of the result. We therefore recommend that if a taxpayer wins an appeal at any stage in the appeals procedure, the Revenue should bear all the costs of any appeal it makes to a higher tribunal.

I am sending a copy of this letter to the Minister of Agriculture.

Yours sincerely

Richard Butler

NALHM

National Association of Licensed House Managers

Rogers mgs.

SOUTH WEST REGION

205 Wells Road
Knowle
BRISTOL
BS4 2DF

0272 711057

HM TREASURY — MCU

RECD.	- 5 MAR 1984
ACTION	EST 42/2ND.
SIGNATURE	
REF. No.	16093

MARINE TAVERN
PARK ST
TORQUAY
DEVON,
TQ2 SEL.

MR. NIGEL LAWSON

RE THE BUDGET

DEAR SIR

"WE AS AN ASSOCIATION CONSIDER ANYTHING MORE THAN ONE PENNY IP ON A PINT UNFAIR. UNJUST, AND UNNECESSARY.

YOURS FAITHFULLY

B. J. MORGAN
BRANCH SECRETARY

FINANCIAL SECRETARY

REC.	- 6 MAR 1984
~~ACTION~~	PPS CST MST EST
COPIES TO	Sir P Middleton
	Mr Cassell
	Mr Monger
	Mr R I G Allen

Mr Griffiths
Mr F Martin
Mr Lord
PS/IR PS/C+E

Budget reps file

NATIONAL FEDERATION OF SELF EMPLOYED AND SMALL BUSINESSES LIMITED

Parlimentary & Press Office: 140 Lower Marsh, Westminster Bridge, London SE1.
Telephone: 01 928 9272

Our Ref. PP/6670

21st December, 1983

FINANCIAL SECRETARY
REC. -3 JAN 1984
PPS CST MST EST
COPIES TO Sir P Middleton
Mr Cassell
Mr Monger
Mr R I G Allen
Mr Griffiths
Mr F Martin
Mr Gordon
Mr Lord
PS/IR
PS/C+E

The Rt. Hon. Nigel Lawson M.P.,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
London, S.W.1.

Dear Chancellor,

I have pleasure in submitting our representations for your favourable consideration when framing your forthcoming Spring Budget statement.

The proposals outlined are of particular relevance to the non-corporate business and are designed to encourage both growth and employment.

I should, with one or two or my colleagues, welcome the opportunity of discussing those proposals in greater detail with you in the New Year.

Yours sincerely,

A. J. Miller,
Chairman,
VAT/Taxation Committee.

BRI
HM TREASURY — MCU
RECD. 22 DEC 1983
ACTION FST
SIGNATURE
REF No.

NATIONAL FEDERATION OF

SELF EMPLOYED AND

SMALL BUSINESSES LIMITED

BUDGET 1984

SUBMISSION FROM THE NATIONAL FEDERATION OF SELF EMPLOYED AND SMALL BUSINESSES TO THE CHANCELLOR OF THE EXCHEQUER FOR HIS SPRING, 1984 BUDGET

FOREWORD

During a meeting earlier in the year, the Rt. Hon. Nicholas Ridley M.P., the then Financial Secretary to the Treasury, stated that the Government could do more to assist the small business if they were to become Limited Companies.

That statement had great significance, since it has long been our expressed view that most of the Government's small business measures were largely irrelevant to the self employed/small businessman. The reason being that such measures that were not specific to the start up of new businesses, were mostly of benefit to the Limited Company.

Although a business may perform an indentical function whether incorporated or not, there is little advantage in becoming a Limited Company. In most cases, transfer to corporate status is a disadvantage to a small business, and the businessman should have the right to choose without penalty.

The principal intention when forming a Limited Company is to limit the personal liability to the value of shares subscribed. Such protection is then frequently

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offset by the present requirement of the Company bankers that the Directors should personally guarantee any of the Company's bank borrowings together with the interest thereon.

The financial and legal disadvantages of a corporate body as compared with a sole trader are sufficient to deter most small businesses from changing status.

Amongst the disadvantages are:-

1. Conforming with the complexities of the Companies Acts.

2. Financial disadvantages:

   (a) Cost of formation of Company or take-over of an existing business by a newly formed Limited Company. This can be considerable and is not tax deductable.

   (b) Cost of preparation of the Company's Account plus the cost of annual audit.

   (c) The raising of finance for a small Limited Company is more difficult than for a non-Limited enterprise.

   (d) Filing of Company Accounts - A Limited Company is required to lodge its annual accounts with the Registrar of Companies. Although the filing fee may not itself be a burden, once filed any competitor may examine the Company's trading accounts upon payment of a small fee.

/...

(e) Cessation of Business - Capital Gains Tax. The self employed/small businessman may be liable for Capital Gains Tax when finally disposing of his business. This would depend upon age when retiring. By comparison, the Limited Company will be liable for Capital Gains Tax on the sale of its assets and, secondly, the shareholders themselves may also be liable on any increase in value of their share capital.

3. National Insurance

Comparing a self employed person and a (technically) employed sole trader Director, each receiving the same income, the Director would pay a maximum excess of Class 1 NIC over the combination of Class 2 and Class 4 NIC in 1983/84 of £1,376 after allowing for the tax relief on the employer contribution, and not taking account of the differences in entitlement to benefits.

4. Tax penalties on loans/drawings by Directors.

When drafting new legislation, account should be taken of the effect on, or benefit to, both the corporate and non-corporate business.

We have consistently asked for measures which would assist the small business in playing its full and useful part in the country's economy. Until there is a full appreciation that small business legislation must take into account the corporate/non-corporate status of a

/...

business, this Federation cannot avoid its claim that the majority of the Government's past measures have little or no benefit to the self employed/small businessman.

We are concerned also that many of the past measures introduced by Government have discriminated against existing small businesses, when the unfair competition arising from grants and other concessions to new businesses has resulted in failures of existing businesses.

We see as a misuse of public monies the subsidised creation of a new business and new jobs if the benefit is to be offset by the failure of a similar business with a corresponding loss of jobs. The fact that the new business may also be a foreign one only serves to compound the misuse of public funds.

Our Budget Submission for 1984 outlines some of the main areas for consideration.

1. The carry-over of Personal Allowances

A small businessman receives no salary. His income for the year is wholly dependent upon his trading at a profit. Where his business is trading at a loss, the small businessman will have no income for that year, and will therefore have nothing against which to set-off his personal allowances for that year which are then lost to him.

In direct comparison, a Director of a Limited Company can charge a salary irrespective of whether the Company is profitably trading or not, which enables him to set-off his personal allowances for that year.

The Director's salary thereby becomes a part of the Company's trading losses. At the same time the Director, having received a salary, is able to utilise his personal allowances by setting them off against his salary for tax purposes, while his Company is able to carry forward its trading losses for that year to be set-off against future profits.

We would like to see in such circumstances that an unused personal allowance in any one year should remain available to be carried forwards or backwards against taxable income.

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We therefore propose:-

1. Under TA 1970 S.8 an extension of entitlement to enable the carrying forward of unused personal allowances against future taxable income, or against that of the preceding year.

2. <u>A revision to Section 168 TA 1970</u>

   Where any person sustains a loss in trade, profession or employment or vocation carried on by him either solely or in partnership, he may, by notice in writing given within two years after the end of the year of assessment, make a claim either:

   (a) From Income Tax on an amount of his Income equal to the amount of the loss plus the amount of any personal allowances to which he may be entitled

and

   (b) From Capital Gains Tax in respect of the chargeable gains arising from the disposal of chargeable business assets in the year to which the loss relates.

3. <u>A revision to Section 174 TA 1970</u>

   Where a trade, profession or vocation is terminally discontinued and any person then carrying it on, either solely or in partnership, has sustained therein a loss to which this Section applies (herein after referred to as a terminal loss), that person may, subject to the provisions of this Section, make a claim requiring that the amount of the terminal loss shall, as far as may, be:

   (a) deducted from or set-off against the amount of profits or gains which he has been charged to Income Tax under Schedule D in respect of the trade, profession or vocation

/...

for the three years of assessments last preceding that in which the discontinuance occurs and there shall be made all such reductions or assessments or repayments of tax as may be necessary to give effect to the claim

and

(b) deducted or set-off against any chargeable gains arising from the disposal of chargeable business assets on the discontinuance of the trade, profession or vocation, subject to the fact that, where a claim is made under this sub-section and subsequently a claim is made under Section 118 Capital Gains Tax Act 1979, then the election made under this sub-section shall be treated as having not been made.

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2. Capital Allowances

A major cause of the lack of profit potential in the private sector, and especially for the smaller business, is the lack of finance for re-investment purposes, coupled with the cost of borrowing.

Although the business may claim 100% tax relief via First Year Allowance on qualifying expenditure, this usually accounts for only 30% of the cost of the asset acquired. It is suggested as an alternative to the present system of claiming

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capital allowances that the cost of the asset could be off-set against the tax payable under Schedule D Case l or II assessment, rather than against the adjusted profit for taxation purposes. To prevent taxation avoidance, it is further suggested that the Inland Revenue should be allowed the right of claw-back should the asset be sold within five years of purchase. A sliding scale of claw-back is suggested of 100% if sold within the first two years, 60% for year three and 40% for the fourth year, on the lower of cost or realised value.

We also suggest a further change on claiming capital allowances. The present system is that after first year allowances have been claimed, allowances are granted at 25% per annum on the reducing balance. We suggest that the claim should be entirely optional in any year until the asset is fully written off.

We further propose that the Industrial Building allowance should be extended to cover all business premises. Such a change would recognise, and be some recompense, for the invisible exports achieved by the country's service industries.

In our opinion the effect of these two amendments would encourage investment in fixed assets in the private sector and lead to an upsurge in manufacturing industries.

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3. Extension to Stock Relief

With the extensive modification to (and reduction in) relief for increases in stocks and work in progress, businesses are once more faced with the very great burden of funding increases in capital, for expansion or otherwise, out of taxed income.

This is particularly relevant in the Small Business Sector where the following factors are significant:-

1. Difficulty in raising initial and expansion capital. The "lead in" time before cash flow is generated can often be substantial.

2. The particular need for additional capital for expansion.

3. The enforced capital requirement imposed on small businesses by large firm and public sector debtors.

We recommend the following two proposals:-

1. The basis of computing (Stock) Relief be extended to include the following items:
   (a) Stocks and work in progress
   (b) Trade debtors
   (c) Prepaid trade expenses
   (d) Less - Trade creditors and Accrued expenses.

   It is also considered that the opening

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balance figures on which relief is calculated should be amended to those in the closing balance sheet. The delay in producing relief does not appear to have any logical basis. The indexation method of computing relief does not recognise the particular working capital requirements of individual businesses and there seems no reason why the precise increased requirement should not be given as relief. These measures would extend the basis for computing stock relief in terms of the "cut off" level of £2,000.

2. We would again propose that this minimum level be removed by the repeal of the Finance Act 1981 Sch.9 Part II 3(1)(b) and the amendment of (2) to take account of the repeal of 3(1)(b).

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4. Capital Transfer Tax relief and the Family Business

The underlying concept of Capital Transfer Tax is to confiscate personal wealth. Whilst this point is not within the scope of this submission, the plain fact must be recognised when wealth in the form of business assets is considered.

The long term potential effect is to remove ownership of business from individual hands.

The fundamental motivation of all contributors

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to the economy is largely self interest. Without such motivation any business will be relatively inefficient.

The requirement for large scale organisations is diminishing as volume manufacturing is replaced by high skill technological and service industries operating in small units.

In very many cases the underlying business assets in any event are only of material value where the proprietors themselves are actively involved in management.

To maintain this type of business we advocate greatly extending the relief in the case of defined family businesses.

It seems logical to extend the Retirement Relief Capital Gains Tax concept to Capital Transfer Tax. Where individuals meeting the Capital Gains Tax requirements effect transfers of value we suggest the following reliefs:-

Business Assets	0 - 250,000 -	100% relief	
	250,001 - 500,000 -	90% relief	(band)
	500,001 - 750,000 -	80% relief	(band)
	750,001 - 1,000,000 -	70% relief	(band)

On a £1 million private business this would leave £150,000 in charge to Capital Transfer Tax.

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It has long been claimed that a tax such as Capital Transfer Tax is destructive in that it destroys, if not wholly then in part, the benefits for the next generation from the life work of the last.

We believe that the harmful effects of Capital Transfer Tax require to be studied with a veiw to change. Meanwhile, we again propose, as an alternative, that so long as the capital to be taxed remains within a commercial venture, its liability to taxation should be subject to roll-over relief.

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5. <u>Value Added Tax (i)</u>

We again call for action on a situation which causes considerable difficulty for the construction industry. We refer to the practice of charging repairs to, and certain work on, all buildings at the standard rate.

The categorisation of such work between standard and zero rated work is a constant source of difficulty because of the complexity of the regulations. The attitude of Customs and Excise is not helpful. Regardless of the amount of tax involved in relation to the work to which the taxpayer is being put (and even where there can obviously be no yield because the transaction is between registered businesses), Customs and Excise invariably insist that retrospective adjustments must be made. If the regulations were clear the practice would be less objectionable, but they are so obscure that different interpretations will be given by different Customs Officers. Under such circumstances it is surely wrong that the businessman, who has struggled to conform with the law, should be penalised.

It is also difficult to understand the logic of zero rating new construction work, while standard rating repairs. Surely the preservation of existing buildings is of equal importance to the building of new ones. The zero rating of all building work would remove a considerable area of uncertainty in VAT administration, benefit the housing and industrial building stock of the nation, remove a considerable amount of work from the Black Economy and reduce the amount of unfair competition from which the small builder suffers.

Value Added Tax (ii)

Our campaign for the abolition of VAT between registered traders has at least received a sympathetic hearing within Europe.

Three amendments to the "Resolution on the harmonisation of taxation in the Community" were submitted in our name and accepted.

The wording of the accepted amendments is:-

Paragraph 4: Hopes, by this own initiative report, to help overcome more rapidly the excessive number of obstacles and, in particular,:

"deplores the administrative burden imposed on individuals and undertakings alike, where that burden cannot be justified in terms of raising revenue".

Paragraph 22: Calls on the Commission, furthermore, to examine:

"(d) the economic impact of all taxes on undertakings, and the charging of VAT on transactions between registered traders".

Paragraph 33: Points out the importance of the tax aspect of industrial policy and in this connection:

"Points out that SMU's would particularly benefit in terms of a reduction of their overheads through the abolition of VAT on transactions between registered traders. The administration burden at present imposed cannot be justified in terms of raising revenue".

We would hope that a similar realisation of the administrative wastage and burden imposed by

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VAT transactions between registered traders is acknowledged by the UK Government.

We must strongly urge the Chancellor to follow this European example and end this anomoly.

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6. Investment Income Surcharge

The continued imposition of this scandalous burden on savings cuts across the Prime Minister's continued call for thrift. There is no incentive whatever for thrift or investment in the growth of industry in the United Kingdom if penal taxation is the result.

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7. Relief for Interest on Loans for Investment in Close Companies

The provisions of F.A. 1982 S.49 should be widened to embrace all employees, not just managers.

This would encourage the interest of employees in the firms they work in and stimulate efficiency, growth and enterprise.

/...

8. Improvements to Business Expansion

(a) The scheme should be amended to include relief for the injection of formal loan stock as well as share capital. At present, relief is only given to the tax payer if he invests in the shares of the company, and a typical situation arises where the directors of the company, wishing to receive the injection of capital, simply do not have any funds to inject money into share capital themselves and, since a price must be struck for the value of the shares although in practice it is usually at par, it becomes impossible to formulate a scheme because the entrepreneur would end up with practically all of the share capital on a pro rata basis, and obviously this is not the point of the scheme in the first place. By allowing loan stock the entrepreneur could place part of his moncy into a formal loan, and part of it into the share capital, thereby saving stamp duty and also enabling further risk companies to be launched, thereby increasing employment prospects generally.

(b) The scheme at present only encompasses normal limited companies and should be broadened to include sole traders and partnerships. Many self employed people do not take on risk ventures because they are required personally

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to guarantee any borrowing, usually offering their private home as security and, if a loan scheme were expanded to include the self employed, then outside finance would be attracted into this sector, thereby enabling faster growth and a general stimulation to the business sector and increased job prospects.

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9. Enforcement Powers

Our response to the Keith Committee report will be considering this matter in some detail. Our concern at the present time is that the Government may seek to embody the recommendations of the Keith Committee before the detailed responses from those most affected have been adequately considered and taken account of.

Particularly, we noted with considerable disquiet the proposed changes with regard to the Special Commissioners outlined in the original 1983 Finance Bill.

We are strongly opposed to any changes to the present system which could result in a taxpayer having no alternative to his appeal being heard before an informal lay body of Commissioners with

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only a very restricted right of further appeal on a point of law and no right to appeal a demonstrably unjust decision on a matter of fact.

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10. Training Allowances

Under the present education system, there is considerable emphasis upon the pursuit of academic qualifications where students are grant-aided through college and university. We consider a change of priority is required to encourage the acquiring of industrial and craft skills through apprenticeships if skilled manpower is to be available for the future.

We would advocate a re-direction of training initiative from college to practical workshop learning and experience. This could be brought about simply via an extension of tax allowances for taking on trainees for two or three year periods.

Under existing legislation training costs are a charge against profits. In effect this means that only 30% (at the standard rate) is set off against tax while 70% of the cost is borne by the business providing the training.

/...

Provision of training may be for the benefit of the business concerned but, once trained, it is by no means certain that the trainee will remain with the business. This fact acts as a deterrent to training. Without doubt there is a benefit from training both for the employee and the country. The urgent need to provide training is not in dispute, what is required is the necessary encouragement for it to be carried out.

We therefore propose that all related training costs should be set off against tax payable under Schedule D Case I or II assessment.

We further propose that, where external training is involved, e.g. management courses etc., the wages for the period of the course should be considered as part of a training cost.

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11. National Insurance Surcharge

We call for the remaining element of this tax upon employment to be finally removed.

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12. Sub-Contractors 714 Certificates

The Inland Revenue regulations requiring bank guarantee in respect of those previously unemployed or working abroad should be withdrawn as of little practical application, and the provisions of F.A. 1982 Sch.8 S.47.9 should be extended to treat these people similarly to those having recently undergone full time education or training.

The object here is to reduce the numbers of the unemployed, both directly and by the general stimulation of enterprise and the removal of unnecessary hindrances to free trade.

In proposing the above, our existing policy of total opposition to any form of licence to work remains unchanged.

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13. Retention of Profits for Small Businesses (Non-Corporate)

A Limited Company can choose to pay out its profits in the form of dividends, salaries or bonuses or, alternatively, retain all or part of the profit within the capital structure, subject to corporation tax, currently 38%.

/...

The small businessman has no such choice, he pays NIC and is taxed upon the whole of his profit at the appropriate tax band, regardless of whether he draws the profit as income or not.

We would like to see a tax incentive which would encourage the retention of profits, thus providing for future expansion and minimising future borrowings.

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14. Pension Provision

For many businesses the need to retain a maximum level of working capital is paramount. In such circumstances any provision for pensions is effectively a loss of working capital. The alternative is no provision for a pension at all.

We would therefore like to see a method whereby a provision for pension can be made within the Capital Account of the business, thus allowing both provision for pension and retention of working capital within the business.

As an alternative, we propose that where a businessman is unable to utilise 17½% of his

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income for provision of pension, he should be able to credit any unused allowance to be set off later against a liability to Capital Gains Tax in event of the sale of his business due to illness or early retirement.

Other proposed changes are as follows:

In order to make the State scheme compete with the open market, while at the same time partially releasing the State from its inevitable future contractual problems, provision should be extended to any worker, whether employed or self employed, to contract out of the N.I. scheme in favour of purchasing a required minimum level of private pension on the open market*.

To encourage fluidity of movement between self employed and employee status (or vice versa), (a) a form of "paid up policy" (cf. the current Civil Service practice) or "surrender value" should be allowed as far as the State scheme is concerned, and (b) a self employed pension scheme should be permitted to take in a transfer value from a previous employer's pension scheme. Any such credits under this section should be fully interchangeable.

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* NFSE Report - "The Privatisation of Pensions".

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15. National Insurance Contributions

We propose that the total of the Class 2 and Class 4 contributions of a self employed earner under Part 1 of the Social Security Act 1975 shall be divided in a similar proportion to the total of the primary and secondary Class 1 Contributions made by an employed earner, and the proportion of such (i.e. the secondary equivalent element) shall be allowable against tax.

Preferably, the Class 1 secondary element should be removed from the calculation when setting the equivalent contribution level for a self employed person, thus equating contributions paid out of taxed income.

Budget Reps

The National Market Traders' Federation

Our Ref: ACG/SN.

Your Ref:

Head Office:
YORKSHIRE BANK CHAMBERS,
LOUNDSIDE, CHAPELTOWN, SHEFFIELD
Telephone: Sheffield 465395

HM TREASURY – MCU
REC'D. 15 FEB 1984
ACTION FST
42/2

FINANCIAL SECRETARY
REC. 16 FEB 1984
PPS CST MST EST
Sir P Middleton
Mr Cassell
Mr Monger
Mr R Allen
Mr Griffiths
Mr F Martin
Mr Andren
Mr Lord
PS/IR
PS/C+E

15144

10th February, 1984.

The Rt. Hon. Nigel Lawson M.P.,
Chancellor of the Exchequer,
Treasury,
Parliament Street,
LONDON SW.1P 3AG.

Dear Chancellor,

PRE-BUDGET RECOMMENDATIONS 1984

In presenting recommendations for you to consider prior to your 1984 Budget Statement, we wish to emphasise that we are one of the few National Bodies who can truly claim to represent the interests of the small business sector engaged in self employed retailing. Our 16,000 members consist of traders who earn their living solely as market traders engaged in working either on one "local" market near to their home; working on three or four markets within reasonable travelling distance of their home; or travelling the country to markets, shows and fairs which means they spend periods of the year away from their base.

Our members are (basically) NOT employers of large permanent labour forces. We have many instances of traders who wish to improve their business and to assist the unemployed sector to find work in the process. We would, therefore, urge that you give favourable consideration to some control of WAGE LEVELS which would enable employers to engage staff within their financial capability. We are well aware that this Government have given sympathetic consideration to a revision of the work of the Wages Councils but that steps to implement change cannot be taken until 1985. A temporary easing of the burden on employers would be the total removal of the iniquitous National Insurance surcharge and we ask that THIS BE REMOVED COMPLETELY.

Probably one of the most significant of the costs which our members have to bear are the uncontrollable costs which come in the form of RENT AND RATES. The fact that many local Authorities have suffered a cut back in rate support grant has meant that the markets have been "used" as the means of increasing revenue to help prop up the losses suffered by the cuts. We deplore this indirect form of taxation on our members. We have instances of local Authorities who have openly stated to us when making representations on behalf of members against rent increases " that they need the money" and it is patently obvious that the market trader is being used to provide it. The Minister responsible for Small Firms in the Government prior to the June, 1983 Election stated that "rent levels had been brought into line with inflation". We have recently represented traders who were faced with increases which were ten times plus the rate of inflation. We therefore urge you to take steps to rectify this injustice.

VALUE ADDED TAX PROPOSALS by the EEC for applying a positive VAT rate to certain items of business expenditure have been rejected by this Government and we welcome this. We would urge that you reject any consideration of an increase in V.A.T; and we would be strongly opposed to any suggestion that there should be more than one positive rate. We recommend a substantial uplift in the V.A.T. threshold for registration.

cont'd.......

FUEL CHARGES are a major factor in our members business expenditure. Recent reductions in the price of petrol have helped to offset some of the increases in operating costs. We urge that you resist any temptation to use the price reductions by oil companies to raise revenue by an increase in fuel tax.

It is clearly desirable that encouragement be given to small businesses to plough back profits in order to facilitate growth. We, therefore, recommend that TAXATION OF BUSINESS PROFITS be revised and in particular that PROFITS LEFT IN THE BUSINESS be exempt from tax whilst such funds remain with the business, provided they are used for expansion within (say) a specified term of five years. It is clearly unfair that tax reliefs given to one kind of business should be denied to other kinds. We therefore look for a revision of the present difference in the treatment of profits in businesses; and we trust you will end the discrimination between industry and commerce in the granting of capital allowances to traders in the large modern indoor markets in respect of expenditure on their stalls and fittings.

As regards INCOME TAX in general; we realise that a statutory obligation already exists for adjustment of thresholds to compensate for inflation. We sincerely hope that circumstances will permit additional reliefs to reduce the burden of personal taxation. Clear indications exist which prove that a modest increase in personal spending power will lead to increased retail activity, which in turn will stimulate the manufacturing sector without jeopardising the essential policy of controlling inflation.

Yours sincerely,

Colin Gregory

COLIN GREGORY,
GENERAL SECRETARY.

Budget reps

FOUNDED IN 1926

National Society of Non-Smokers

(Registered Charity No.287161)
Patron: The Rt Hon the Lord Ennals of Norwich P.C.

Information and Advice Centre
LATIMER HOUSE, 40-48 HANSON STREET, LONDON W1P 7DE
Telephone 01-636 9103

BR1

HM TREASURY - MCU	
RECD.	10 FEB 1984
ACTION	FST
	42/2ND
SIGNATURE	14987
REF. No.	

8 February 1984

The Rt. Hon. Nigel Lawson
Chancellor of the Exchequer
11 Downing Street
LONDON, S.W.1

Sir

This Society is well aware that the Chancellor is being hotly bombarded at this time with petitions and representations from all quarters, but we trust that on no account will there be any sympathy for the newspaper advertisements of the Tobacco Advisory Council, who allege that smokers are unfairly taxed, and that the tax on cigarettes is already too high.

It is no doubt within the knowledge of yourself or your department that, in spite of recent tax increases, the real price of cigarettes has fallen. In order to restore the price of cigarettes to 1959 prices (relative to increase in the cost of living), to-day's packet of 20 cigarettes would have to be raised by about half as much again in price.

But relative pricing is, of course, not the only issue relating to smoking: cigarettes are unique. What other taxable product can be freely advertised and promoted, and which by the sole virtue of its consumption, is the cause of 100,000 deaths every year in this country? (Royal College of Physicians Report, 1983.)

Against the tax revenue, there is the cost of accidents and fires (including fires in industrial premises), the costs to the National Health Service and the payment of sickness and invalidity benefits to those suffering from smoking-related diseases, plus social security payments to the dependents of those who die.

On the aspect of personal choice, the Government has rightly removed such choice from car users by the obligatory use of seat belts, with beneficial results already for the individual and the community,

This Society therefore urges that, as Chancellor, no concession is made to the pleas of the Tobacco Advisory Council. If smoking cannot be banned, it is at least absolutely justifiable on many grounds actively to discourage smoking in all ways, including pricing. As the advertisement says, "Enough is enough"!

FINANCIAL SECRETARY	
REC.	14 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

Yours faithfully

T. W. Hurst

T. W. HURST
Hon. Director and Secretary

Budget Reps.

PETER I. MARSHALL F.C.A.
Deputy Chief Executive

The Plessey Company plc
Millbank Tower · London
SW1P 4QP

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

CH/EXCHEQUER

REC.	20 JAN 1984 23/1
ACTION	FST
COPIES TO	

19th January 1984

Dear Chancellor,

Research and Development Incentives

Her Majesty's Government regularly stresses the importance of investment in research and development in order to ensure that British industry is both efficient and competitive in world markets. My company endorses this view and has a long record of company-financed research expenditure, having recently announced a major new investment in microchip technology. The funds required for new "state of the art" technology, whether in micro-electronics, advanced engineering or pharmaceutical products, are substantial and the development period runs into years.

I have recently become aware of the Research and Development Limited Partnerships which have arisen in the United States as a vehicle for attracting R & D funds to a number of key research programmes, such as that of the superchip developed by Gene Amdahl's Trilogy corporation. The sums involved are growing rapidly. I have details of 5 companies which have raised $282 million to develop new products. I am sure that a similar scheme in the U.K. would help boost the R & D effort in British industry.

The Business Start-up Scheme and its successor, the Business Expansion Scheme, have established the principle of tax relief on investment made in a qualifying activity. R & D Partnerships would operate on a similar basis with the investor/limited partner entitled to tax relief on a proportionate share of the losses generated by the partnership during the development period. The arrangement is tax effective because of the combined effect of certain sections of the Internal Revenue Code and U.S. case law.(See the enclosed booklet). Existing UK tax legislation precludes the creation of similar, tax effective, partnerships in this country.

I therefore request that consideration be given to the drafting of legislation for the provision of tax relief on funds used for research and development purposes. Clearly, like the BSS and BES schemes, safeguards will be required. For example, the procedures under existing legislation for the approval by the Secretary of State of certain scientific expenditure could be extended to monitor research projects under the new scheme.

My technical, legal and taxation staff are willing to co-operate with the Board of Inland Revenue on the creation of a scheme and I am sure that other U.K. companies with major R & D programmes will also be willing to assist.

Yours faithfully,

P. I. Marshall
Deputy Chief Executive and Director of Finance.

Budget 1984/85

Process Plant Association
A company limited by guarantee
25 Whitehall London SW1A 2BS
Telephone 01-839 4861 Telex 917984 PPALDN

HJH:jl

From the Director-General

10 February, 1984

HM TREASURY — MCU

REC'D.	13 FEB 1984
ACTION	FST 42/2ND.
SIGNATURE	
REF No.	15021

FINANCIAL SECRETARY	
REC.	14 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

The Chancellor of the Exchequer,
HM Treasury,
Parliament Street,
London, SW1P 3AG.

Dear Chancellor,

Budget 1984/85

I write on behalf of our Council to make representations in connection with the forthcoming Budget.

We support the proposals made by the CBI relating to public expenditure. It is our belief that the British economy will benefit from a change in the allocation of total spending, but that there should be no increase overall. We recommend that there should be an increase in that proportion of public expenditure which goes towards capital items and that it should be financed by a similar reduction in current account expenditure. We believe that the economy will benefit both from the increased employment and activity in the capital goods sector of British manufacturing industry that will be generated, and that the nation will benefit long-term from the investment in these assets.

In addition, we consider that there will be benefits from increased capital expenditure by the nationalised industries, and others, in energy related sectors, and that the Government should give positive encouragement to these. We are thinking, in particular, of investment in power plant at present under consideration by the CEGB, in substitute natural gas plants on a large scale to add to the nation's gas resources, and on plant for the treatment of waste products and the recovery of energy from them. All these plants will require considerable expertise in their development and construction, and work should start well in advance of requirement to gain experience. This experience will also be invaluable to the export efforts of these plant manufacturers.

We ask you to give consideration to these points in your forthcoming Budget.

Yours sincerely,

Harry Hornsby

PUBLIC SERVICE PENSIONERS' COUNCIL

Hamilton House, Mabledon Place, London, WC1H 9BD

Telephone: 01-387-2442 ExtensionXXXX 113

Budget rep

Hon. Secretary:

XXXXXXXXXXXXX, G B FAWCETT
Hamilton House,
Mabledon Place,
London,
WC1H 9BD.

Associations represented:
Anglo-Egyptian Association
Association of H.M. Inspectors of Schools
Association of H.M. Inspectors of Schools (Scotland)
Association of Local Government Financial Officers
Association of Teachers in Technical Institutions
Civil Service Pensioners' Alliance
Educational Institute of Scotland
First Division Pensioners' Group
Indian Government Officers (Retired) Association
Indian Police (U.K.) Association
Indian Civil Service (Retired) Association
Joint Committee of the Four Secondary Associations
Justices' Clerks' Society
Greater London Council Staff Association
National Association of Fire Brigade Pensioners
National Association of Head Teachers
National Association of Justices' Clerks' Assistants
National Association of Retired Police Officers
National Federation of Post Office Veterans
National & Local Government Officers' Association
National Union of Teachers
Overseas Service Pensioners Association
Port of London Authority Police Pensioners' Association
Retired Police Officers' Association (Scotland)
Scottish Retired Teachers' Association
Society of Education Officers
Sudan Govt. British Pensioners' Association
Thames Water Authority Staff Association

HM TREASURY — MCU	
RECD.	-2 FEB 1984
ACTION	FST
	[illegible]
SIGNATURE	
REF No.	14619

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
11 Downing Street
London SW1

29 January 1983

Dear Mr Lawson

On behalf of the Public Service Pensioners' Council, I would like to request that consideration be given to the following matters in the preparation of the forthcoming Budget.

1. The Council urges you to abolish the income limit above which the higher Income Tax Age Allowance is reduced. The Council believes that the application of this reduction gives pensioners a very high effective rate of Income Tax on a comparatively low income. Failing the abolition of this income limit, the Council believes that the income limit should at least be raised to £9,000 in order to restore its original value.

2. The Council also wishes to see the value of all Income Tax allowances protected, and therefore would like to see restoration of the "Rooker-Wise amendment" to that effect.

3. The Council was strongly opposed to the provisions of Section 5 of the Social Security (No.2) Act 1980, imposing a restriction upon the payment of unemployment benefit to occupational pensioners over age 60 in receipt of occupational pensions amounting to £35.00 per week or more. The Council would still like to see the removal of any such restriction, but at the very least, the original value of the £35.00 per week limit as at 1 April 1983 should be restored and then raised anually in line with inflation.

4. The Council notes with approval the extention of the Widows' Bereavement Allowance to the second year following the husband's death with effect from 6 April 1983. In the interests of equity and need, the Council proposes that equivalent additional personal Income Tax Allowance be made available to a man for the two years following his wife's death.

FINANCIAL SECRETARY	
REC.	-3 FEB 1984
ACTION	PPS CST MST EST
COPIES TO	Sir P Middleton
	Mr Cassell
	Mr Monger
	Mr R I G Allen

Mr Griffiths
Mr F Martin
Mr Lord
PS/IR
PS/C+E

cont/......

I hope you will give these points due consideration in preparing the Budget for the forthcoming year.

Yours sincerely

G. B. F

G B FAWCETT
Hon Secretary

FINANCIAL SECRETARY

REC.	-2 FEB 1984
~~ACTION~~	PPS CST MST EST
COPIES TO	Sir P Middleton
	Mr Cassell
	Mr Monger
	Mr R I G Allen

Mr Griffiths
Mr F Martin
Mr Lord
PS/IR
PS/C+E

REDIFFUSION

REDIFFUSION plc

FROM THE MANAGING DIRECTOR

PO Box 451 Carlton House Lower Regent Street London SW1Y 4LS
Telephone: 01-930 0221 Cables: Rediffusion London SW1 Telex: 918673

HM TREASURY — MCU

REC'D.	31 JAN 1984
ACTION	FST
	12/2/84
SIGNATURE	
REF. No.	14472

The Rt Hon Nigel Lawson MP
The Treasury
Parliament Street
London SW1P 3AG

26th January 1984

Dear Chancellor,

I am writing to you, as I did last year at about this time, to restate this Company's earnest hope that in your 1984 Budget you will restore capital allowances on investment in television sets for rental to their pre-1980 levels.

Rediffusion is one of this country's largest television rental companies. Almost all of the television sets we use are manufactured in our own factories in the North East of England. Our rental business employs some 5,600 people, and the manufacturing operation some 1,300.

Our set manufacturing operation is one of only two significant British-owned ones which remain. In large part, the reason why these two remain in being is that they are owned by major television rental companies. The substantial demand which is thus assured provides the competitive edge which is vital for UK production to be viable in the face of cheap imports from many parts of the world.

The immense value to the country of the rental industry has been demonstrated by the success of the teletext receiver. Development of this British innovation has had full support from the Government, and the phasing out of capital allowances in respect of such sets was deferred and has not yet taken effect. The direct result of the competitive rental charges thus made possible has been, in the case of my company, that fully 80% of our set production is now teletext-capable. British manufacturers presently have a big lead in the emerging world market for such sets. If competitively-priced rental of these comparatively expensive sets had not been possible, I

2/cont....

think there can be no doubt that UK consumer enthusiasm would have been very much more muted and Britain would not now be in the favourable position it is.

Preserving the support which our rental industry provides is one of the few ways available in which the British Government can directly protect and encourage this significant British manufacturing industry. Every single television set we make replaces an import. This import replacement will continue as new products are introduced for satellite broadcasts, cable television, high-definition television, etc.

We urge you to help us by the restoring of capital allowances on television sets for hire to the pre-1980 levels.

I have sent a copy of this letter to the Secretary of State for Trade and Industry for his information.

Yours sincerely,

Ronald Denny

Ronald Denny

Budget reps

Royal Institute of British Architects 66 Portland Place London W1N 4AD ☎ 01-580 5533

From the President's Office

10 February 1984

CH/EXCHEQUER
REC. 10 FEB 1984 / 13/2
ACTION FST
COPIES TO

MM/CAN

The Right Hon. Nigel Lawson, MP,
Chancellor of the Exchequer,
HM Treasury,
Parliament Street,
London SW1P 3AG.

Dear Chancellor of the Exchequer

I attach on behalf of the Royal Institute a memorandum of proposals which I hope you will consider when preparing the Budget for 1984.

In our view these are reasonable and practicable proposals which would enable the profession and the construction industry to make a positive contribution to national objectives with regard to the economy and employment.

Yours sincerely

Michael Manser.

MICHAEL MANSER
President

Enc.

ROYAL INSTITUTE OF BRITISH ARCHITECTS

BUDGET SUBMISSION TO THE CHANCELLOR OF THE EXCHEQUER

This paper looks firstly at the construction industry's current place in the context of the national economy and considers the impact on it of present Government policies. It then suggests ways in which the housing sector, the urban programme and energy conservation could be stimulated without serious implications for the PSBR, and also proposes fiscal measures that would help generate investment.

Construction and the economy

Like the construction industry as a whole, the architectural profession benefited from the modest increase in building activity over the past year. Nonetheless the growth has been patchy, with some regions largely unaffected, and the improvement appears likely to be shortlived. The latest forecast by BMP predicts that a peak in activity reached this year will be followed by a 1% drop in construction output in 1985, whilst NEDO has since forecasted a 1½% decline in activity in 1985.

The Government should by now be aware of the problems which substantial fluctuations in construction workload create for the industry and related professions. The RIBA, the Group of Eight and other construction organisations have stressed this point to Government on numerous occasions in recent years and the arguments should not need repeating here.

The construction sector, because of its magnitude, plays a major role in the economy. Construction activity will clearly be influenced by the overall level of economic activity. The Government has chosen to use the industry as an instrument of short-term financial management; this has caused the industry severe problems and damaged its operating efficiency.

For example, over a quarter of new commissions reaching private architectural practices are postponed or abandoned. Public sector clients who provide 28% of private architects' new commissions, suffer from budgeting problems since Government does not provide a proper long-term framework for public authorities' capital spending programmes. Consequent fluctuations in private architects' workload have led to under-employment, loss of design skills and a reduction in overall efficiency.

The Institute is therefore seeking greater consistency in the Government's construction spending programme. There are areas where additional public resources are clearly demanded. In particular the programme of inner city regeneration should be expanded, the growth of rehabilitation work, particularly housing, needs further support and greater encouragement should be given to improving energy efficiency in buildings.

RIBA Proposals:

Government Expenditure Plans 1984/85

Housing

The Commons Select Committee on the Environment has predicted that a shortage of half a million dwellings will arise in the next few years and the latest House Condition Survey reveals an increasing number of houses in serious disrepair. Private house-building output appears to be stabilising, with some forecasts indicating that a downturn is on the horizon, and the Government's present policy is to encourage housebuilding by local authorities only for the elderly or others with 'special needs'.

The Government should increase the level of funds directed to housing associations through the Housing Corporation. The programme announced in November indicated a reduction in funds even though housing associations have never underspent their annual allocations.

Current plans to reduce substantially funds available for the home improvement grant programme in 1984/85 should be shelved. The Institute sees this successful programme as eventually countering the growing problem of housing disrepair. The level of funding in 1983/84, which led to 300,000 renovations last year, should be sustained.

Enveloping schemes offer the opportunity for labour-intensive repair work to be carried out at low cost. The Government should give further encouragement to enveloping schemes and take steps to reduce the lengthy administrative delays that have hampered progress in many areas of the country.

Urban Programme

The Urban Development Grant programme has proved a successful and cost effective means of addressing the severe problems which have arisen in inner cities. By using public sector resources as a lever for much greater private investment the drain on the public purse is minimised. The UDG programme should be expanded where there is a proven need for urban renewal.

A substantial expansion of the Derelict Land Grant allocation would clearly signal the Government's intention to give priority to building on land which has already been developed. The Government's commitment to encouraging the development of inner urban sites must not be relaxed.

Energy Conservation

The Energy Efficiency Office should be encouraged to play an integral role in the Government's overall energy policy framework. The Government's financial commitment to improving energy efficiency is obscured by the fact that resources earmarked for this purpose are not separately identified in the Public Expenditure White Paper. The appropriate figures should appear as a new supplementary table, which would provide evidence of trends in the funding of the Government's energy efficiency programme.

The energy efficiency programme should be expanded and a promotion campaign should be aimed particularly at lower income groups, small firms and other commercial enterprises. This would make a significant contribution to reducing fuel costs and conserving energy resources.

Tax Measures

Capital Allowances

The amount of empty industrial floorspace on the market remains at around 170m sq ft, close to the peak reached last year, and a large number of traditional industrial buildings have become obsolete and unmarketable. In order to encourage these buildings to be brought back into use the Institute proposes the introduction of a special initial allowance for conversion and improvement work to industrial buildings at the higher rate of 100%. The Institute first made this request in its Budget submission last year and the suggestion has since been taken up and supported by others.

Expenditure on thermal insulation installed in industrial buildings is treated as plant qualifying for capital allowances. This treatment should be extended to expenditure on thermal insulation, double glazing and other energy-saving installations and apply to all commercial and industrial buildings.

The Government should consider raising the current 75% initial allowance on new industrial buildings to 100%. Such an increase would harmonise tax treatment with that currently offered to capital expenditure on plant and machinery.

Value Added Tax

Professional fees are currently subject to VAT. This means that there maybe little or no design input in work related to improving private dwellings, a sector which the Government is keen to promote. VAT on professional fees should be zero-rated for work carried out for home owners.

There is also a strong case for zero-rating for VAT purposes repair work on listed buildings and all energy conservation work.

Development Land Tax

Development Land Tax acts as an impediment to urban regeneration. The Government should introduce a one year tax holiday in inner city areas.

February 1984

Budget reps

RAC Motoring Services
49 Pall Mall, London SW1Y 5JG
Telephone: 01-839 7050

CH/EXCHEQUER
REC. 6/2 6 FEB 1984
ACTION MST
COPIES TO

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

Our Ref: PA/JAW/YD/4224

3rd February 1984

Dear Chancellor.

MOTORING TAXATION AND ROAD EXPENDITURE

This is the first occasion since your appointment as Chancellor of the Exchequer when I have thought it appropriate to submit the views of the RAC about motoring taxation and road expenditure which are summarised in the enclosed memorandum. ...

I hope that our observations will help to convince you of the need for a new approach in regard to motorists' requirements - particularly taking account of the great extent to which all sections of the community depend on private transport for essential purposes. I think it must now be accepted that motoring can in no way be regarded purely as a luxury and its taxation has a substantial adverse effect on the cost of living.

The latest family expenditure survey reveals that the cost of purchasing and running cars dominates the average family transport budget - with 14.8% of family expenditure for transport purposes and 82% of this on private transport.

As we have repeatedly pointed out in earlier years, the taxation burden is exceptionally onerous for those who have to travel the highest mileages - for instance, residents in rural areas and shift workers whose personal mobility depends so greatly on use of private transport.

It was pleasing that your Autumn Statement revealed - notwithstanding Government policy to restrict public expenditure - that the national road expenditure would not be cut as has so often occurred in similar circumstances during earlier years. Moreover, your aims to achieve more capital investment in roads and to reduce wasteful subsidies have been welcomed by most road transport organisations.

However, the RAC must contend that there is still an urgent need to increase road expenditure in order to ensure that sufficient resources will be made available without delay for the necessary

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expansion and expedition of the road construction programme - and to make adequate provision for satisfactory maintenance of existing roads.

It is frequently stressed that the Government's objectives are to transfer responsibilities from the public sector to the private sector. So far as roads are concerned, road transport users necessarily depend on the Government and local authorities to provide the road system - but they are paying more than enough by way of motoring taxation to facilitate the essential expenditure for such purposes.

If privatisation of road building - as suggested by the construction industry - could help to achieve the required greater investment, we hope that plans for this will be accelerated.

The lack of sufficient "value for money" inevitably increases the public demand for lower motoring taxes and resentment whenever the burden is increased. Public opinion about the Government's road expenditure was effectively demonstrated in the attached extract from the Daily Telegraph published shortly before the Conservative Party Conference last year. This independently conducted opinion poll revealed that the Government's policies and achievements in regard to roads are not regarded highly by comparison with many of its other activities. ...

Moreover, the policies and achievements relating to taxation generally also did not fare well in the popularity poll. There can be little doubt that any similar enquiry about motoring taxation alone would attract even more critical views!

We hope that your first Budget Statement on 13th March will reveal a refreshing new attitude towards both motoring taxation and road expenditure.

Yours sincerely,

Jack Williams

J A Williams
Chairman - Public Policy Committee

RAC

MOTORING TAXATION AND ROAD EXPENDITURE

OBSERVATIONS BY THE RAC

February 1984

1. TAXATION

1.1 Past Budget increases of motoring taxation have been based on the premise that these should be related to the inflation rate, to maintain the same level in real terms. The RAC refutes the basic assumption that the taxes were at an acceptable level in the first instance.

1.2 A move should now be made towards bringing the taxes down to an acceptable level - or, if this is regarded as immediately impracticable in the current economic situation, they should be left unchanged.

1.3 If such indirect taxes were to be increased to keep pace with inflation - by about 5% - this would cause increases of over 4p on a gallon of petrol and over £4 on Vehicle Excise Duty of cars. Such increases would raise about £290 million extra revenue.

1.4 The 15% VAT on petrol produces additional "windfall" income whenever retail prices rise. Oil companies are determined to lift the petrol prices - and Government policy is to enforce no control. The tax ingredient is now about 53% of the petrol retail price - about 97p from £1.83.7p, the current purchase price for a gallon of 4 - star petrol. Any further increase of petrol taxation now would be expected to cause the retail price to rocket through the £2 barrier this year.

1.5 For most motorists, the payment of additional taxation would be unavoidable because cars and motor cycles are mostly used for essential purposes and are not a luxury. Therefore, the RAC urges that any required additional revenue should be obtained from other sources.

1.6 The average family motorist is currently paying approximately £500 a year in taxes directly related to his motoring. This causes "marginal motorists" to cut costs by avoiding servicing and maintenance expenditure, with consequent adverse road safety

Continued overleaf/... ...

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implications. Further increases in taxation would accelerate this undesirable trend.

1.7 The RAC supports the proposal by the SMMT that the special 10% Car Tax should be abolished. This would benefit purchasers of new cars and motor cycles as well as the motor industry - and also purchasers of secondhand cars, since their prices are influenced by the costs of new cars.

1.8 Motorists and motor cyclists particularly resent a double dose of taxation with VAT imposed as a "tax on a tax" - on top of the Excise Duty on petrol and the Car Tax on new cars and motor cycles.

1.9 Whilst supporting various measures to prevent evasion of liability to pay Vehicle Excise Duty, the RAC welcomed the Government's decision to reject substitution of a higher Petrol Tax for Vehicle Excise Duty. This would be objectionable for many reasons, as recognised following consultations in earlier years about this controversial proposal. It is hoped, therefore, that there will be no change of policy in this respect.

1.10 The RAC contends that it is illogical and inequitable to exempt electric-powered bicycles from taxation without providing the same concession to petrol-engined mopeds with similar performance characteristics - and which also contribute to the National Exchequer through petrol taxation.

2. TOLL CHARGES

2.1 The RAC was glad to receive an assurance from the Secretary of State for Transport - following enquiries about a statement that the EEC intended to propose a charging system for road use - that the British Government would not contemplate the introduction of toll roads.

2.2 It is urged that the policy in regard to estuarial toll bridges and tunnels should be reviewed without delay - and that abolition of such toll charges should be arranged as soon as possible. This is an irritating and severe additional burden - especially for many motorists and motor cyclists who must frequently cross the estuaries, often twice daily to and from their places of work. The RAC has repeatedly stressed that it is nonsensical to impose ever-increasing charges whilst the result is still ever-rising deficits.

3. ROAD EXPENDITURE

3.1 The Government has answered criticism about inadequate road expenditure by contending that the expenditure level is higher than it was when it took office in 1979. This ignores the fact that the earlier levels were grossly inadequate. Moreover, the level does not compare favourably in real terms with the investment figures of earlier years.

Continued overleaf/... ...

3.2 Successive Governments have refused to hypothecate any proportion of motoring taxation for road expenditure. Nevertheless, the RAC still urges that such expenditure should be raised to a proportion which would compare more favourably with the practices in other countries with more progressive road policies. For example, Switzerland spends 60% of motoring taxation on roads, the USA spends 95% - and Japan spends 126%. Great Britain only spends approximately 30%.

3.2a Whereas this country has 1660 miles of motorway, West Germany, with similar size and population, has 4920 miles. Better road systems have contributed to the economic success of many other competitive countries.

3.3 During a recent television interview, the Prime Minister again stressed the Government's objective to get "better value for money" in regard to public expenditure. The RAC welcomes the indications in the Chancellor's Autumn Statement that this aim is being pursued in respect of transport expenditure - by giving greater priority to capital investment in roads and reducing wasteful subsidies for public transport. It is hoped that this trend will continue and that essential road expenditure will be expanded to accelerate the road programme. There would be less objections to high taxation if motorists could see greater direct benefits arising from it. Better roads would reduce motoring costs and improve safety.

3.4 There is still cause for concern that the planned levels of road expenditure are grossly inadequate, bearing in mind that road transport will certainly remain the predominant mode for the carriage of passengers and freight.

3.5 The RAC - together with many other interested organisations - strongly refutes the complacent claim that this country has nearly completed the necessary inter-urban road network to the country. The strategic main road network cannot be regarded as anywhere near completion. Missing links and 'pinch points' abound and reduce the benefits obtained from such progress as has been made. Existing plans will still leave many routes far from adequate for safe and convenient movement of traffic in the years ahead.

3.6 Motorists are now suffering the consequences of earlier shortsighted cheeseparing policies which resulted in many road schemes which were of poor quality and inadequate to meet future traffic demands. It will be essential to avoid repetition of the immense problems caused by such mistakes - by spending more now in order to avoid the need for excessive remedial expenditure at a later date.

3.7 Traffic congestion in the major conurbations is a major problem which requires rapid action. It has been estimated by the British Road Federation that approximately £7,000 million needs to be spent in this connection during the next seven years. Coincidentally this is a sum almost equal to the current annual surplus of motoring taxation revenue

Continued overleaf/... ...

over road expenditure. Without this investment rapid further deterioration of the inner city areas can be expected to occur.

3.8 Attention has been drawn to the vital importance of adequate expenditure on road maintenance by the report issued by the House of Commons Transport Committee following its thorough investigation of this matter. This aptly pointed out that the Treasury has failed to recognise that a "stitch in time saves nine". Regrettably, the official response has largely avoided or rejected the Transport Committee's recommendations - particularly that maintenance expenditure on local roads should be increased by at least 10%.

3.9 Information was obtained from the Department of Transport - for discussion with the European Parliament's Transport Committee last year - about the contributions from the EEC to Great Britain's transport expenditure. This revealed that the contribution had declined from a level of about £350 million per annum in 1980 and 1981 - of which about £270 million in each year had been spent on roads. In 1982, the figure had dropped to approximately £100 million with only about £70 million devoted to roads. It has been ascertained that the contribution for transport purposes this year will be in the region of £250 million per annum. Whilst this must be welcomed, the RAC wishes to be assured that it will be used to raise the total level of road expenditure and will ask the Secretary of State for Transport for information about the specific road projects which will be expedited as a result of the provision of such additional resources.

4. CONCLUSION

4.1 Official figures hereunder show that the ratios of motor tax income and attributable public road costs, for road transport vehicles generally and for cars in particular, have increased substantially during recent years.

OFFICIAL STATISTICS ABOUT ROAD TRACK COSTS SHOWING RATIOS BETWEEN MOTOR TAX REVENUE (EXCLUDING VAT) AND ROAD EXPENDITURE INCLUDING ADMINISTRATION AND TRAFFIC POLICING.

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
Cars: non business	2.5:1	2.6:1	2.8:1	3.2:1	3.2:1	3.4:1
business	2.3:1	2.6:1	2.8:1	3.2:1	3.2:1	3.4:1
Buses and coaches	1.4:1	1.4:1	1.5:1	1.7:1	1.5:1	1.3:1
Light Vans	2.8:1	2.9:1	3.4:1	4.0:1	4.0:1	4.0:1
Goods Vehicles	1.1:1	1.1:1	1.1:1	1.1:1	1.0:1	1.0:1
All Vehicles	2.0:1	2.1:1	2.2:1	2.5:1	2.5:1	2.6:1

The time has come for reversal of this trend. If the 1984 Budget Statement will provide taxation cuts, the RAC contends that motoring taxes rate a high priority for any concessions to be made. It is deplorable that the history of road construction and maintenance in this country has for

Continued overleaf/... ...

so long been "too little and too late"! Surely lessons must by now have been learnt and planning for the future should ensure that the same mistakes will never be made again!

Whether motor taxation is reduced or not, Britain's 25 million drivers and motor cyclists can justifiably expect to obtain "better value for money" - by greatly increased road investment - in return for the immense contribution they make to the National Exchequer, already over £10,000 million per annum.

- - - - - - - - - - -

The Daily Telegraph
Tuesday, October, 11, 1983.

GALLUP POLL

PUBLIC DOUBTS OVER LAW AND ORDER

WITH law and order certain to be one of the main talking points at this week's Conservative party conference, the general public has doubts about its custodians, the police.

Almost one person in two has little, or less, confidence in the ability of the police to solve minor crimes and a majority think the police spend too much time on traffic offences and not enough on burglaries.

The public is also critical of the Government's handling of law and order, but even more critical about its handling of the economy, employment, and the social services.

These are some of the main findings of a recent Gallup Poll conducted exclusively for *The Daily Telegraph*.

People were asked how much confidence they had in the ability of the police to solve minor crimes like burglaries and then major crimes like bank robberies. The replies to these two questions were:

	Minor crimes	Major crimes
Very great	10	14
Considerable	37	53
Little	22	16
Very little	19	9
None at all	11	5
Don't know	1	3

People aged 65 or over have greater confidence in the ability of the police to solve minor crimes than do the under 65s. Whereas 58 per cent of the older group have at least considerable confidence, the figure is around 44 per cent for the younger group.

As for major crimes, the same elderly group has slightly less confidence in the police than do younger people, though the level of confidence is relatively high.

Fair comment

Gallup also asked whether it was a fair comment or not to say of the police that they are not interested in solving minor crimes like burglaries but are more interested in the major crimes.

A similar question was also asked about the comment that the police spent too much time on traffic offences and not enough time on solving burglaries, and the replies to these two questions were:

	Is fair	Is not	Don't know
More interested in major crimes...	42	52	6
Too much time on	56	36	8

present economic policies, while 63 per cent think the policies should be changed in some way. Among Conservatives, 62 per cent support Mrs Thatcher on this question, though 33 per cent would like to see some change in policy.

This finding stems from majority public sentiment that the current economic situation could be solved if the Government really tried to apply the right measures. Almost two in three (62 per cent) support this view, while 29 per cent accept that the current situation represents the kind of problem that no government can really solve.

Conservatives are almost equally divided on this question, 43 per cent seeing the problem as insoluble and 48 per cent saying it could be solved.

Gallup then asked: "In the long term, do you think that the Conservative Government's policies will mean that the economic situation will get better, will get worse, or will remain the same?" The replies were:

	Today	1982
Get better	36	39
Get worse	32	28
Same	27	28
Don't know	5	5

Again the replies divide very much along party lines, with 70 per cent of Conservatives thinking things will get better and 64 per cent of Labour supporters thinking they will get worse. Liberals and Social Democrats are somewhere in between these two extremes, with around twice as many pessimists as optimists.

Despite its attempts to promote a caring image, the Conservative party is thought to be becoming less concerned for the interests of the general on traffic offences and not enough time on solving burglaries, and the replies to these two questions were:

servative party is ... be becoming less concerned for the interests of the general

	Is fair	Is not	Don't know
More interested in major crimes ...	42	52	6
Too much time on traffic offences	56	36	8

... public also has doubts about the Government's handling of the general problem of law and order, as well as other issues. The following table shows the replies about 14 items where a "+" signifies a net approval score and a "—" signifies a net disapproval score.

public. Forty-two per cent think the party is becoming less concerned for the interests of people like themselves, 13 per cent more concerned, and 42 per cent see no change.

On the question of the Government's approach to the

	Today	July 1983	Sept 1982
Defence and armaments	+17	− 6	−13
The Common Market	+17	+10	− 5
Strikes and labour relations	+10	− 7	−19
Law and order	+ 5	− 7	+ 1
Economic and financial affairs generally	+ 1	− 2	−11
Housing	− 1	0	− 3
Immigration	−11	−16	−12
Cost of living and prices	−13	−14	−24
Old age pensions	−21	− 13	− 5
Roads	−25	−30	−24
Taxation	−27	−24	−31
Education	−35	−27	−31
Full employment	−51	−52	−62
The Health Service	−56	−34	−49

Looking at the current survey itself, only on the top three issues, defence, the Common Market, and strikes, does the Government have majority backing. On the bottom seven, mostly social and spending issues, there is substantial disapproval.

This criticism of the Government is echoed by the replies to a question containing nine statements with which people were asked to agree or disagree. The proportions agreeing with each statement are compared in the table below with the same question in August.

important issues facing the country, the public is more evenly divided. Twenty-three per cent say they are becoming more responsible, 27 per cent less responsible, and 46 per cent see no change. Similar findings emerged a year ago.

Local services

On the issue of the privatisation of local services, such as refuse collection, the public is moving away from the Government's policy. A majority (56 per cent) disagree with the idea, with 33 per cent

	Today	August
The Conservatives provide strong leadership	79	85
The Conservatives want to cut back too much on health, education and other services	78	75
Causing unemployment to rise is not an acceptable way to deal with inflation	67	69
The Conservatives are too rigid and inflexible	64	65
The Conservatives look after the interests of the rich, not ordinary people	61	59
The Conservatives have failed to solve Britain's most important problems	59	63
The Conservatives don't care what hardships their policies cause	57	58
The Conservatives are the only party that can control the unions	44	46
The Conservative party has kept its election promises	30	35

The figures have changed little over the past month or so, but the last item could well cause Mrs Thatcher and her Government some concern. Soon after the 1979 election, 48 per cent thought the Conservatives had kept their election promises.

Although this figure halved within two years and 65 per cent were then saying the election promises had not been kept, the current reading shows greater public scepticism at the beginning of Mrs Thatcher's second term.

Even among Conservatives. 52 per cent think the party has kept its election promises but 33 per cent do not think so.

Only one in three (31 per cent) of the general public think that the Government should continue with their

agreeing. Last year the figures were 48 per cent and 43 per cent respectively.

Even more people disagree with the concept that the State provides many services like the health service, social security, and education, which people ought to provide for themselves to some extent. Two in three (68 per cent) disagree with this idea, and 26 per cent agree.

In contrast to the overwhelming majority view a week ago of the Labour party as divided, 61 per cent think the Conservatives are united and 24 per cent divided.

This latest Gallup Poll was conducted between Sept. 29 and Oct. 4 among a nationally representative quota sample of 994 electors.

PPS

MEETING WITH THE RETAIL CONSORTIUM ON 3 FEBRUARY

Present : Chief Secretary
Mr Andren - HM Treasury
Mr Haigh - Inland Revenue
Mr Wilmott - Customs & Excise
Mr Viggers
Mr Paterson, Chairman of Retail Consortium
Mr MacLaurin - Tesco's
Mr Seeney - National Chamber of Trade
Mr Noble - Debenhams
Mr Irish - Spar
Mr Cribb - Freemans
Lord Graham - Parliamentary Committee, Coop Union
Mr Perring - Perrings Furnishings
Mr Rock - Retail Consortium

The meeting discussed the Retail Consortium's Budget representations in their letter of 30 January to the Chancellor.

2. Mr Paterson said that the Consortium had 4 major priorities for the Budget. He invited his colleagues to elaborate.

National Insurance Surcharge

3. The Retail Consortium gave the strongest support to the CBI's request for the abolition of NIS. The cost for the Retail Trade was now in excess of £100m. NIS tended to inhibit employment and it was a particular feature of the retail trade, where the quality of personal service was an important factor, that staff reductions were not efficient in all areas. Service industries, of which retailing was one, were expected to be an important source of new jobs in the future. At a rough estimate, abolition

of NIS would increase employment in the Trade by up to £20,000.

4. The Chief Secretary said it was very useful to have the Consortium's perceptions on this point. But they would not expect him to reveal the Chancellor's plans for the Budget.

Capital Allowances

5. The Retail Consortium said they had supported the Conservative Administration in its aim of curbing inflation. Retailing was a highly competitive industry. Sizeable development programmes were in train which in turn would have a great impact in other sectors eg. builders, shop fitters. Retailers had played a considerable part in supporting UK manufacturing industry by cutting down on imports. The Consortium noted particularly that the hotel industry had been granted capital allowances to help the Tourist Industry. Their view was that their members did as much as hoteliers to further the tourism trade. For all these reasons, they were pressing strongly for capital allowances available to hotel and manufacturing industries to be extended to retailing.

6. The Chief Secretary noted the Consortium's views. He recognised the great contribution retailing made to employment and, as MP for Dover, was particularly conscious of their contribution to tourism. One obstacle to going down the route they suggested was of course, the cost, possibly in excess of £1 billion.

Rates

7. The Consortium noted the Government's sympathetic approach to the problem of high rates. They had made laudable attempts to adjust the system. But the Consortium felt that the fundamental basis of the rating system remained unfair. The valuation system militated particularly against the small retailer whose rates were frequently based on the escalating value of large commercial premises elsewhere in the high street, regardless of the individual traders ability to pay. The retail trade placed great importance on the new rights of consultation announced by Mr Jenkin, which they welcomed. It was important that the form

of these rights was effective and realistic so that retailers would have a counter to those council's who had hitherto been able to ignore business interests because the latter did not vote and had no rights under the rebate system. The Consortium saw a case for the Government introducing special rating reliefs for certain sectors of retailing eg. small rural communities, as they had done for industry in the Enterprise Zones. Similarly the rating of empty property reliefs should be extended to commercial property.

8. The Chief Secretary noted the Consortium's views, which he would convey to Mr Jenkin. He hoped the Retail Consortium had given public support to the Government's action on rate-capping. Generally, he felt it incumbent on local Chambers of Commerce to make sure that local council's were aware of their views on particular rating measures. He was conscious that the voice of local business was not always loudly heard.

9. <u>Direct and Indirect Tax</u>.

The Consortium said that VAT changes had a debilitating and disruptive effect on retailing. The non-food sector had suffered a six per cent volume reduction and considerably reduced profits as a result of changes introduced in 1979. They therefore sought no change or a small reduction in VAT levels in the forthcoming Budget. The reduction in the de minimus level of VAT exempt supplies from 5% to 1% had led retailers to restructure their businesses to get round what they saw as a bureaucratic impost. This was not sensible Government policy and they pressed Ministers to look again at this area. On direct taxation, the Consortium would welcome relief to the low paid through an increase in tax thresholds but they were concerned that changes in direct or indirect taxation should be handled with care. Consumer spending was very sensitive to changes in this area.

10. Concluding the discussion, the Retail Consortium noted that the CBI Survey had credited the distributive trades role in the recent increase in industrial activity. These were not however boom times for retailers. For instance, there was no sign that the closure rate of small retailers was slowing down. Future investment would be held back by eg. changes in interest

rates. The South and the South East were getting a disproportionately high share of such investment. The Government might therefore consider regional help through capital allowances or NIS. The Consortium appreciated the Chief Secretary taking time to meet them. They would welcome, in the future, a closer association with the official side of the Department of Trade and the Treasury.

11. The Chief Secretary thanked the Retail Consortium for their views. He spoke for all his colleagues when he said that Ministers did not underestimate the contribution made by retailers to the Economy, and welcomed the opportunity to hear their views.

MISS J M SWIFT

cc. PPS
PS/Financial Secretary
PS/Economic Secretary
Mr Andren
Mr F Martin
PS/Inland Revenue
PS/Customs & Excise
PS/Secretary of State
for the Environment

Budget rep file

The Retail Consortium

Palladium House, 1 Argyll Street, London W1V 1AD. Tel: 01-734 0682. Telex. 922488 Bureau G Ref RCO

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

CH/EXCHEQUER
REC. 30 JAN 1984 30/1
ACTION FST
COPIES TO

N

30 January 1984

Dear Chancellor,

The Retail Consortium represents 90% of the retail trade. Retailers employ around 2.3 million men and women, which is approximately 11% of the working population.

The retail trade has as much interest, therefore, as any other sector in seeing the continuance of a healthy and substantial economic recovery. The prime engine of economic recovery so far has been the rise in the volume of retail sales. In the period from November 1982 to November 1983 retail sales have risen 5.1% in real terms. Since retail sales undoubtedly represent by far the most important component of final demand in the economy, it is vital that sales in the shops keep running at a healthy level. Clearly a broader based recovery is needed, but a rise in investment will not be long maintained if retail sales are not sufficiently high to justify greater capital expenditure.

The retail trade therefore believes that it would be quite wrong to be complacent about the current level of retail sales. Savings as a percentage of disposable income have come down to around 8%, which is an historically very low level. Moreover, although consumers have taken advantage of the long overdue abolition of hire purchase controls to increase their level of borrowings, this process has probably largely run its course. A gently rising level of real incomes will therefore be necessary to ensure that retail spending continues at its present pace.

/...

PERSONAL TAXATION

We viewed with great concern your suggestion in the November Public Expenditure Review that taxes might actually be raised in the Budget.

We believe that personal taxation starts at far too low a level of income. The personal allowances should therefore be raised to take account of the rate of inflation over the last year. This would particularly help those on low incomes and would help those in work, easing the 'why work' syndrome. In addition lower income families would be likely to spend the money thus helping ensure a continuation of the recovery.

INDIRECT TAXATION

The rate of inflation has eased a great deal over the last few years, helped in no small measure by the efforts of the retail industry to hold down prices. It is vital now that there is no let-up in the battle against inflation. The retail trade will continue to play its part. However, it is also particularly important that nationalised industries do not add to the burden of business overheads by raising their prices disproportionately, whether because of a failure to keep their costs under control or for any other reason. In addition any increase in VAT would seriously affect inflationary expectations as it did in 1979. We therefore strongly urge a continuation of a single rate of VAT and at the very least no increase in the present level of 15%. Indeed a reduction in VAT would be welcomed by the retail industry as an important boost in keeping down prices. It would also serve to sustain consumer expenditure and help keep down wage demands. As such it would be a major help in keeping the recovery going and assist in the vital aim of improving international competitiveness.

NATIONAL INSURANCE SURCHARGE

We welcome the steady reduction from 3½% to 1% in the rate of the national insurance surcharge. However, the time is long overdue for the abolition of this tax on jobs. As heavy employers of labour, the retail trade knows more than most the damaging affect this surcharge has had on job prospects over the last few years. There can be no excuse for further delay, particularly as any reduction in industrial costs is bound to aid industry generally in keeping price rises in check.

INTEREST RATES

We would strongly oppose any suggestion of raising interest rates in response to recent movements in the exchange parity of the pound against the dollar. There is no general evidence

/...

of a loss of confidence in sterling. The only result of a raising of UK interest rates would be to raise the value of sterling against the EMS currencies and possibly against the Japenese Yen. All the evidence suggests that sterling is already at too high a level against these currencies. Furthermore, a rise in bank base rates might well lead to a rise in mortgage rates. It was a sharp fall in mortgage rates which led to increased consumer purchasing power and this has much to do with the recovery in retail sales. Not only would an increase in interest rates dent consumer spending, it would also deal a damaging blow to industrial confidence, which is still very fragile after three very difficult years of recession. The prospects for any increase in capital investment in the circumstances would be negligible.

CAPITAL ALLOWANCES

As you will be aware the retail trade has asked for many years for the extension of capital allowances for retail premises. This is not an example of yet another request for special privileges from an interest group. It is a matter of simple justice. There can be no justification whatever for this persistent bias against the retail trade. We invest heavily in new premises and the modernisation of existing premises. There is no doubt that levels of investment would be far higher if this measure was introduced. Such investment would provide more jobs, not only for shop workers, but also in the construction industry and would therefore provide a significant boost to British firms. We very much hopc that you will choose this year to deal with this long-standing problem.

We look forward to meeting the Chief Secretary on February 3 to discuss the retail trade's views on the economy and, in particular, on the composition of your forthcoming budget.

Yours sincerely,

Colin Paterson

C W Paterson
Chairman

The Retail Consortium

Palladium House, 1 Argyll Street, London W1V 1AD. Tel: 01-734 0682. Telex. 922488 Bureau G Ref RCO

Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury
Parliament Street
London SW1P 3AG

30 January 1984

Dear Mr Rees,

I enclose a copy of a letter from Mr Paterson, the Chairman of the Retail Consortium to the Chancellor of the Exchequer. This will form our submission for the 1984 Budget and we will wish to raise various points contained in it in our discussions with you on Friday 3rd February.

The composition of our delegation is as follows:-

Mr Colin Paterson	Chairman Retail Consortium
Mr Ian MacLaurin	Deputy Chairman/Chairman Designate Tesco Stores
Mr L E S Seeney	Director General National Chamber of Trade
Mr Andrew Noble	Joint Managing Director Debenhams
Mr John Irish	Managing Director Spar (UK) Limited
Mr E F T Cribb	Director Freemans (London) Limited
Mr B Rhodes	Secretary Parliamentary Committee Co-op Union
Mr John R Perring	Chairman Perrings Furnishings Ltd
Mr Patrick Rock	Manager UK Operations Retail Consortium.

Yours sincerely,

Patrick Rock

Patrick Rock
Manager UK Operations

Copy Rt Hon Nigel Lawson Chancellor of the Exchequer

The Royal Institution of Chartered Surveyors

12 Great George Street, Parliament Square, London SW1P 3AD

Telephone 01-222 7000
Telex 915443 RICS G

CH/EXCHEQUER
REC. 22 DEC 1983
ACTION FST. 22/12.
COPIES TO

Our ref H5/BB
Your ref

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

22 December 1983

Dear Chancellor

Proposals for the 1984 Finance Bill

I am pleased to enclose a memorandum prepared by The Royal Institution of Chartered Surveyors setting out a number of proposals for the 1984 Finance Bill.

Yours sincerely

M. J. Chambers

pp

R.W. Baker
Secretary for Public Affairs

Enc:

PROPOSALS FOR THE 1984 FINANCE BILL

A memorandum

by

THE ROYAL INSTITUTION OF CHARTERED SURVEYORS

12 December 1983

12 December 1983 GCPA/Report(83)31

PROPOSALS FOR THE 1984 FINANCE BILL

A memorandum

by

THE ROYAL INSTITUTION OF CHARTERED SURVEYORS

1. INTRODUCTION

1.1 This memorandum by The Royal Institution of Chartered Surveyors sets out a number of measures which the Institution would like to see included in the 1984 Finance Bill.

2. STAMP DUTY

2.1 The Institution has recently outlined its views on the reform of stamp duty in a memorandum prepared in response to an Inland Revenue consultative document, 'The Scope for Reforming Stamp Duties'. In its comments on stamp duty on conveyances and transfers the Institution has supported a switch to a system under which a slice charge would be applied at the lower end of the market on the excess over the £25,000 threshold combined with a small fixed duty. The Institution has also pressed for the stamp duty threshold to be increased to a more realistic level and index-linked. These and other detailed comments are made in a separate RICS memorandum, GCPA/Report(83)20.

3. VALUE ADDED TAX

3.1 The levying of Valued Added Tax on the repair and maintenance of buildings gives rise to numerous anomalies and encourages tax evasion. The Institution believes that the zero-rating of such work would give a much needed boost to the building industry and, at a time when the condition of much of the nation's housing stock is known to be deteriorating, would encourage higher standards of maintenance. The value of building conservation is now generally recognised both in social and economic terms. The zero-rating of repair and maintenance work would remove a major disincentive to the carrying out of such work.

4. CAPITAL GAINS TAX

Indexation of Annual Exemption

4.1 The principle of indexing the annual exempt amount for capital gains was introduced in the Finance Act 1982. We see no reason, however, why the exemption for chattels should not be indexed in the same way as that for other assets. The Institution would welcome the removal of this anomaly.

CGT Relief on Compulsory Purchase

4.2 The Institution has welcomed the introduction of rollover relief in respect of compensation for compulsory purchase but believes that the terms are too restrictive. We do not accept the need for the substituted investment to be limited to land, and would urge that other forms of property should also be acceptable for this purpose, with the proviso that the substituted investment should be of a type approved by the Inland Revenue.

5. CAPITAL TRANSFER TAX

CTT and Woodlands

5.1 Where growing trees are disposed of subsequent to the date of death the deferred CTT liability is currently based on the ultimate disposal proceeds, not on the value at the date of death. This method is contrary to all of the principles upon which CTT is based. Moreover it necessitates management decisions which could undermine good forestry practice. The Institution believes that it would be more equitable for the tax to be based on the value at the date of death, as was the practice with Estate Duty.

5.2 We see this change as important if landowners are to be encouraged to undertake the long-term investment that forestry and woodland maintenance require, despite the modest rates of return.

Modern Buildings on Designated Land

5.3 Under the 1976 (s77) and 1982 (s94) Finance Acts land may be designated either as outstanding in its own right or as essential for the protection of an outstanding building, thereby enjoying relief from Capital Transfer Tax. A problem arises, however, when modern buildings are found on outstanding land. In such cases the official interpretation has been that these buildings should be excluded from the exemption. The RICS would point out that this situation gives rise to complex valuation and administrative problems. For instance, a modern building may be excluded from the exemption whilst the land on which it stands may be included. Moreover it seems unfair to exclude modern buildings which are essential for management of the outstanding land. The RICS would therefore endorse the proposals of the Historic Houses Association that modern buildings should qualify unless they positively detract from the scenic interest of the land (provided that the buildings are essential to the management of the land and occupy less than ten per cent of the total designated area).

6. CAPITAL ALLOWANCES

6.1 The Institution has recently submitted a memorandum to the Inland Revenue outlining suggested reforms in the system of capital allowances for the minerals extraction industries (see GCPA/Report(83)23).

7. THE TAXATION OF AGRICULTURAL HOLDINGS

7.1 The Institution is making a separate submission to the Chancellor setting out its detailed proposals for the reform of the taxation regime governing agricultural holdings.

8. DEVELOPMENT LAND TAX

Interest

8.1 The Institution would reiterate its view that the provisions relating to the charging of interest on unpaid DLT are unfair. Under paragraph 43(1) of Schedule 8 to the Development Land Tax Act 1976, DLT becomes payable either three months from the date of disposal or other triggering event (the reckonable date) or thirty days after the issue of a notice of assessment, whichever is the later. Under paragraph 21 of that Schedule, however, interest on unpaid DLT becomes payable on and from the reckonable date. This situation gives rise to an inequity in that, in those cases where notices of assessment are not issued until after the reckonable date (which is the most usual situation), an additional demand for interest on unpaid tax is included. The taxpayer is thereby penalised for a delay in payment for which he can in no way be held responsible. It is clearly unreasonable to expect the taxpayer to pay before his liability has been quantified and notified. This problem is compounded by the fact that completions of actual disposals may take at least three months after exchange of contracts, leaving the taxpayer with no funds out of which to pay the tax when it becomes legally due.

8.2 The punitive element mentioned above is to be compared with the more equitable provisions for the payment of interest on a CGT liability and the RICS urges strongly that a change is needed. The Institution believes that the best way of overcoming the problem would be for interest charges to start thirty days from the date of the notice of assessment. This would both introduce a greater degree of fairness and bring DLT into line with the rules governing other taxes, none of which has the same penal elements. In this respect we would stress that DLT was originally introduced to play a special role within the context of the Community Land Act, but has now become a general tax like any other. It should therefore be brought more into line with the rules governing other taxes.

Buildings within a single curtilage

8.3 The Institution believes that clarification is needed with regard to the position of free standing buildings erected within a curtilage where the cubic content of the free standing building does not exceed the aggregate of one-third of the cubic content of the remaining buildings. An amendment should make clear that there is no requirement for extensions to be physically attached to one of the existing buildings, in order to qualify for exemption.

Indexation of the Exempt Amount

8.4 The first £50,000 of development value realised in any financial year is generally exempt from DLT. The Institution believes that it would be fair if this annually exempt amount was index-linked, particularly in the light of the decision to introduce the principle of index-linking for other forms of taxation in the Finance Act 1982. Taking into account the rate of inflation since 1979 when the annual exempt amount was last adjusted we would suggest that the new threshold should be £85,000.

Assembled Land

8.5 When there is a disposal (or deemed disposal) of an interest in assembled land it is not possible to adopt different Base Values (i.e. A,B or C) for the constituent parts of the assembly. This can lead to inequitable results and over-taxation, as demonstrated in the example which forms an appendix to this memorandum. The Institution believes that the legislation should be amended to permit, as an alternative to the present rules, the calculation of the Base Value of the relevant interest as the aggregate of the highest Base Values of the constituent interests, each one being taken independently. Schedule 2, paragraph 5 of the Act already provides for separate consideration of each constituent of a land assembly for the purposes of calculating Base A. Accordingly, acceptance of the Institution's suggestion would not require the adoption of any new principle, merely the extension of an existing provision to remedy a particular inequity.

9. FURTHER COMMENT

9.1 The Institution would be pleased to comment further on any of the above proposals.

Appendix to RICS Memorandum
on the 1984 Finance Bill

DEVELOPMENT LAND TAX ON ASSEMBLED LAND - AN EXAMPLE

The taxpayer is the owner of site X, which he acquired in 1920 for £20,000. By 1965 its current use value had increased to £400,000, but, owing to obsolence, by 1983 the CUV had further increased to only £500,000. This site has a market value for redevelopment of £500,000.

In order to carry out a large development, the taxpayer acquires the adjacent site, Y for £1 million, which is its market value for development. It is a bare site and its CUV is negligible.

Assuming there has been no expenditure on improvements and the Special Addition for Base A does not apply, the Base Value calculations (to set against deemed proceeds on commencement of development of £1.5 million) would be as follows:

Base A	Acquisition costs: site X	20,000
	site Y	1,000,000
	Increase in CUV(site X)	100,000
		1,200,000
Base B	CUV plus 15%	575,000
Base C	Acquisition cost as above	1,020,000
	15%	153,000
		1,173,000

Proceeds exceed the Base Value by £327,000 and tax of £196,000 would be payable.

This is considered inequitable for the following reasons.

1) The development value attributable to site X is not greater than its CUV, and the development value attributable to site Y is no greater than the cost to the developer, and no tax should therefore be payable. No tax would have been payable if the sites (which have the same aggregate market value as the combined site) had been developed separately.

2) The 'cost' of the land to the developer consists of the abandoned CUV on site X and the cash cost of site Y. There is no good reason why he should not be able to bring both into account.

3) On the sale of site Y, the vendor will have paid DLT on proceeds of £1 million, and it follows that the purchaser should be allowed to bring his cost of £1 million into account <u>irrespective</u> of how he chooses to deal with site X.

4) The anomaly would of course be eliminated if Base A adopted CUV at acquisition rather than the arbitrary date of 6 April 1965. We recognise that this illogical rule does avoid considerable administrative problems but it is wrong if a taxpayer is penalised as in this example, for the sake of such administrative convenience.

5) The effect of adopting the Institution's suggestion is illustrated below:

Original site

Base B	CUV plus 15%	575,000

Adjacent site

Base C	Acquisition cost plus 15%	1,150,000
	Aggregate base value	1,725,000

Budget rep file

PATRONS: Her Majesty the Queen, Her Majesty Queen Elizabeth the Queen Mother

RNIB

helps all Britain's blind people

Incorporated by Royal Charter
Registered in accordance with the National Assistance Act 1948 and the Charities Act 1960 Reg. No. 226227

Royal National Institute for the Blind
224 Great Portland Street London W1N 6AA
Telephone 01-388 1266 Telegrams Pharnib London W1

HM TREASURY — MCU	
REC'D.	-6 FEB 1984
ACTION	FST
	42/2ND.
SIGNATURE	
REF. No.	14714

your reference

our reference LH/hc/G58(a)

31 January 1984

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

Dear Mr. Lawson,

A Blindness Allowance

As you know, our three organisations have been asking for an allowance to compensate for the extra costs of blindness for many years now. We last wrote to you personally in July 1980. Recently we met Mr. Fowler on this issue.

Now that you are working on your 1984 budget we are writing to you again. We hope that you will not simply dismiss our case as one you have heard before without first considering seriously our argument in the light of the current situation.

Your government has said that the case for a Blindness Allowance is unanswerable but that it hopes to introduce a general benefit for all disabled people when the money is available. We would welcome a General Disability Allowance. However, this appears some way off and as there are now allowances for other specific disabilities, such as the Mobility Allowance for people who cannot walk, we hope you will support a Blindness Allowance now. Such an allowance could be subsumed in a General Disability Allowance in the future. The proposed new Severe Disablement Allowance, affecting as it does, only people of working age, would not be relevant to most blind people, three-quarters of whom, as you know, are over retirement age.

FINANCIAL SECRETARY	
REC.	-6 FEB 1984
~~ACTION~~	PPS CST MST EST Sir P Middleton
COPIES TO	Mr Cassell Mr Monger
	Mr RIG Allen Mr Griffiths
	Mr F Martin Ms Seammen
	Mr Rayner Mr Lord

PS/IR
PS/C+E

cont . . .

A Blindness Allowance would save the costs of the special tax concession - which helps only those blind people fortunate enough to have sufficient income to pay tax - and save the additional supplementary benefit for those suffering the severest hardship. As the majority of blind people are registered with their local authorities there need be no lengthy delays for identifying legitimate recipients.

May we urge you to introduce in your next Budget an allowance which very many people believe exists and which most would acclaim as the sort of compassionate gesture expected in a caring society. Indeed, almost half-a-million people signed our 1980 petition to Parliament. We cannot see how in all fairness you can refuse to introduce a Blindness Allowance now.

Yours sincerely,

Ian Bruce

Ian Bruce
Director General, Royal National Institute for the Blind

and

M Barrett Michael Barrett, General Secretary,
National League of the Blind and Disabled

and

David Mann

David Mann, President,
National Federation of the Blind

219 – 5482.

PAUL MARLAND M.P.

HOUSE OF COMMONS
LONDON SWIA OAA

Budget reps folder

HM TREASURY – MCU
REC'D. 19 JAN 1984 23/1
ACTION Ch/Ex Registry 82/2
SIGNATURE
REF No.

17th January, 1984.

Dear Nigel,

I write to ask if you, or one of your Ministers, would be prepared to see a small delegation from the Road Haulage Association.

The case they want to put to the Government is outlined in the attached note.

I should be enormously grateful if you would see them and if you are agreeable, perhaps your Private Office would get in touch with my Secretary to discuss dates.

Best regards
Paul

219 5482

The Rt. Hon. Nigel Lawson, M.P.,
HM Treasury,
Whitehall,
London, S.W.1.

CH/EXCHEQUER
REC. 23 JAN 1984 23/1
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ROAD HAULAGE ASSOCIATION - CASE FOR LOWER TAXATION ON HEAVY GOODS VEHICLES IN THE UNITED KINGDOM

During the last four years there has been a tremendous increase in running costs of lorries over 7.5 metric tons due to higher taxation, which is found through taxation on fuel coupled with the road fund licence. The present situation is that tax paid by British lorries on UK roads is probably one of the highest in the world, and certainly the highest in Europe. All commodities from raw product to finished article are carried by road and from known sources 85-90% of commodities in the UK are carried by road. For British Industry to remain competitive and win orders and for domestic commodities to be competitively priced, it is essential that costs are stable and at the present time transport costs in the UK are at a disadvantage to its European competitors owing to taxation. Here are the price movements on road fund licences from 1980 onwards:-

1980	Road Fund Licence Up By	30%	Netherlands	- 32 tonne	£ 890.74
	Inflation Up By	15%		- 38 tonne	£ 985.55
1981	Road Fund Licence Up By	15.15%	W. Germany	- 32 tonne	£1720.95
	Inflation Up By	12%		- 38 tonne	£2364.89
1982	Road Fund Licence Up By	22%	U.K.	- 32 tonne	£2290
	Inflation Up By	5%		- 38 tonne	£2940
1983	Road Fund Licence Up By	23%	France	- 4 axle	£ 506.77
	Inflation Up By	5%		- 5 axle	£ 203.38

COST COMPARISON ON DIESEL FUEL IN THIS COUNTRY AND IN EEC COUNTRIES

Price of 1,000 litres of diesel at 15 May 1983

	Tax	US dollars Basic Price	Total Price inc. Tax
Belgium	197.97	257.57	455.54
Denmark	117.88	292.61	407.06
Germany	237.50	264.71	502.21
Greece	51.27	234.65	285.92
France	228.84	270.28	499.12
Ireland	331.05	330.61	661.66
Italy	117.04	271.42	388.46
Luxembourg	88.54	257.49	346.04
Netherlands	133.67	264.45	398.12
United Kingdom	292.56	295.06	587.63

(Taken from Statistical Section - House of Commons Library.

From these statistics only the Republic of Ireland pay a higher rate of tax on their fuel but the road fund tax for a 38 ton artic weighing 14 tons unladen, costs only £713 per annum compared with £2940 in the UK. The British vehicle is therefore the highest taxed vehicle on the road in Europe.

Typical tax costs for a British vehicle taking an annual mileage of 50,000 @ 7 miles to the gallon, which is 63 pence per gallon (excluding VAT) = £4500 + £2940 = £7440 paid in tax per annum, which is about 25% of the total running costs of the vehicle.

During the last four years, the profitability of running Heavy Goods Vehicles has practically diminished. The Road Haulage Industry is a major employer, particularly in rural areas which are dependant on the Heavy Goods Vehicle to move its goods. The Industry is mainly controlled by private capital, run by Owner/Managers who personally know the staff they employ. There has been many redundancies of long standing staff within the Industry and the trend should be averted to stabilise the present situation, so that if industry shows signs of recovery there is a competitive, quality service to offer for the movement of goods. Manufacturers and their Agents, particularly firms such as British Leyland, are dependent upon our success for reinvestment in purchasing new capital equipment, and our failure affects the vehicle manufacturing industries and their suppliers.

Since the recent increase in road fund tax there is an element, unfortunately, that now evade payment of road fund tax, and it has been suggested in the technical press that this figure runs into £3-4 million per annum. It is felt that the taxation funding should be looked at again, not only to lower the tax but to shift more from the road fund tax towards tax on fuel itself, which it is believed would be more useful in obtaining a proper measure of taxation from everyone.

Present EEC regulations which have lowered the driving hours from 10-8 hours over the past four years, coupled with little flexibility in the driving hours, has not helped the efficiency of the road transport industry. Unless the Road Transport Industry receives some stimulant further run down of the Industry and less taxation for the Government could result, with the additional burden of greater unemployment with benefits to sustain.

A recent survey by the Transport & Road Research Laboratory has proven that the Heavy Goods Vehicle pays over and above its fair share of taxation and it is hoped this will be reflective in some reduction in taxation on the Heavy Goods Vehicle in the next Budget proposals for 1984.

R.N. CULLIMORE

PAST WESTERN AREA CHAIRMAN
STROUD CHAIRMAN

Our Ref: RNC/WC

Mr. F. J. Plaskett,
Director-General,
Road Haulage Association Ltd.,
Roadway House,
104, New Kings Road,
London.
SW6 4LN

17th December, 1983

Dear Freddie,

I enclose a copy of the submission I have given to Paul Marland, M.P., for West Gloucestershire and Sir Anthony Kershaw, to assist them in obtaining an audience with the Chancellor of the Exchequer in the New Year, to try to get a better deal for the Road Haulage Industry.

As you are aware, I sit on the C.B.I. Smaller Firms Council and at a recent meeting in London, I met Mrs. Anne Winterton, M.P. for Congleton, who is very much pro-lorry having tried with her husband Nicholas, M.P. for Macklesfield, to assist Fodens prior to take over by Packar, United States. As you no doubt know, of the sixty-two submissions C.B.I. have made to the Chancellor, we have been supported by C.B.I. and hopefully, this will add weight to our cause.

George Thirwall who is the Director-General of S.A.G.A., where I am a National Council representative, hopes to bring pressure to bear on BMP so that we have a lot of support.

Would you please be good enough to send a copy of my submission to Bert Nealey, and hopefully after the Christmas recess we may be able to get together once I have heard from Paul Marland. I trust you feel refreshed from your extended stay in Marbella and I send to you and all the staff at R.H.A. my best wishes for Christmas and the New Year.

Yours sincerley,

R. N. Cullimore,
Managing Director.

Enc.

Our Ref: RNC/WC/

Mrs. A. Winterton, M.P.,
House of Commons,
London.
SW1A 0AA

8th December, 1983

Dear Mrs. Winterton,

Thank you for sending the cutting with reference to Fodens. It was refreshing for me to meet an M.P. who understands both the problems of private business and the lorry. Apart from my work on C.B.I. I am a senior member of the Western District Road Haulage Association, and a past Chairman. I have been supported by my own M.P., Sir Anthony Kershaw, and also Mr. Paul Marland, M.P. for West Gloucestershire.

I hope it may be possible, in the New Year, for me to lead a small delegation to see the Chancellor for our case on lower taxation on Heavy Goods Vehicles. I enclose my submission and would be grateful for both your support and that of your husband, and perhaps you may be good enough to speak to your Gloucestershire colleagues. I also enclose a photocopy of an article written about my Company a few years ago, and our long involvement with Fodens which, unfortunately, has not been the same since David and Edwin Foden have left the Company.

I hope it may be possible to see you on some future occasion and should you ever be passing through Gloucestershire, I would be more than pleased to see you.

Thanking you for your kind support.

Yours sincerely,

R. N. Cullimore,
Managing Director.

Encs.

For Budget app
folder

'The Royal Institution of Chartered Surveyors

12 Great George Street, Parliament Square, London SW1P 3AD

Telephone 01-222 7000
Telex 915443 RICS G

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Our ref H5/BB
Your ref

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

22 December 1983

Dear Chancellor

Proposals for the 1984 Finance Bill

I am pleased to enclose a memorandum prepared by The Royal Institution of Chartered Surveyors setting out a number of proposals for the 1984 Finance Bill.

Yours sincerely

M. J. Chambers

pp

R.W. Baker
Secretary for Public Affairs

Enc:

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Mr Griffiths
Mr F Martin
Mr Lord
PS/IR
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PROPOSALS FOR THE 1984 FINANCE BILL

A memorandum

by

THE ROYAL INSTITUTION OF CHARTERED SURVEYORS

12 December 1983

[illegible]8 December 1983 GCPA/Report(83)31

PROPOSALS FOR THE 1984 FINANCE BILL

A memorandum

by

THE ROYAL INSTITUTION OF CHARTERED SURVEYORS

1. INTRODUCTION

1.1 This memorandum by The Royal Institution of Chartered Surveyors sets out a number of measures which the Institution would like to see included in the 1984 Finance Bill.

2. STAMP DUTY

2.1 The Institution has recently outlined its views on the reform of stamp duty in a memorandum prepared in response to an Inland Revenue consultative document, 'The Scope for Reforming Stamp Duties'. In its comments on stamp duty on conveyances and transfers the Institution has supported a switch to a system under which a slice charge would be applied at the lower end of the market on the excess over the £25,000 threshold combined with a small fixed duty. The Institution has also pressed for the stamp duty threshold to be increased to a more realistic level and index-linked. These and other detailed comments are made in a separate RICS memorandum, GCPA/Report(83)20.

3. VALUE ADDED TAX

3.1 The levying of Valued Added Tax on the repair and maintenance of buildings gives rise to numerous anomalies and encourages tax evasion. The Institution believes that the zero-rating of such work would give a much needed boost to the building industry and, at a time when the condition of much of the nation's housing stock is known to be deteriorating, would encourage higher standards of maintenance. The value of building conservation is now generally recognised both in social and economic terms. The zero-rating of repair and maintenance work would remove a major disincentive to the carrying out of such work.

4. CAPITAL GAINS TAX

Indexation of Annual Exemption

4.1 The principle of indexing the annual exempt amount for capital gains was introduced in the Finance Act 1982. We see no reason, however, why the exemption for chattels should not be indexed in the same way as that for other assets. The Institution would welcome the removal of this anomaly.

CGT Relief on Compulsory Purchase

4.2 The Institution has welcomed the introduction of rollover relief in respect of compensation for compulsory purchase but believes that the terms are too restrictive. We do not accept the need for the substituted investment to be limited to land, and would urge that other forms of property should also be acceptable for this purpose, with the proviso that the substituted investment should be of a type approved by the Inland Revenue.

5. CAPITAL TRANSFER TAX

CTT and Woodlands

5.1 Where growing trees are disposed of subsequent to the date of death the deferred CTT liability is currently based on the ultimate disposal proceeds, not on the value at the date of death. This method is contrary to all of the principles upon which CTT is based. Moreover it necessitates management decisions which could undermine good forestry practice. The Institution believes that it would be more equitable for the tax to be based on the value at the date of death, as was the practice with Estate Duty.

5.2 We see this change as important if landowners are to be encouraged to undertake the long-term investment that forestry and woodland maintenance require, despite the modest rates of return.

Modern Buildings on Designated Land

5.3 Under the 1976 (s77) and 1982 (s94) Finance Acts land may be designated either as outstanding in its own right or as essential for the protection of an outstanding building, thereby enjoying relief from Capital Transfer Tax. A problem arises, however, when modern buildings are found on outstanding land. In such cases the official interpretation has been that these buildings should be excluded from the exemption. The RICS would point out that this situation gives rise to complex valuation and administrative problems. For instance, a modern building may be excluded from the exemption whilst the land on which it stands may be included. Moreover it seems unfair to exclude modern buildings which are essential for management of the outstanding land. The RICS would therefore endorse the proposals of the Historic Houses Association that modern buildings should qualify unless they positively detract from the scenic interest of the land (provided that the buildings are essential to the management of the land and occupy less than ten per cent of the total designated area).

6. CAPITAL ALLOWANCES

6.1 The Institution has recently submitted a memorandum to the Inland Revenue outlining suggested reforms in the system of capital allowances for the minerals extraction industries (see GCPA/Report(83)23).

7. THE TAXATION OF AGRICULTURAL HOLDINGS

7.1 The Institution is making a separate submission to the Chancellor setting out its detailed proposals for the reform of the taxation regime governing agricultural holdings.

8. DEVELOPMENT LAND TAX

Interest

8.1 The Institution would reiterate its view that the provisions relating to the charging of interest on unpaid DLT are unfair. Under paragraph 43(1) of Schedule 8 to the Development Land Tax Act 1976, DLT becomes payable either three months from the date of disposal or other triggering event (the reckonable date) or thirty days after the issue of a notice of assessment, whichever is the later. Under paragraph 21 of that Schedule, however, interest on unpaid DLT becomes payable on and from the reckonable date. This situation gives rise to an inequity in that, in those cases where notices of assessment are not issued until after the reckonable date (which is the most usual situation), an additional demand for interest on unpaid tax is included. The taxpayer is thereby penalised for a delay in payment for which he can in no way be held responsible. It is clearly unreasonable to expect the taxpayer to pay before his liability has been quantified and notified. This problem is compounded by the fact that completions of actual disposals may take at least three months after exchange of contracts, leaving the taxpayer with no funds out of which to pay the tax when it becomes legally due.

8.2 The punitive element mentioned above is to be compared with the more equitable provisions for the payment of interest on a CGT liability and the RICS urges strongly that a change is needed. The Institution believes that the best way of overcoming the problem would be for interest charges to start thirty days from the date of the notice of assessment. This would both introduce a greater degree of fairness and bring DLT into line with the rules governing other taxes, none of which has the same penal elements. In this respect we would stress that DLT was originally introduced to play a special role within the context of the Community Land Act, but has now become a general tax like any other. It should therefore be brought more into line with the rules governing other taxes.

Buildings within a single curtilage

8.3 The Institution believes that clarification is needed with regard to the position of free standing buildings erected within a curtilage where the cubic content of the free standing building does not exceed the aggregate of one-third of the cubic content of the remaining buildings. An amendment should make clear that there is no requirement for extensions to be physically attached to one of the existing buildings, in order to qualify for exemption.

Indexation of the Exempt Amount

8.4 The first £50,000 of development value realised in any financial year is generally exempt from DLT. The Institution believes that it would be fair if this annually exempt amount was index-linked, particularly in the light of the decision to introduce the principle of index-linking for other forms of taxation in the Finance Act 1982. Taking into account the rate of inflation since 1979 when the annual exempt amount was last adjusted we would suggest that the new threshold should be £85,000.

Assembled Land

8.5 When there is a disposal (or deemed disposal) of an interest in assembled land it is not possible to adopt different Base Values (i.e. A,B or C) for the constituent parts of the assembly. This can lead to inequitable results and over-taxation, as demonstrated in the example which forms an appendix to this memorandum. The Institution believes that the legislation should be amended to permit, as an alternative to the present rules, the calculation of the Base Value of the relevant interest as the aggregate of the highest Base Values of the constituent interests, each one being taken independently. Schedule 2, paragraph 5 of the Act already provides for separate consideration of each constituent of a land assembly for the purposes of calculating Base A. Accordingly, acceptance of the Institution's suggestion would not require the adoption of any new principle, merely the extension of an existing provision to remedy a particular inequity.

9. FURTHER COMMENT

9.1 The Institution would be pleased to comment further on any of the above proposals.

Appendix to RICS Memorandum
on the 1984 Finance Bill

DEVELOPMENT LAND TAX ON ASSEMBLED LAND - AN EXAMPLE

The taxpayer is the owner of site X, which he acquired in 1920 for £20,000. By 1965 its current use value had increased to £400,000, but, owing to obsolence, by 1983 the CUV had further increased to only £500,000. This site has a market value for redevelopment of £500,000.

In order to carry out a large development, the taxpayer acquires the adjacent site, Y for £1 million, which is its market value for development. It is a bare site and its CUV is negligible.

Assuming there has been no expenditure on improvements and the Special Addition for Base A does not apply, the Base Value calculations (to set against deemed proceeds on commencement of development of £1.5 million) would be as follows:

Base A	Acquisition costs: site X	20,000
	site Y	1,000,000
	Increase in CUV(site X)	100,000
		1,200,000
Base B	CUV plus 15%	575,000
Base C	Acquisition cost as above	1,020,000
	15%	153,000
		1,173,000

Proceeds exceed the Base Value by £327,000 and tax of £196,000 would be payable.

This is considered inequitable for the following reasons.

1) The development value attributable to site X is not greater than its CUV, and the development value attributable to site Y is no greater than the cost to the developer, and no tax should therefore be payable. No tax would have been payable if the sites (which have the same aggregate market value as the combined site) had been developed separately.

2) The 'cost' of the land to the developer consists of the abandoned CUV on site X and the cash cost of site Y. There is no good reason why he should not be able to bring both into account.

3) On the sale of site Y, the vendor will have paid DLT on proceeds of £1 million, and it follows that the purchaser should be allowed to bring his cost of £1 million into account irrespective of how he chooses to deal with site X.

The anomaly would of course be eliminated if Base A adopted CUV at acquisition rather than the arbitrary date of 6 April 1965. We recognise that this illogical rule does avoid considerable administrative problems but it is wrong if a taxpayer is penalised as in this example, for the sake of such administrative convenience.

5) The effect of adopting the Institution's suggestion is illustrated below:

<u>Original site</u>

<u>Base B</u>	CUV plus 15%	575,000

<u>Adjacent site</u>

<u>Base C</u>	Acquisition cost plus 15%	1,150,000
	Aggregate base value	1,725,000

The Royal Institution of Chartered Surveyors

12 Great George Street, Parliament Square, London SW1P 3AD

Telephone 01-222 7000
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Our ref H2/JAS
Your ref

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

14 December 1983

Dear Mr Lawson

TAXATION OF AGRICULTURAL HOLDINGS

I am pleased to enclose a memorandum prepared by the Royal Institution of Chartered Surveyors outlining the case for fundamental reform of the taxation regime governing the letting of agricultural land.

In the recent debates on the Agricultural Holdings Bill the Government has stressed its commitment to reviving the let sector in agriculture. The Institution does not believe that any significant revival can take place in the absence of the fiscal reforms outlined in our memorandum.

I am also sending a copy of this memorandum to the Minister of Agriculture, Fisheries and Food.

Yours sincerely

M. J. Chambers

R W BAKER
Secretary for Public Affairs

FINANCIAL SECRETARY
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THE TAXATION OF
AGRICULTURAL HOLDINGS

A memorandum by

THE ROYAL INSTITUTION
OF CHARTERED SURVEYORS

14 December 1983

14 December 1983 GCPA/Report(83) 28

THE TAXATION OF AGRICULTURAL HOLDINGS

A memorandum by

THE ROYAL INSTITUTION OF CHARTERED SURVEYORS

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1. PRELIMINARY REMARKS

1.1 The Agricultural Holdings Bill, which is now before Parliament, contains a number of useful measures. However, it stands no chance of achieving its stated aim of stemming the decline in the landlord and tenant system unless it is quickly followed up by fiscal changes designed to remove the present disincentive for owners to let their land.

1.2 This memorandum sets out the changes that are needed. It has been prepared by Chartered Surveyors with experience of all aspects of agricultural land holding and land management.

2. INTRODUCTION

The fundamental reason for the decline of the let sector lies in the great difference between the value of vacant possession and tenanted land. So long as a significant vacant possession premium exists then most owners will be reluctant to let (although there may be some landowners who will nevertheless be prepared to do so on the basis of very long term considerations). Clearly the narrower the vacant possession premium can be made the greater will be the likelihood of increased lettings. One of the principal elements in narrowing the 'gap' must be the fiscal reform of the let sector. In this memorandum we press strongly for the treatment of letting as a business activity so as to give greater parity with the fiscal benefits enjoyed by owner occupation.

3. THE DECLINE OF THE LET SECTOR

3.1 There is general agreement that the existence of a sizeable let sector is vital to the well-being of the agricultural industry. The Northfield Committee of Inquiry into the Acquisition and Occupancy of Agricultural Land unanimously concluded that "there is a good case for retaining a healthy and reasonably substantial let sector".

They estimated that the let sector accounted for 35-40% of the agricultural area of Great Britain. "All of us" they went on "would willingly settle for the continuance of a let sector of about this size and most of us would certainly not want to see it fall to less than 20-25% under any circumstances". In the intervening years since the Committee reported the decline of the let sector has continued apace.

3.2 In its recent report, 'Contractual Relationships in Farming', the Royal Institution of Chartered Surveyors outlined the reasons for the decline of the let sector. These have been recounted many times and are well understood (see extract from 'Contractual Relationships in Farming, appended).

3.3 The Institution has welcomed the Capital Transfer Tax reliefs granted since 1979, without which the decline of the let sector might have been still more severe.

4. REVIVING THE LET SECTOR

4.1 The Institution has repeatedly stressed, most recently in its report, 'Contractual Relationships in Farming', that if the decline of the let sector is to be arrested, action is necessary on a number of fronts. There must be fundamental modifications to the present legislation governing agricultural tenancies and in addition, the present fiscal disincentives to letting must be removed.

4.2 It is the view both of the Institution and of many others within the agricultural industry that the changes outlined in the Agricultural Holdings Bill (as published) together with the amendments likely to be accepted will do little or nothing to restore confidence in the landlord and tenant system. This makes it all the more imperative that the taxation regime should be reformed so as to give the landlord and tenant system a real chance of revival.

4.3 A stark choice has to be made. Either measures must be taken to make letting a more economically acceptable proposition or the tenanted sector will continue to decline, probably at an accelerating pace. At present it seems that the let sector will be allowed to wither away by default, amid a welter of protestations about its indispensability.

5 TREATMENT OF LET LAND AS A BUSINESS ACTIVITY

The Case for treatment as a business activity

5.1 The central element in any plan for fiscal reform must be the treatment of let land as a business activity so as to put it at least on a par with the owner-occupied sector. There is a very cogent argument for treating the letting of land as a business activity, the validity of which was recognised by the Northfield Committee which commented: "It is generally agreed that the management of agricultural land requires particular skills and experience and that this distinguishes it from the management of many other types of private property. For that reason some of us doubt whether those who manage other forms of property which might be regarded as an investment could reasonably claim concessions merely on the grounds that agricultural landlords have made out a good case" (Para 593, p215).

5.2 Let agricultural land can be differentiated from other types of 'investment' in various ways. In the first place, the agricultural landlord is not a mere rentier. He provides not just land but the raw material from which production is derived. The relationship between an agricultural landlord and tenant is one in which there is mutual obligation and trust. The tenant undertakes the farming operation and the landlord actively manages his land. An essential balance is thereby struck between the need to maximise the short-term productivity of the farm and the need to maintain its long-term fertility and general improvement. Far from having a passive role many owners play the major part in the provision of capital, the carrying out of repairs and the periodic re-equipment that is required. Frequently an owner has an involvement which goes far beyond the management of his land, encouraging non-agricultural activity such as conservation, amenity planning, and rural employment as well as providing services and recreational facilities for the community.

5.3 We recognise that not all owners are able to play as active a management role as they would wish because of the present fiscal disincentives and other factors which tend to undermine confidence. We have considered whether some reasonable test could be devised to distinguish those landlords who are actively involved from those who are not. It would be theoretically possible to devise various tests, but none of them is likely to be practicable. The degree of complexity involved in any test would be unacceptable and the manpower resources required to operate it would be formidable. Accordingly we believe that the treatment of letting as a business activity should apply to all owners of let agricultural land.

<u>Comparison of the let and owner occupied sectors</u>

5.4 The inequality in the fiscal treatment of the let and the owner - occupied sectors is illustrated in the table set out overleaf.

<u>Tax Implications</u>

5.5 The Institution believes then that the landlord is sufficiently an occupier of the land to qualify for business relief in the same way as an owner-occupier. If the letting of land were to be treated as a business activity then several tax consequences would naturally flow without any extensive new legislation. These can be considered in relation to each tax.

COMPARISON OF THE LET AND OWNER - OCCUPIED SECTORS

	FORM OF TAX	THE LET SECTOR	THE OWNER/ OCCUPIER SECTOR
	INCOME TAX		
1.	Rate of Tax	Subject to 15% surcharge in basic rates	Basic rates apply
2.	Averaging	None	Averaging available from year to year
3.	Interest	Only limited relief	Full relief available
4.	Assessment	Current year assessment/in advance of year end	Preceeding year basis of assessment/in arrears
5.	Relevant expenditure	Partial relief available	Full relief available
	CAPITAL TRANSFER TAX		
1.	Rate of relief	Thirty per cent relief available	Fifty per cent relief available
2.	Ownership qualification	Seven years	Two years
	CAPITAL GAINS TAX		
1.	Rollover relief	Not available	Fully available
2.	Retirement relief	Not available	Available
	VALUE ADDED TAX		
1.	Reclaim	Not available	Available

Income Tax

5.6 Rate of Tax - Whilst the owner occupied sector is liable to income tax at the basic rate, the let sector is subject to a 15 per cent investment income surcharge on the basic rate. Treatment as a business activity would remove this disparity.

5.7 Averaging - Although a landlord's rental income is generally static, his expenditure on, say, farm repairs and improvements may be very volatile. Hence his net income is liable to fluctuate markedly from year to year. Treatment as a business activity would enable owners to average their incomes over a two year period as working farmers have been able to do since 1978, thus alleviating the problems posed by an unusually heavy expenditure falling in any given year.

5.8 Interest on borrowing - A landlord is entitled to tax-deductible borrowing only for certain eligible purposes. A trading deficit is not one of them. If business status were accorded to letting then all borrowing for business purposes would become eligible for tax deductible borrowing.

5.9 Assessment - A landlord is assessed for tax on a current year basis in advance of his actual liability being known whereas an owner - occupier is assessed on the basis of the preceding year. Treatment of letting as a business activity would remove this inequality.

5.10 Relevant expenditure - If letting were treated as a business activity all expenditure properly incurred on the running of the business would become eligible.

Value Added Tax

5.11 Business relief for letting would also provide a means by which owners could reclaim VAT paid on repairs and maintenance. The present inability of owners to reclaim VAT on such expense is a further disincentive to let. Moreover it necessitates major manpower resources being devoted to VAT assessment both on the part of the Inland Revenue and that of the owner. The Institution fully endorses the Northfield Committee's recommendation that "landowners should be enabled to recover all VAT paid for repairs and maintenance work." (In other submissions the Institution has, repeatedly pressed the case for the exemption from VAT of all building repair work, not only agricultural).

Capital Gains Tax

5.12 Rollover relief At present owners are not entitled to rollover relief in respect of capital gains tax. As many landlords provide capital for farm improvements it would also be equitable if they were able to rollover the CGT chargeable gain when let land is sold and to reinvest the proceeds in either the purchase or improvement of other let land. Such a move would help both to stabilise the let sector and to improve the general efficiency of farming within it.

5.13 Retirement relief Up to £100,000 can be exempted from CGT liability where an owner-occupier disposes of a business on retirement. This relief is not available, however, to landlords. Treatment of let land as a business activity would enable landlords to claim relief on retirement in the same way as owner-occupiers, thus enabling a younger generation to assume the management of land at the most appropriate time.

Capital Transfer Tax

5.14 Rate of relief In order to place let land on an equal footing with the owner - occupied sector the same reliefs should be available. Whereas CTT relief in the owner-occupied sector is currently 50 per cent, it remains) at only 30 per cent for the let sector.

5.15 Qualifying period for relief Equalisation of the let and owner - occupied sectors would similarly eliminate the disparity in the qualifying period for relief. At present, to qualify for relief, an owner-occupier must have occupied the land for two years preceding the transfer. In the case of a landlord the period is seven years. We can see no justification for this as the granting of a tenancy (even on a fixed-term basis) involves a relatively long-term commitment on the part of the owner.

6. OTHER PROPOSED TAX REFORMS

Value of a tenancy

6.1 The attempt by the Inland Revenue to place a value on a tenancy despite the fact that agricultural leases are usually non-assignable is a matter of major concern to the industry. This problem poses a particular difficulty in the case of sale and leaseback arrangements (under which an owner-occupier sells his holding but remains as a tenant, thereby raising funds for investment in working capital for the farm or of other nearby land). Such arrangements are of great importance in the farming industry and the present uncertainty is dissuading owner-occupiers from considering this option. Unless this difficulty is overcome, one of the few ways in which land has been entering the let sector will be removed.

The let farm house

6.2 Improvements on a let farm are generally eligible for relief with the exception of improvements to a let farm house where two-thirds are disallowed on the grounds that this represents the private element of occupation. This exception for improvements to a let farm house is inequitable because the prime beneficiary of the improvements is not the landlord, but the tenant. The Institution would urge that repairs to a let farm house should qualify for relief in the same way as other farm repairs.

7. CONCLUSION

There is no simple answer to the problem of reviving the let sector. Just as its decline has stemmed from a number of factors so, as we have stressed in this memorandum, its revival must equally depend on progress on a number of fronts. If all of the fiscal measures outlined in this memorandum were to be adopted, and the ability to grant fixed term tenancies was conceded, there would be a strong likelihood of a significant upturn in new lettings. However, the decision to let inevitably hinges on the question of confidence and the landowner's decision in this regard will be influenced by many factors including the general political climate and the overall profitability of the industry. Nevertheless, if the revival of the let sector is to stand any chance at all it is essential that the legislative and fiscal disincentives to letting introduced over the last forty years should be substantially removed. It is only by these means that the wide difference in value between vacant possession land and let land can be narrowed. In its recent Finance Acts and in its decision to introduce an Agricultural Holdings Bill the Government has provided evidence that it appreciates the need for reform. The Institution urges that the Government should press on with the work that it has begun and, as time is of the essence, adopt a much more radical approach in the cause of reviving the let sector.

Appendix

CONTRACTUAL RELATIONSHIPS IN FARMING

The following is an extract from a recent RICS Report, 'Contractual Relationships in Farming', issued in May 1983.

4. THE LANDLORD AND TENANT SYSTEM

4.1 As the preceding section has made clear, the size of the let sector has been declining. Yet, despite the dearth of new lettings, the landlord and tenant system continues to command widespread support among the farming community. The RICS, too, recognises that the system has many intrinsic merits. It enables the cost of capital input and maintenance to be shared by two parties, and it is a tried and tested system which, over a long period of time, has evolved rules which are familiar, respected and widely understood. Moreover, the existence of a healthy let sector encourages the preservation of a stable rural community and thereby contributes to the maintenance of rural services.

4.2 Given the support that it enjoys, why then has the landlord and tenant system been in decline? The key factors, set out in no particular order of importance, would seem to be:

(i) fiscal discrimination against the owner of let land as compared with the owner occupier, namely in the operation of capital transfer tax (and its forerunner, estate duty), capital gains tax, value added tax and income tax;

(ii) statutory security of tenure and family succession under which a tenancy may be protected for three generations;

(iii) a substantial price differential between vacant and tenanted land because of strong competition for vacant land from successful farmers seeking to expand in a period of relatively profitable farming and to take advantage of economies of scale;

(iv) a preference by many tenant farmers to become owner occupiers when the right opportunity is presented;

(v) a perception that, within the context of a rapidly changing industry, the landlord and tenant system offers little flexibility to the landowner;

(vi) the great difficulty in repossessing a tenanted farm even where there is evidence of bad husbandry;

(vii) the threat that tenanted land may at some stage be taken into state ownership.

4.3 Whilst the general picture has been one of decline, the rate of decline has been mitigated by certain other factors, namely:

(i) the use of sale and leaseback, which has converted some owner occupied land into tenanted land, but which has not immediately brought in any new entrants;

(ii) the existing succession provisions, which have ensured that some land which might have become owner occupied has been retained within the tenanted sector;

(iii) the fact that some traditional landlords and many financial institutions have a policy of re-letting farms which become vacant. Financial institutions are generally reluctant to take land in hand.

4.4 For most landowners, flexibility is the key factor in their choice of contractual relationship. The restoration of a greater degree of flexibility into the landlord and tenant system is therefore essential if its decline is to be arrested. The implementation of minor fiscal and legislative changes are in themselves unlikely to prompt any significant upturn in new lettings. Much more radical action is needed if, as we believe is desirable, the landlord and tenant system is again to be one of a series of contractual options to which a landowner can give serious consideration.

Budget Reps.

FROM
F. J. PLASKETT, C.B., M.B.E., F.C.I.T.
DIRECTOR - GENERAL

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TEL: 01-736 1183
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FJP/kp

6th January 1984

CH/EXCHEQUER
REC. 10 JAN 1984 10/1
ACTION FST.
COPIES TO

The Right Honourable Nigel Lawson MP.,
Chancellor of the Exchequer,
H. M. Treasury,
Parliament Street,
London,
SW1P 3AG

Dear Chancellor,

I attach a submission from the Road Haulage Association which the National Chairman and members of the Association ask you to take into account when you are preparing your Spring Budget 1984.

There is no doubt that the publication of the Department of Transport's consultation paper on "Possible Changes in the allocation of Road Track Costs and the Vehicle Excise Duty structure for Lorries" has been a most significant development in the road haulage industry since it appears to confirm that the 'heavy end' of the industry is more than covering its track costs. We trust that when you take that document into account you will also consider the Road Haulage Association's comments on it which are appended to in our submission.

Yours sincerely,

Freddie Plaskett

RHA

Road Haulage Association Limited

Director-General: F.J. Plaskett CB MBE FCIT.
Secretary: L.G. Harper MCIT.

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6th January 1984

SUBMISSION TO THE CHANCELLOR OF THE EXCHEQUER PRIOR TO THE 1984 BUDGET

INTRODUCTION

1. The 13,000 operating companies in the hire-or-reward sector of the haulage industry, represented by the Road Haulage Association, provide a vital service to trade and industry in general. Without that service the economic life of the nation would be crippled. Over the past three years of recession RHA members have suffered severely not only from the lower levels of economic activity, which have resulted in fewer goods to be carried, but also from over-capacity in the industry.

2. It has been a source of great concern to RHA members that the burden of taxation on their activities has increased so alarmingly in recent years, and in particular that this should have happened in a time of severe recession when the industry has been hard-pressed to meet its day-to-day operating expenses.

3. For this reason the Association considers it imperative that taxation levels on the industry, which are already too high, are not increased in the 1984 Budget. A profitability rate of 3.3 per cent before tax for 1981/82 (ICC Business Ratios Report) indicates the inability of haulage operators to absorb any further cost increases. The RHA also believes that the expenditure by Government on providing an adequate road network to allow the haulage industry to operate efficiently has been far too low and represents too small a proportion of the revenue from the taxes levied on road users.

Cont...

4. This submission therefore concentrates on three areas which relate specifically to the road haulage industry. There is also a comment relating to the general business climate in the United Kingdom.

a. Fuel Tax - Any increase in fuel tax will add significantly to hauliers' costs and will aggravate the industry's competitive disadvantage with Europe.

b. Vehicle Excise Duty and Track Costs - The Department of Transport now accepts that heavy lorries are at least covering their track costs. There is therefore no case for any increase in VED for any category of commercial vehicle.

c. Investment in Roads - Eighty-three per cent of Britain's goods are transported by road. The Government should therefore devote a greater proportion of the revenue from fuel and excise duty to the transport infrastructure which supports the nation's economy.

d. The General Business Climate - Britain's competitiveness could and should be stimulated through reductions in Government-imposed business costs.

FUEL TAX

5. Diesel fuel accounts for twenty-two per cent of road hauliers' operating costs. It is thus clear that any increase in duty on derv adds significantly to their overall costs. There is, however, another important aspect of fuel taxation which the RHA believes the Chancellor of the Exchequer must bear in mind. This relates to the competitive position of Britain via-a-vis her EEC partners. In Britain the proportion of fuel duty in relation to the price of fuel is higher than in any other EEC country, and any increase in 1984 will aggravate the situation. In the UK that proportion is forty-seven per cent, whereas it is, for example, seventeen per cent in Italy, twenty-eight per cent in Denmark, forty-three per cent in France and forty-five per cent in Germany.

VEHICLE EXCISE DUTY AND TRACK COSTS

6. In recent years vehicle excise duty has been escalating at an unacceptable rate. The past two Budgets (1982 and 1983) imposed swingeing increases in VED on the heavier categories of goods vehicles; these are the vehicles which predominate in RHA members' fleets. The duty on 32.5-tonne lorries, which are the most widely used goods vehicles, has been increased by a monstrous fifty-one per cent in the last two consecutive Budgets. When the 38-tonne weight limit was introduced in May of last year, it bore an even heavier rate of duty than the 32-tonner, although it had been accepted by Government that the 38-tonner's road wear factor was slightly less than the four axle 32-tonner because the weight was spread over five axles. Government statements to the effect that the heaviest lorries were not covering their track costs gave rise to industry fears that a further heavy tax burden would be imposed on the 32-tonner in the 1984 Budget. The Government has since issued its consultation paper on "Possible Changes in the Allocation of Road Track Costs and the Vehicle Excise Duty Structure for Lorries" to which the RHA has responded. A copy of the Association's reply is attached. The RHA has welcomed the recognition by the Department of Transport that changes are required in the method of allocating road track costs. The RHA has held this view for years.

7. The consultation paper referred to above stated in fact that the heaviest lorries were now more than covering their track costs. The RHA submits therefore that there is no case for any further increases in vehicle excise duty, whether on the 32-tonner or indeed any category of goods vehicle. The Association gives in its response to the Department of Transport consultation paper, reasons why it believes that the public cost of accidents, the cost of restoring roads after work by providers of statutory services, and costs attributed to social and environmental considerations, should not be included in road track cost assessments.

INVESTMENT IN ROADS

8. Eighty-three per cent of Britain's goods are transported by road. The RHA therefore welcomed a recent statement by the Chancellor of the Exchequer that planned capital and current expenditure on road in 1984-85 would be £30M more than was originally budgetted for. At the same time the Association regretted that the maintenance figure was not to be increased, and would in fact be no higher than the 1982/83 maintenance allocation.

9. The difference between what is spent on roads and what is collected from road users in taxes is estimated for 1982/83 at a massive £6,479M. Why then does Government not make more determined efforts to ensure that construction and maintenance of the vital infrastructure upon which the future prosperity of Britain depends, proceeds at a much more rapid pace? Britain has fallen badly behind its European partners in the provision of a road network suited to the needs of a modern industrial state. For instance in 1982 Britain possessed 2,666 kilometres of motorway. In the same year, West Germany, which is of a similar size as Britain and has a similar population, had no less than 7,919 kilometres of motorway. France had 5,907 kilometres and, significantly, Belgium which is a country only one-seventh the size of Britain, had 1,317 kilometres. If the figures were multiplied Belgium would have a motorway kilometre figure of 9,219 compared with Britain's 2,666. It will be increasingly difficult for British trade and industry to compete in world markets when the road network within the United Kingdom is so sadly lacking. Government recognises that investment in roads pays off in increased prosperity. In 1982 a report by the Welsh Office on major road investment schemes in the Principality confirmed resulting benefits. It listed increased industrial development potential, improved access to markets and suppliers, increased tourism potential and better access to housing and shopping facilities. Yet, according to statistics published by the International Road Federation, Britain spends only thirty-two per cent of road tax revenue on road construction whereas West Germany spends seventy-two per cent, and Switzerland ninety-five per cent. It is significant that Japan, where economic success is glaringly obvious, spends a staggering one-hundred and twenty-six per cent of its road tax revenue on roads resulting in a motorway network of 2,993 kilometres, which has been built up in recent years.

10. The RHA recognises that in present circumstances it is naive to suggest that all the revenue from vehicle taxation can be used to improve the country's roads. Nevertheless, the movement of freight has a special significance for the nation's economic recovery which has been so long promised. The RHA hopes that the 1984 Budget will reflect the Government's recognition of this fact, and that it will allocate a more realistic and necessary percentage of the revenue raised from motor vehicle taxation to the rapid development of Britain's road system.

THE GENERAL BUSINESS CLIMATE

11. The RHA is the employers' association of a major service industry. It is

thus extremely conscious of Britain's position in relation to its competitors, not only in Europe but in the wider international context. It is essential, if Britain is to improve its competitiveness, that business costs are reduced, and that investment and enterprise are encouraged. Measures to contain the heavy burden of taxation can only facilitate this process.

12. The RHA therefore strongly supports the Confederation of British Industry in its campaign to improve Britain's competitive position and stimulate the economy by such measures as the abolition of the National Insurance Surcharge, the de-rating of business premises to the order of ten per cent, and the reduction of employers' National Insurance contributions.

POSSIBLE CHANGES IN THE ALLOCATION OF ROAD TRACK COSTS AND THE VEHICLE EXCISE DUTY STRUCTURE FOR LORRIES.

The Association welcomes the recognition by the Department of Transport that changes are required in the method of allocating road track costs. The new proposals are a step towards a more realistic system. Some anomalies remain and are considered below.

Public Cost of Accidents (Para 10), We do not accept that public accident costs should be charged to road users. Ambulance, medical services and social security benefit costs are already paid for by corporation tax, nationalinsurance, income tax etc. Other industries such as construction and mining and recreations suchas climbing and sailing do not pay for the extra costs they cause to public funds.

Underground Services (Para 12). We see no reason why statutory undertakers and others who lay cables, pipes etc under a road should not pay for those facilities. Industry pays heavily for digging trenches across private property. We consider that the standard of reinstatements after digging trenches often leaves much to be desired and contributes to noise, road damage and extra costs to road users,

Social and Environmental Costs (Para 14). We do not agree that there should be any margin between allocated costs and tax rates particularly for the heaviest vehicles. These lorries are filling a public and industrial need. Taxation is not raised on noisy or smell making industries such as airlines, heavy industry, oil refining, pig farms, railways and tanneries to mention only a few.

Allocation of Capital Expenditure on Roads (Paras 19-20).

Cars and light vans, due to their higher speeds and the lower height of the drivers' eye compared with lorries, require higher standards and costs in road layout and signing than lorries would require. We recommend that 5% of road capital costs should be allocated to cars and light vans.

We have commented on underground services above in our reference to para 12 of the Departments' paper. We recommend that 5% of the road capital costs should be charged to the public, and not to vehicle road track costs, in recognition of the costs caused by statutory undertakers.

Our information is that Passenger Car Units (PCUs) are not used by highway engineers for estimating capital costs of road construction. We recommend that the remaining 75% of capital costs be allocated by Vehicle Kilometres.

We believe that capital cost of roads should be allocated:-

15% lorries.
5% Cars and light vans.
5% Public Costs.
75% All vehicles by vehicle kilometres.

Cont'd....

Maintenance Expenditure (Paras 21-33).

We are aware that the fourth power relationship between weights and road wear is generally accepted. However we wish to point out that there is some evidence that this 'law' may be wrong.
There is a private road from PAR to FOWEY in Cornwall which was built in 1968/69 to MOT Yellow Book Road Note 8 standards. It is used solely by lorries carrying china clay to Fowey. By the end of June 1983 over $8\frac{1}{4}$ million tonnes of clay had been transported down this road. There is no return load. Study of the road by the operators shows greater signs of surface wear on the empty return side. There is no evidence of sub-structure damage or shoulder damage on the loaded side. Consultant drawings of the complete road, bridges, culverts, specification etc are held by the operators.

Bridge Maintenance Strengthening (Para 23 and Annex 3 Paras 9-11)

(a) Bridge strengthening would not be necessary if the capital costs which are already paid for by the 15% specifically allocated to lorries had been better used.

(b) The maintenance cost of bridges should remain allocated according to vehicle Kilometres until more information is available to permit a more accurate method.

Haunching (Para 23).

We support the proposal that road edge strengthening costs should be allocated according to vehicle weight kilometres instead of standard axle kilometres.

Annex 4 Table 4 and Paras 16-18.

We agree that account should be taken of the varying journey patterns and that road types be grouped as in Para 17.

Para 24. The RHA answers to this paragraph follow from the above. They are:-

24 i No, the public accident costs should not be included in road track costs.

24 ii Yes, the different types of roads should be taken into account.

24 iii Yes, expenditure on strengthening road edges (haunching) should be allocated by vehicles weight kilometres.

24 iv Maintenance cost of bridges should remain allocated as at present.

Para 31. The RHA answers to this paragraph are:-

31 i Considering the present fleet we see no advantage in the proposal to have 2 tonnes tax band intervals rather than 1 tonne intervals. Consideration should be given to wider bands but only provided that tax rates are averaged out.

31 ii We have no comment on VED rates in Northern Ireland.

31 iii The RHA is not opposed to the introduction of down-licensing provided that a method can be devised which will not penalise hauliers and which will also ensure effective enforcement. Extra taxation to compensate for a loss of revenue due to down-licensing would not be acceptable to most road hauliers.

Cont'd...

The case made in the consultation paper (Annex 6) does not provide sufficient safeguards against abuse which would be unacceptable to the industry.

JMK/HRW
28th November 1983.