

PO-CH/NL/0042

PART A

SECRET

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PO -CH /NL/0042



PART A

1986 BUDGET
REPRESENTATION

PO -CH /NL/0042

PO -CH

PART A

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STARTS: - 17-01-85

b/f for Cd Erroll folder

b/s 16/12 pl



FROM: P WYNN OWEN
DATE: 17 January 1985

NOTE FOR THE RECORD

Deane
16/1

- cc Chief Secretary
- Financial Secretary
- Minister of State
- Economic Secretary
- Sir P Middleton
- Mr Bailey
- Mr Anson
- Mr Kemp
- Mr Gilmore
- Mr Monger
- Mr F K Jones
- Mr R Allen
- Mr Cropper
- Mr Lord
- PS/IR
- PS/C&E

BUDGET REPRESENTATIONS FROM THE AUTOMOBILE ASSOCIATION

Following his meeting with the Chancellor on 14 December 1984 Lord Erroll of Hale requested a copy of the minutes. His minutes are now written with some additional points to those he raised at the meeting (letter attached). The minutes and his letter now serve as the AA's Budget Representation for 1985.

P
Wyn.

P WYNN OWEN

me Pli
Rpp T74
18/1

Mr Romanowski

RJ
18/1

Mr [unclear]

18/1

18/1

22/64
19/114



The Automobile Association

Head Office: Fanum House, Basingstoke, Hampshire RG21 2EA
Telephone: Basingstoke (0256) 20123

Chairman
THE RT.HON.LORD ERROLL OF HALE

Director General
O.F. LAMBERT

15th January, 1985.

Dear Mr Wynne - Owen,

Thank you very much for the copy of your record of the meeting - as always up to the high standard of private office minuting! One or two of the points I made need a little amendment, and it would be helpful if the record could be clarified as follows:-

1. Paragraph 5

I believe that this paragraph reflects a little over compression in my presentation of two issues - lead in petrol and vehicle emission control. I suggest that a better wording should read:-

"The AA accepts that lead should be removed from petrol, with the important proviso that leaded petrol should remain available for a lengthy overlap period, so that vehicles not suitable for unleaded fuel have their full economic life.

/.....

The AA also accepts that other toxic emissions from motor vehicle exhausts should be reduced but is concerned to ensure that no premature decisions are taken on the technical means of achieving these reductions, as is happening in Germany. Such unilateral action will create problems for the home user when travelling in foreign countries and for foreign drivers in Germany.

The established technology, of catalysers, is expensive to install, maintain and replace. It also imposes a heavy penalty in terms of extra fuel consumption, and is likely to be inefficient under the 'stop/start' conditions of European traffic.

On the other hand, the rapidly developing 'lean-burn' 'fast-burn' engine technology offers an emission control system which will be more effective without energy consumption penalties.

Against this background, the AA considers that fiscal intervention, e.g. to favour vehicles using unleaded fuel, would be premature, since it could well encourage the wrong technology. Additionally, in fairness to those with older

/.....

vehicles not suited to unleaded petrol, leaded petrol should remain at the same cost, to the consumer, as unleaded fuel.

2. Paragraph 6

This is a correct summary of what I actually said but I could have expressed it better at the time as follows:-

'Only 5% of AA members think no new roads should be built. 15% think that new motorways should be the first priority; 38% think new bypasses should come first; 44% think new urban roads should have preference'.

3. Paragraph 7

I have checked the position regarding research on the question of tolls. Our last survey was carried out in 1983. We are updating this and hope to have the results during the Spring. When these are available I will advise you of the view of the Membership on this matter.

I hope that you can accept these additional comments and that you will agree to giving them the same circulation as your own note.

Philip Wynn-Owen, Esq.,
Private Secretary to
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
London, S.W.1P.

Wynn Owen
Secretary
Errol of Hain

FROM: MISS C E C SINCLAIR
DATE: 8 AUGUST 1985

MR KUCZYS

12/2

cc Mr McKenzie

HANDLING OF BUDGET REPRESENTATIONS

I understand that FP took on the co-ordination of Budget representations last year for the first time. Inland Revenue and Customs seem to think that central co-ordination was useful. But they have suggested one or two ways in which the arrangements this year could be improved.

X | 2. Both they and we think that there is much to be said for MCU marking all Budget representations to a named person in FP in the first instance. We now have a micro-computer on which we will be able to log up receipt of each letter, as well as tracking its subsequent processing. I would suggest that when our new HEO(D), Mr Murray, is in post on 23 September, he should be the named point in FP. (Prior to that, letters should be marked to Mr. Haigh)

3. FP would then take responsibility for providing answers to all letters about the Budget. Obviously we shall do this in liaison with the two Revenue departments.

4. The one exception to this general rule would be if we were to have another "single issue" campaign on the lines of the pensions campaign this year. In that case we agree that it would be most sensible for letters on the single issue to be sent directly to the Revenue department concerned.

5. I am told that we can probably cope with logging letters on the computer and providing draft replies during September, October and November. But I understand that the real flood of correspondence starts in December and carries on until after Budget Day - say to the Easter break. At that point I think we will need reinforcements, in particular to keep our computer record up-to-date. It would not be right, or even possible, for our CO to be working on this task virtually all day long.

6. I wonder whether it will be possible for us to "borrow" a CA from MCU from the beginning of December until Easter 1986? I make this proposal because I think the arrangements outlined above should substantially reduce the burden on MCU. If you are able to help us in this way, I should be most grateful.



CAROLYN SINCLAIR



A handwritten signature in black ink, appearing to be 'P Wyn Owen'.

FROM: P WYNN OWEN
DATE: 9 August 1985

MISS SINCLAIR

cc Mr Kuczys
Mr M B Morgan
Mr McKenzie
Miss Page (MCU)

HANDLING OF BUDGET REPRESENTATIONS

Thank you for your minute of 8 August to Tony Kuczys.

2. Last year's handling of Budget correspondence was a mess for several reasons, including an unexpectedly high volume of correspondence and the obsolete machinery in MCU. So it is certainly worth clarifying exactly what will be required next time around.
3. I am not entirely clear how your suggestions differ in substance from what was meant to have happened last year - all Budget representations marked to FP in the first instance, with only "single issue" campaign letters being actioned straight to the revenue departments. So I am content to target all Budget representations at Mr Murray this time around.
4. How Mr Murray is best supported in coping with this daunting task is, of course, for you to decide, but I have two comments on the ideas raised in your minute:-
 - (i) Logging on computers - we will shortly be announcing the outcome of the "Morgan Review" of MCU. In short, this means that by the end of this Recess we will have installed £20,000 worth of new computer machinery in MCU. This will fulfill a wide range of tasks (such as acknowledgements and reminders) which the current micro cannot cope with. You may like to consider whether your FP computer suggestion would not simply duplicate the role of MCU. It is essential that under the new system all letters to the Chancellor are logged on the MCU computer.



- (ii) Additional clerical support - we greatly appreciated the rapid turn around of Budget rep's by Messrs Halligan and McKenzie prior to the last Budget. But we were aware that inadequate clerical support often meant that drafts took rather longer to reach us than should have been the case. So I fully support the need for some additional clerical support in FP for, say, six months prior to the Budget. Unfortunately, this is also an extremely busy period for MCU and I do not envisage any spare hands under the new system. So your best course probably lies in including in your FMI return a bid for an additional half a CA - to work full-time in FP for a six month period spanning the Budget.

Pws.

P WYNN OWEN

1- ~~John~~ - to see. A
good outcome.

2 - prep.

MR WYNN OWEN 12/2

Roo 14/8

FROM: MISS C E C SINCLAIR
DATE: 13 AUGUST 1985

cc Mr Kuczys
Mr Haigh
Mr M B Morgan
Mr McKenzie
Miss Page (MCU)

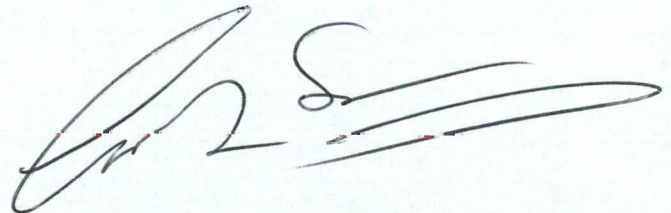
HANDLING OF BUDGET REPRESENTATIONS

Thank you for your minute of 9 August.

2. I am glad we are agreed that all Budget representations should be marked to FP in the first instance, with the exception of "single issue" campaign letters.

3. I can understand your wish to log all letters to the Chancellor on the new MCU computer system (of which I was not aware). It would be duplication for us to log all Budget representations on the FP micro. On the other hand, I am nervous at the thought of a considerable volume of paper moving to and from FP without any record being kept here of its having been received. I fear I see no alternative to our keeping a good old-fashioned book record (unless Mr Morgan can suggest a way of using the new technology for this purpose).

4. I accept that if computer logging is to be done in MCU, your task will not be reduced during the run up to the Budget etc. I shall therefore approach EOG for some extra support at clerical level for, say, four months. We think six months might be on the generous side.



CAROLYN SINCLAIR

FROM: MISS J A PAGE
DATE: 28 AUGUST 1985

MISS SINCLAIR

cc Mr Kuczys
Mr Haigh
Mr M B Morgan
Mr Wynn Owen
Mr McKenzie

HANDLING OF BUDGET REPRESENTATIONS

Your minute of 13 August to Mr Wynn Owen asks whether there is any way in which the new MCU micro-computer might aid FP in recording Budget representations.

2. We log each letter which passes through MCU by creating a 'record card' on the computer system, showing the name of the constituent, MP, organisation, date of letter, expected reply date etc etc. It would be simple for us to attach a print-out of this record card to each Budget representation that is actioned out to FP. Your division could then file these records and add any further information as is felt appropriate. I hope this helps.

MISS J A PAGE



ANNEX D

Treasury Chambers, Parliament Street, SW1P 3AG

S H Giles Esq
Director/Chief Executive
Teeside & District
Chamber of Commerce and Industry
Commerce House
Marton Road
MIDDLESBOROUGH
Cleveland
TS1 1DW ..

October 1985

Thank you for your letter of 19 September to the Chancellor which set out your representations for the 1986 Budget. I have been asked to reply.

I can assure you that these will be carefully considered by Ministers.

John Moore
JOHN MOORE

RESTRICTED



*Can we discuss something?
(There is also a problem with*

FROM: M NEILSON *to FST,*
DATE: 3 OCTOBER 1985 *(Hunt)*

MRS LOMAX

cc: PS/CST
PS/FST
PS/MST

*RL
3/10*

OVERVIEW MEETINGS

Some time ago now we discussed timing of overview meetings for the Budget, referred to in your minute of 16 September.

2. The Economic Secretary will be taking the Building Society Bill through Committee Stage during most of the pre-Budget period. I have checked with the Chief Whips Office and we can expect the meetings to take place between 10.30am and 1.00pm on Tuesday and Thursday mornings. Holding overview meetings on Tuesday mornings would therefore effectively exclude the Economic Secretary from them. When we spoke you said that it might be possible to hold the meetings after lunch on a Tuesday, and this now looks like the only way of enabling the Economic Secretary to participate fully. Do you now see any problems with changing the meetings to the afternoon?

M NEILSON

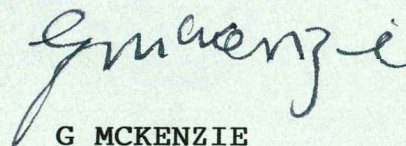
FROM: G MCKENZIE
DATE: 10 OCTOBER 1985

1. MISS SINCLAIR
2. CHANCELLOR

cc PS/FST
PS I/R
Mr A Walker I/R

BUDGET REPRESENTATION: HISTORIC HOUSES ASSOCIATION

I attach a standard reply (based on last years) to the Historic Houses Budget representation.


G MCKENZIE

FROM: MISS C E C SINCLAIR
 DATE: 10 OCTOBER 1985

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State
 Sir P Middleton
 Mr Cassell
 Mr Scholar
 Mr Monger o/r
 Mr Culpin

PS/IR
 PS/C&E
 Mr P Lewis - IR
 Mr P Wilmott - C&E

BUDGET DEPUTATIONS AND REPRESENTATIONS

Last year Mr Allen proposed some new guidelines for the handling of Budget deputations and representations. There were generally endorsed by Treasury Ministers, and I understand that the new arrangements worked reasonably smoothly.

2. We propose, if you agree, to operate within similar guidelines this year. This submission has been discussed and agreed with the two revenue Departments.

3. Our proposals are set out below:

Budget Deputations

4. It was agreed last year that if possible we should aim to restrict the number of Budget delegations seen by Ministers. Ministers would automatically accept requests from the 12 major representative bodies at Annex A (the "core" list). Other requests would be rejected except in the most sensitive cases. In the event, Ministers saw 22 delegations before the 1985 Budget (list at Annex B).

5. Of the 22 representative bodies whose requests were turned down last year, only 3 complained. Since the more restrictive

attitude to requests for meetings does not seem to have been contentious, we propose, subject to Ministers' views, to adopt the same approach in the run-up to this year's Budget. Thus requests from the 12 bodies on the "core list" would automatically be accepted. Other requests would, subject to the advice of the responsible revenue Department, in principle be turned down. But we realise that this is an area where it is impossible to set hard or fast rules. In cases of doubt, we shall consult Ministers. No organisations would be seen in the month before the Budget.

6. Last year Ministers agreed to our proposal for a simplified standard form of briefing for meetings with Budget deputations (see Annex C). If you and others agree, we shall continue with the new format. Obviously supplementary briefing can be produced if requested.

Budget representations

7. As last year, we propose that in the case of letters from members of the public, an acknowledgement should be sent by FP. In the case of letters requiring a Ministerial reply (eg from MPs), we will provide a standard reply to be sent by the appropriate Minister.

(see Annex D)

Conclusions

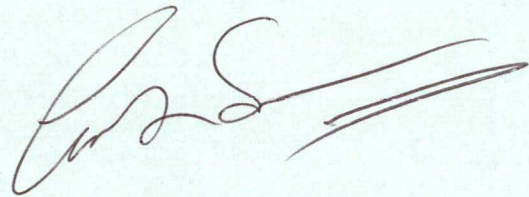
8. We would be grateful to know if you are content:

- a. that we should handle requests for meetings with Budget Deputations on the lines proposed in paragraph 5 above;
- b. that briefing for such meetings should be in the standard format devised last year (paragraph 6);

c. that written Budget representations should each receive the same standard acknowledgment. (see Annex D)

In addition, it would be helpful to know how Ministers wish to handle those Budget representations which require a Ministerial reply.

9. Once we know your views, I shall minute separately to Private Secretaries and MCU on the detailed implementation of these arrangements.



CAROLYN SINCLAIR

CORE LIST OF REPRESENTATIVE BODIES

*Are the (a) ✓
4 really one?*

A

- Confederation of British Industry
- Trades Union Congress
- Association of British Chambers of Commerce
- Institute of Directors
- Country Landowners Association
- Scotch Whisky Association
- Tobacco Advisory Council
- Brewers Society
- Wine and Spirits Association
- British Casino Association
- British Amusement, Catering and Trading Association
- National Union of Licensed Victuallers



CC
Miss SINCLAIR
Mr MCKENZIE
Mr Crompton
PMP

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Commander L.M.M. Saunders Watson,
President,
Historic Houses Association,
38 Ebury Street,
LONDON SW1W 0LU

11 October 1985

John Compton Watson

Thank you for your letter of 3 October, which set out your representations for the 1986 Budget.

I can assure you that I will carefully consider these in the run-up to the Budget.

Nigel Lawson

NIGEL LAWSON



FROM: PAUL PEGLER

DATE: 15 October 1985

PS/CHANCELLOR

CC:
 FST
 EST
 MST
 Sir P Middleton
 Mr Cassell
 Mr Scholar
 Mr Monger
 Mr Culpin
 Miss Sinclair

PS/IR
 PS/C & E
 Mr P Lewis - IR
 Mr P Wilmott - C & E

BUDGET DEPUTATIONS AND REPRESENTATIONS

X The Chief Secretary has seen Miss Sinclair's minute of 10 October. As he expects to play a fullish part in next year's Finance Bill Committee and Report he would like to be involved, wherever possible, in those deputations which the Chancellor sees. I would be grateful for the earliest possible indication of timing etc.

2 On the core list of representative bodies attached at Annex A to Miss Sinclair's note, the Chief Secretary has asked why the NFU are not included in the list whilst the CLA are? He has also commented that the nature of the last seven bodies on the list seems to say something astonishing about the British character!

PAUL PEGLER
 Assistant Private Secretary



FROM: M W Norgrove

DATE: 18 October 1985

PS/CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Mr Cassell
Mr Scholar
Mr Monger
Mr Culpin
Miss Sinclair

PS/Inland Revenue
Mr P Lewis - Inland Revenue

PS/Customs & Excise
Mr P Wilmott - C&E

BUDGET DEPUTATIONS AND REPRESENTATIONS

? The Minister of State is content with the arrangements proposed in Miss Sinclair's minute of 10 October. For his part, however, the 'sensitive cases' you mention at paragraph 4 are likely to include all those where an MP asks to bring a representative association along to see the Minister. The first example to arise so far is (Mr Yeo's) Charities VAT Reform Group request for a meeting (14 October), which the Minister will not refuse.

M W NORGROVE
Private Secretary

Paper 1 ~~6/10/10~~ 24/10/10

Quinta 05/10/10
(10/10)



Amesbury
I know what
the first 5
was
(Amesbury)

C.

BUDGET -

DEPUTATIONS AND REPRESENTATIONS.

The first letters are beginning to trickle in so Carolyn Sinclair's minute is timely. I agree with it all and recommend that you agree to all the proposals in her para 8.

You saw six bodies (see Annex B) for deputations before the last Budget - probably about right. X in APS/CST's minute below, however, implies that, if you wanted, you might be able to sell one or two to him (though I think he simply wants to sit in on your dep's which seems wasteful of Ministerial time).

Contact with Carolyn's proposals? ?

memo
memo
memo
Ro 18/10



[Handwritten signature]

MISS SINCLAIR

FROM: VIVIEN LIFE
DATE: 21 October 1985

cc PS/Chancellor
PS/Chief Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Monger
Mr Culpin
PS/IR
PS/C&E
Mr P Lewis - IR
Mr P Wilmott -
C&E

Ys: subject & that the observations (ii) were so wrong to judge X requests on

C

To see FST's comments.

Do you agree with these and with the rest of Carolyn's submission?

BUDGET DEPUTATIONS AND REPRESENTATIONS

Following the Chancellor's morning meeting today, the **Financial Secretary** was asked to look at the suggested core list of representative bodies attached at Annex A to your minute of 10 October. His **comments** are as follows:

Country Landowners Associations

In the Financial Secretary's view **we have been seeing the CLA by habit rather than merit.** In due course we should perhaps **substitute the NFU.** However, he has already agreed to see the CLA himself this year and has a lunch arranged for 18 December.

Suggested deletions

The Financial Secretary agrees with the view which came out of the morning meeting which was that the **last four**

bodies in the list:

Wine and Spirits Association

British Casino Association

British Amusement, Catering and Trading Association

National Union of Licensed Victuallers

should be dropped.

Suggested additions

In the Financial Secretary's view the deletions should be replaced by a representative body for each of the following: small businesses, the motor industry or petrol consumer, the oil industry. | X

He also very much agrees with the Minister of State's recommendation that where an MP asks to bring a representative association Ministers would always wish to accept. | XX

Other Ministers may wish to comment on these suggestions but otherwise I should be grateful if you would proceed on this basis.

How many
would this
mean?

VIVIEN LIFE



FROM: MRS LOMAX
DATE: 23 October 1985

1. Tony
2. Philip
3. B/f 31/10
(For PEM bilateral (LH))
RMP

SIR P MIDDLETON

cc Sir T Burns
Mr Scholar

TAXES

The Chancellor was grateful for your minute of 22 October which he discussed briefly with you this morning (and may wish to return to at your next bilateral).

2. He has commented that this is a helpful pulling together of the threads, though he disagrees with it in some places (he is tempted to subtitle it "The Squirrel Report"!). He notes that you make no reference in your covering note to paragraph 17 (and the conclusion in paragraph 30(e)(i)). He also notes that there is no mention of the fact - very relevant to the comparison with employers' National Insurance contributions - that income tax cuts enable employers to pay less gross for an equivalent take-home pay.

3. On the major starters table, the Chancellor has noted that he will want to look at a package of measures on charitable giving, but this will need to go wider than VAT on charities, to cover, for example, the suggestions in the Ridley Report.

RL.

RACHEL LOMAX



FROM: P WYNN OWEN
 DATE: 28 October 1985

1-~~TT~~
 2-~~Jessie~~
 3-pyp

MISS SINCLAIR

cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Minister of State
 PS/Economic Secretary
 Sir P Middleton
 Mr Cassell
 Mr Scholar
 Mr Monger
 Mr Culpin
 PS/IR
 PS/C&E

BUDGET DEPUTATIONS AND REPRESENTATIONS

The Chancellor has seen your minute of 10 October, Mr Pegler's of 15 October, Mr Norgrove's of 18 October and Ms Life's of 21 October.

2. He is content with your recommendations subject to the observations made by the Financial Secretary, qualified as follows:-

(i) the Financial Secretary suggests Ministers see a representative body from small businesses, the motor industry or petrol consumers, and the oil industry. The Chancellor thinks that Ministers should not prejudge which particular bodies these would be, but should respond to requests on merit, knowing that they have (say) four places to fill.

(ii) the Chancellor agrees with the Minister of State's recommendation that where an MP asked to bring a representative association Ministers would always wish to accept, but he notes that this should be implemented by the Financial Secretary or the Minister of State as appropriate, and only very rarely by himself.

Pwo.

P WYNN OWEN

1411

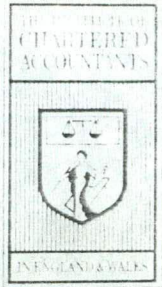
29 October 1985

YOUR REF:

OUR REF:

BGJ/ENV/TP/14-8-3

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



PO BOX 434
CHARTERED ACCOUNTANTS' HALL
MOORGATE PLACE
LONDON EC2P 2B1
TELEPHONE 01-628 7000
FACSIMILE (GROUP 2) EXT 401
TELEGRAMS UNRAVEL LONDON EC2
TELEX 884443

Dear Chancellor,

1986 BUDGET REPRESENTATIONS

As in the past two years we have prepared a memorandum comprising a limited number of major points which we consider justify attention at the time of next year's Budget and Finance Bill.

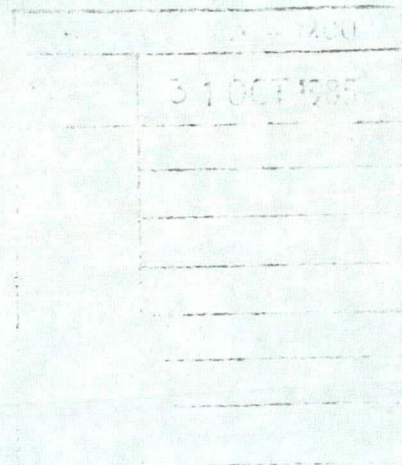
I enclose three copies of the memorandum and copies are being sent to the Chairman of the Board of Inland Revenue and accountant members of the House of Commons.

If you would like to consider these matters further at a meeting I shall, of course, be pleased to arrange for our representatives to attend.

Yours sincerely

B G Jenkins

B G Jenkins
President



ALSO AT
GLOUCESTER HOUSE
399 SILBURY ROAD
CENTRAL MILTON KEYNES MK9 2TH
TELEPHONE MILTON KEYNES 65813
FACSIMILE (GROUP 2) EXT 222
TELEX 827572



PO BOX 433
CHARTERED ACCOUNTANTS HALL
MOORGATE PLACE
LONDON EC2P 2BJ
TELEPHONE 01-628 7060
FACSIMILE (GROUP 2) EXT 401
TELEGRAMS UNRAVEL LONDON EC2
TELEX 884443

TR 599

1986 BUDGET REPRESENTATIONS

Memorandum submitted on October 1985 to the Chancellor of the Exchequer on behalf of the Council of the Institute of Chartered Accountants in England and Wales.

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ALSO AT
GLOUCESTER HOUSE
399 SILBURY BOULEVARD
CENTRAL MILTON KEYNES MK9 2HL
TELEPHONE MILTON KEYNES 668833
FACSIMILE (GROUP 2) EXT 222
TELEX 827502

INTRODUCTION

1. The submissions made by the accountancy bodies in October 1983 (TR 515) and by the Institute in October 1984 (TR 561) set out a limited number of major recommendations which we considered could reasonably form part of the Finance Bill for the following year.
2. The present submission has been prepared with the same objective but its scope has been extended so as to include matters of a more general nature; the memorandum therefore falls conveniently into two parts:

Part I : matters of a general nature in relation to the tax system.

Part II : specific points for inclusion in the Finance Bill 1986 along the lines of the submissions for the previous two years.

PART I : GENERAL MATTERS

Enforcement powers of the Revenue Departments

3. Volumes 1 and 2 of the report of the Keith Committee were presented to Parliament in March 1983 followed by Volumes 3 and 4 in January 1984 and February 1985 respectively. Certain VAT matters were enacted in the Finance Act 1985 and we understand that a consultative document on the direct tax areas such as income tax, corporation tax and capital gains tax, will be issued shortly.
4. Although we are grateful to have had the chance to discuss informally with the Inland Revenue certain aspects of the Keith Report we are concerned at the delay in the issue of a consultative document on the direct tax side. We are also concerned that any changes, particularly to the time-table for the submission of tax returns and supporting material, should take account of the very real pressures which would arise on those responsible for their submission.

Simplification

5. In submissions made over the last decade we have on many occasions drawn attention to the ever increasing volume and complexity of tax legislation, and entered a plea for simplicity. We are aware of the difficulty of drafting legislation, especially fiscal legislation, in simplistic terms, and we are equally aware of the problems of amending legislation whether on a textual or non-textual basis. These areas have been explored in detail by the Renton Report* and we suggest that further consideration be given to it.
6. At the same time, however, the difficulties identified in the Renton Report are exacerbated by the issue each year, following shortly after the Budget statement, of a Finance Bill containing not only such matters as rates of tax and duties, and personal allowances, but also covering matters of the most extreme complexity.

* "The Preparation of Legislation" issued May 1975 (Cmnd 6053)

7. The position would be improved by the use of a separate technical Finance Bill along the lines suggested in our October 1984 submission, a matter to which we have referred on many previous occasions and which was supported at paragraph 17.21 of the Renton Report.
8. A yearly Finance Bill means one layer of tax legislation piled upon another, combined with an already complicated tax code made more difficult by the retention of the schedular system, the original purpose of which has long since passed.
9. We consider that the remedy lies in a "root and branch" review of existing legislation with a view to simplification or deletion. A start could be made by a review of selected areas, such as those set out in the taxation anomalies submission made by the accountancy bodies in December 1981 (TR 456) where we suggested the formation of working parties with the Inland Revenue.
10. More specifically we would repeat the suggestion in our October 1984 submission for the abolition of capital gains tax or a drastic simplification of it. We are pleased to note, in this respect, that our suggestion that development land tax be abolished was enacted in the Finance Act 1985.

Delay

11. Many of our members have commented adversely on increased delays in recent years in tax offices in responding to correspondence and issuing assessments. We are unable to comment on the reasons in detail, but in part they stem from the considerable movement in the files of taxpayers between Inland Revenue offices. We suggest they may also include the decreasing personnel and other resources which have been made available to the Inland Revenue, and we would urge that in a department involved in such an important and sensitive area of service there should be an assurance of adequate resources.

Inefficiencies of the Accounts Offices

12. Difficulties arising from the inadequate liaison between inspectors and collectors were set out in the notes of a meeting between the Inland Revenue and the accountancy bodies issued in August 1983 (TR 510). The problems arising were also recognized by the Inland Revenue in a "Letter to Editors" of 16 December 1983. Even so there was little or no improvement as a result of which the Chairman of the accountancy bodies corresponded with the Chairman of the Board of Inland Revenue in May and June 1984. Unfortunately there is no evidence that these difficulties have now been overcome.
13. We shall shortly be making a detailed submission to the Inland Revenue Operations Division which will include reference to this matter and to the delays mentioned in paragraph 11 above, but we consider them to be of sufficient importance also to justify inclusion in this memorandum.

Unincorporated businesses

14. The basic rate of income tax has remained at 30% since 1979/80 (which included a lower rate of 25%) rising to a maximum of 60%.

15. The Finance Act 1984 reduced the rate of corporation tax to 50% for the year to 31 March 1984 and by 5% for each of the following three years to 35% for the year to 31 March 1987; the rate for small companies was continued at 30%. At the same time the rates of capital allowances were reduced and stock relief abolished.

16. This was one of the themes of the 1984 Budget strategy. In our submission on the 1984 Finance Bill (TR 546) we said:

"Without any change to tax rates unincorporated businesses will suffer as a result of the withdrawal of stock relief and higher capital allowances. Some compensation should be offered for this in the same way as the reduction in the rates of corporation tax".

17. We consider that our comments made in TR 546 remain valid and we suggest that the compensation to which we referred should be a subject for inclusion in the 1986 Budget.

Social security contributions

18. Social security contributions are the subject of a complex code, made all the more difficult by the lack of consistency with other areas of the taxation regime. In particular there is a need for harmonization of the definition of such concepts as "earnings", "ordinary residence" and "employment".

19. We also consider that there should be consolidation of existing legislation and that consideration be given to the issue of statements of practice along the lines adopted by the Inland Revenue.

20. It is also suggested that PAYE and social security inspections of employers' records be conducted on the basis of joint visits rather than by separate visits by officials by the Inland Revenue and the DHSS.

Time limits

21. On many occasions we have expressed concern about the lack of consistency and in many cases difficulty in the application of time limits. A submission to the Inland Revenue was made by the accountancy bodies in October 1982 (TR 484) followed by further correspondence in which we provided additional information.

22. To a considerable extent this subject overlaps with the subject matter of the Keith Report and we have felt obliged to accept the suggestion put to us by the Inland Revenue that this subject be held in abeyance until the legislation to implement the recommendations of the Keith Report is available.

23. Nevertheless the subject remains of considerable importance to taxpayers and their advisers, and there are a number of problems which remain no matter what legislation is introduced as a result of the forthcoming consultative document on Inland Revenue enforcement powers.

**PART II : SPECIFIC POINTS FOR INCLUSION IN THE
FINANCE BILL 1986**

Value added tax : mitigation of penalties etc

24. In our letter of 23 May 1985 we expressed concern over the withdrawal at Standing Committee stage of Clause 23 of the 1985 Finance Bill. The effect of this is that there can be no mitigation or remission of penalties, interest or surcharge under sections 13 to 19 of the Finance Act 1985. We would urge the reinstatement of Clause 23 in the Finance Bill 1986.

Privilege

25. Recommendation 97 of the Keith Report stated:

"Professional privilege in relation to tax advice given should be extended to duly appointed tax agents who have been admitted members of an incorporated society of accountants or of the Institute of Taxation".

26. Behind this recommendation lies the assumption that whilst the Inland Revenue are fully entitled to have all the relevant facts and circumstances for the determination of a taxpayer's position, they should not be entitled either generally or in respect of specific transactions to know what advice the taxpayer receives.
27. At present professional privilege does not apply to advice given by accountants and this may result in discrimination by which taxpayers seek professional advice from lawyers to the detriment of accountants.
28. We have heard it suggested that this recommendation might not be proposed for implementation in the forthcoming consultative document. We urge that it should be so included.
29. We feel most strongly on this matter and we are seeking a meeting with Treasury Ministers.

Exchange rate fluctuations

30. In January 1985 the Inland Revenue issued Provisional Statement of Practice (SP 3/85) "Exchange Rate Fluctuations" on which we submitted comments in June 1985 (TR 584).
31. Although we welcomed the provisional statement as a step in the right direction we considered it to adopt a simplistic approach. In our view there should be statutory relief for exchange losses (and a corresponding tax on exchange gains) on borrowings in respect of which tax relief is available for the interest. We see no reason to retain the distinction between capital and revenue, but if this is not accepted we would like to see some basis whereby it would be open to the taxpayer to opt between capital or revenue treatment at the beginning of the borrowing before any movement on rates of exchange. In particular the "matching" principle adopted by the provisional statement (following the decision in *Pattison v Marine Midland Ltd*) should be avoided.

Legislation which is falling into disrepute or is unacceptably uncertain

32. We consider there to be a need for a complete review of legislation falling within this heading. We accept the need to counter tax avoidance but not to such an extent that it frustrates normal commercial transactions. In particular we would again refer to the following matters which have been referred to in previous memoranda including our Budget submissions made in 1983 and 1984:
- (a) Section 29, Finance Act 1973.
 - (b) Section 482, Income and Corporation Taxes Act 1970.
 - (c) Section 79, Finance Act 1972.

Section 29 Finance Act 1973

33. This is an anti-avoidance section which denies group relief where "arrangements" exist under which, in very general terms, one company could leave a group or its trade be taken over by a third company.
34. In our October 1984 memorandum (TR 561) we suggested the inclusion of a motive test which would avoid needless argument and even litigation to the benefit of taxpayers and the Inland Revenue. We wish to repeat this recommendation.

Section 482, Income and Corporation Taxes Act 1970

35. This makes unlawful, without Treasury consent, certain transactions involving the migration of companies. Its abolition or replacement has been suggested in Inland Revenue consultative documents in relation to proposed legislation on international tax avoidance.
36. We would again refer to our October 1984 memorandum which suggested that, in the long term, section 482 should be repealed, but in the meantime there are good grounds for the repeal of sub-sections 1(c) and 1(d). The former is concerned with the issue of shares or debentures by a non-resident company which is controlled by a UK-resident company; the latter deals with the transfer by a UK-resident company of shares or debentures in a non-resident company which it controls.
37. Although general consents are available in respect of the above they were issued substantially in their present form over thirty years ago. The transactions falling within sub-sections 1(c) and 1(d) have little or no effect on the Exchequer and give rise to considerable administrative inconvenience to the Treasury, the Inland Revenue and to taxpayers. We cannot understand the retention of legislation the sole purpose of which is to require the taxpayer to furnish information.

Section 79 Finance Act 1972

38. This section, which has been extensively modified since its introduction, deals with the taxation of directors and employees on shares acquired under share incentive schemes.

39. We referred to this matter in our submissions of October 1983 and October 1984 where we described this section as representing some of the most complex legislation ever devised.
40. We see no reason to change that view and we can only repeat our plea that the legislation should be the subject of detailed review with a view to simplification and consolidation with other legislation in this area if the laudable aim of wider share ownership is to be fulfilled.

ENV/TP
14-8-3
28.10.85

1985 VISITS

<u>ORGANISATION</u>	<u>MINISTER</u>	<u>MONTH SEEN</u>
House Builders Federation	MST	November
Newspaper Society	MST	November
Small Business Bureau	CH/EX	November
Tobacco Advisory Council	MST	November
VAT Charities Reform G & P	MST	December
AA	CH/EX	December
CBI	CH/EX	December
Child Health Foot Register	MST	December
P.Fry Delegation	CH/SEC	December
National Book Committee	MST	January
Periodical Publishers	MST	January
Scottish Newspaper Ass.	MST	January
Retail Consortium	CH/SEC	January
Scotch Whisky Ass.	MST	January
General Council for British Ship Builders	FST	January
Country Landowners Ass.	FST	January
Hugh Rossi MP	MST	January
IOD	CH/EX	February
TUC	CH/EX	February
Alcohol Concern	MST	February
Association Free Newspapers	MST	February
Brewers Society	MST/CH/EX	February

B

BUDGET DEPUTATIONS: STANDARD BRIEFING FORMAT

- Paragraph 1 Organisation. Description of Membership (where necessary)
Brief biographical details of representatives attending meeting.
- Paragraph 2 Object of meeting. (Either major body seen as a matter of course
or being seen for some specific reason).
- Paragraph 3 Summary of organisations written representations.
- Paragraph 4 Points likely to be raised together with a few lines of comment.
- Paragraph 5 Any points that Ministers should ask the organisation.

1. pl copy to Miss Page-MCU

2. Nigel et al - this still means
you send them all
to MCU first.

3. return to me pl.

MR WYNN OWEN

FROM: MISS C E C SINCLAIR
DATE: 11 NOVEMBER 1985

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Haigh
Mr Murray
Mr McKenzie
PS/IR
Mr P Lewis - IR
PS/C&E
Mr P Wilmott C&E

BUDGET DEPUTATIONS AND REPRESENTATIONS

Thank you for your minute of 28 October confirming that the Chancellor is content, subject to one or two points, with the arrangements for handling Budget deputations and representations set out in my minute of 10 October.

2. It would be very helpful if all Budget representations and requests for meetings/briefings are sent in the first instance to Mr Murray in FP. This will enable a single person to have a broad overview of the emerging themes. It will also reduce the need to transfer papers within FP.

CAROLYN SINCLAIR



Inland Revenue

FROM: C W CORLETT

Policy Division
Somerset House

7 November 1985

*b/f with
FST's response
(or 11/11) [initials]*

FINANCIAL SECRETARY

TAX AMNESTY

1. The Chancellor has undertaken to consider the suggestion put to him by the Prime Minister (Mr Norgrove's letter 26 September) for a tax amnesty.

2. The idea of a general amnesty has been looked at from time to time in the past, but there has always been a consensus against it.

What is the report?

3. The Keith Committee, which examined the idea, promulgated three conditions for a successful amnesty -

- i. a specific period, during which the evader could come forward and make a full confession;
- ii. an inducement - immunity from prosecution and penalties (and perhaps interest) - in return for paying the tax;
- iii. the period of immunity to be followed by a more rigorous regime of enforcement, with a fair certainty that those not coming forward would eventually be caught and dealt with severely.

cc Chancellor of the Exchequer
 Chief Secretary
 Economic Secretary
 Minister of State
 Sir Peter Middleton
 Mr Monger
 Miss Sinclair
 Mr Cropper
 PS/C&E
 Mr Scholar

Sir Lawrence Airey
 Mr Isaac
 Mr Battishill
 Mr Rogers
 Mr Pollard
 Mr Cherry
 Mr Roberts
 Mr Lawrance
 Mr Painter
 Mr Shepherd
 Mr Hinson
 Mr O'Hare
 PS/IR
 Mr Corlett

4. The third condition is not one which we are at present in a position to deliver. First, the Keith proposals, including toughening up the penalties (at present unrealistically feeble) for failing to tell the Revenue about a source of income or gains, will not be implemented until late 1987 at the earliest. Second, in our current work-state, there are simply no additional resources available for this purpose. Indeed, as you know, we are being forced to accept a reduction in our enforcement effort in several important areas.

5. We could not, therefore, operate an amnesty in the terms envisaged by the Prime Minister, which is that there should be strict enforcement immediately following the immunity period.

6. An alternative would be a less ambitious amnesty, without the threat of an enforcement blitz. This would do nothing to frighten out of the black economy those who are otherwise content to remain within it. Instead, it would be directed primarily at those who, having established a viable business within the black economy, now wish to go legitimate but are discouraged from doing so, either because they are frightened of being prosecuted or because they are unable to afford the cost in tax, penalties and interest of owning up to their past misdeeds. We understand that it may be this limited group which particularly concerns the Prime Minister.

7. Our reactions to a soft amnesty of this sort centre on two main concerns -

- while there are unquestionably some unwilling members of the black economy - who would perhaps be prepared to pay up back tax, but not penalties or interest - we are sceptical about whether they exist in any significant number. However, this is a matter of judgment, and we recognise that others may believe differently.

- more importantly, there are at least two other sections of the community with a close interest in an amnesty whose reactions would be important. First, those at present outside the black economy who would as a result be tempted to join it, encouraged by the thought that in due course there could well be a further amnesty, on equally easy terms, and without in the meantime any increased danger of being caught. This group might well outnumber those prepared to quit the black economy and legitimise themselves. Second, the majority of ordinary honest citizens (as well as those who have previously been caught and paid the penalty) who could well view this special lenient treatment as deliberate unfairness in the Department's administration of the tax system, particularly if there were any suggestion that the forgiveness might cover the past tax, in addition to the penalties and interest. Indeed, you may recall that it was the NFSE who took us to the House of Lords over what they - mistakenly - perceived as an amnesty for the Fleet Street casuals. And it was on both these grounds that the Keith Committee came down strongly against any amnesty at all.

Wynne?

H

8. The outcome of a soft amnesty without a blitz might not, therefore, be the hoped-for reduction in the size of the black economy, but rather a net increase, together with an undercurrent of disgruntlement amongst taxpayers generally.

9. Nor is experience of previous amnesties - including some in Ireland - encouraging. A note is attached which reviews the Irish experiments and some of our own practices, eg in relation to claims by immigrants to the old income tax child allowances. One amnesty which did apparently please its instigators was in Massachusetts last year - but the reports indicate that it was associated with a

vigorous crackdown, including the seizing of yachts and private planes and the enforced closure of restaurants and other businesses found to have evaded State taxes.

10. To sum up,

- a soft amnesty, lacking new or sharpened enforcement teeth, could well be counterproductive, both politically and in its net impact on the black economy
- but a full amnesty on the basis envisaged by Keith is not feasible at present because we do not have the additional powers or resources to threaten a credible crackdown
- on the other hand, the feasibility of an amnesty with teeth might look somewhat different in a couple of years time, if Keith is in the process of implementation and provided that our staff resources and work-state are by then substantially improved.

11. Three further points -

- if an amnesty were to find favour, we should have to think about the implications for VAT and National Insurance contributions. The latter would almost certainly have also been evaded. In practice, VAT might not be so significant, since a large proportion of the traders would probably be below the threshold anyway.
- again, if it were to go ahead, it would be necessary to decide how wide the scope of the amnesty would be - whether, for example, it should be restricted in any way to the non-declaration of income or gains, or extend more widely - bearing in mind that we currently

investigate about 50,000 cases annually altogether.

may not -
be widely
known

X

there is already considerable easing of the consequences for someone who comes forward voluntarily to disclose undeclared income and then co-operates fully in the subsequent enquiries. In practice this weighs heavily in favour of our agreeing to a monetary settlement rather than prosecuting. And in many cases it would be taken into account in setting a lower level of penalty - even if the tax and interest had to be paid in full. When the leaflet setting out our policy on mitigating penalties is published next year - as recommended by Keith - the extra publicity given to our practice may itself prompt some people to come forward.

12. Would you be content for us to prepare the draft note for the Prime Minister on these lines?



C W CORLETT

AMNESTIES1. Ireland

There have been tax amnesties in Ireland in 1932, 1964 and 1976.

The 1976 exercise was announced in the 1976 Budget simultaneous with the threat of a rigorous anti-evasion campaign. In future there would be no question in serious evasion cases of allowing a financial settlement out of Court with the emphasis on imprisonment. The amnesty was for a period of three months during which time defaulters had to make a full confession and make a substantial payment on account of the tax evaded. They undertook to pay the full amount of tax and interest and in return the Revenue would not impose penalties or criminal proceedings. The Minister for Finance announced the prospect of tough new measures with the promise of extra staff.

The results were very disappointing - only 371 people came forward and the yield (to August 1979) was only £1½ million. Furthermore by the beginning of 1980 no one had been sent to jail in Ireland and the general conclusions were the limited success was thought to be due to the fact that their Finance Act 1976 contained no anti-evasion measures which cause defaulters to feel that there was a greater risk of their being discovered (although their Finance Act 1976 contained enforcement provisions similar to our own 1976 measures).

2. Present practice where voluntary disclosure

Our practice in relation to voluntary disclosure dates back to a statement by the then Chancellor in the House in 1944:

"Major Studholme asked the Chancellor of the Exchequer what is the present practice of the Commissioners of Inland Revenue in regard to instituting criminal proceedings for alleged frauds on the Revenue.

Sir J Anderson: The practice of the Commissioners in this matter is governed by Section 34 of the Finance Act 1942, which makes provision for the admissibility in evidence of any disclosure made in the circumstances there set out. As the Section indicates, the Commissioners have a general power under which they can accept pecuniary settlements instead of instituting criminal proceedings in respect of fraud or wilful default alleged to have been committed by a taxpayer. They can, however, give no undertaking to a taxpayer in any such case that they will accept such a settlement and refrain from instituting criminal proceedings even if the case is one in which the taxpayer has made full confession and has given full facilities for investigation

of the facts. They reserve to themselves complete discretion in all cases as to the course which they will pursue, but it is their practice to be influenced by the fact that the taxpayer has made a full confession and has given full facilities for investigation into his affairs and for examination of such books, papers, documents or information as the Commissioners may consider necessary."

3. Immigrants - false claims for personal allowances

Following representations by Indian worker associations Ministers announced on 14 June 1967 a moratorium for three months on prosecutions of offenders who confessed within that period to having made false claims to personal allowances in the hope of encouraging people to come forward although interest and penalties would continue to be sought in appropriate cases. The moratorium applied to everyone, not only immigrants. About 1400 confessions were received, about 950 from Indians and Pakistanis, the balance being mainly British and Irish. Although this was useful it merely scratched the surface of the problem.

4. Late returns - interest and penalties

Representations were made by the CCAB in 1977 that accountants were confused about the Revenue's practice in charging interest and penalties where there was a delay in rendering tax returns. There was some justification for their concern, as it seemed that Inspectors were not applying the practice uniformly. The opportunity was therefore taken to issue a Press Notice explaining the Board's practice in conjunction with revised instructions to Districts. In the circumstances, it was thought only fair to allow three months' grace in respect of 1975/76 and 1976/77 returns.

5. Fleet Street

Casual printing workers were drawing untaxed pay and in many cases giving false names. Early in 1979 a special arrangement (authorised by PAYE Regulations) was made with the newspaper proprietors under which basic rate tax is deducted from the pay unless the casual worker identifies himself by producing his union card. It was made known to the casuals that the Revenue would not try to recover underpayments of tax on casual wages further back than April 1977 from those who came on to the books under the new arrangements by 6 April 1979: this was described in the Press as the 'Fleet Street amnesty'.

FINANCIAL SECRETARY

FROM: P J CROPPER
DATE: 11 November 1985

cc Chancellor—
Chief Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Monger
Miss Sinclair
Mr Scholar
Mr Corlett - IR
PS/IR

TAX AMNESTY

Mr Corlett's minute of 7 November makes clear that a Tax Amnesty would at best attack the symptom (a lot of tax going uncollected) rather than the disease (the inability of the Inland Revenue to collect it). Unless the amnesty were followed by a more vigorous regime of enforcement, it would, as Keith says, be of little use.

2. In theory it is the duty of the citizen to declare all his income and pay tax on it: in practise it is the job of the Revenue to discover that income and require the citizen to pay tax on it. Taxpayer morality has broken down on a wide front, in face of the temptation offered by weak enforcement. (Maybe it would be fairer to say that taxpayer morality has never actually been established) across the black half of the economy.

3. If by 1990 or so we have a better enforcement system, able to deal with several times as many tax returns as we can process today, and backed up by Keith-like legislation, then we might have the conditions appropriate to a tax amnesty.

A useful point to make to the PM?
dwl

4. This is how it looks to me at present.


P J CROPPER

Don't ask for Corlett's note



*Mr Corlett's submission
refns @ two points
(x & y) but what letter
had been etc an
amnesty. Post (1/11)
we have no
references
LHM SW
Have
accountant
No one
missed
ASAP.*

Ch

FROM: N WILLIAMS
DATE: 11 November 1985

PS/CHANCELLOR

To see the lines on which the Revenue are working. I think the note for the PM will need to be more positive & constructive. Or perhaps it needs a short up-beat cover note from you. But the main thing is to get Clive Corlett to produce a draft note quickly - he is making rather a meal of this.

- cc PS/Chief Secretary
- PS/Economic Secretary
- PS/Minister of State
- Sir Peter Middleton
- Mr Monger
- Miss Sinclair
- Mr Cropper
- Mr Scholar
- Mr Corlett IR
- PS/C&E
- PS/IR

*AWK
15/11*

TAX AMNESTY

1. The Financial Secretary has read Mr Corlett's minute of 7 November for which he was grateful.
2. The Financial Secretary can see the surface attraction of the tax amnesty idea. However the arguments in Mr Corlett's minute together with the Financial Secretary's past experience of proposals of this sort lead him to agree with the Inland Revenue's conclusions.
3. The Financial Secretary also believes that the tax amnesty would not deal with the essential reason for the black economy, namely the lack of clear water between the Tax and Social Security systems which removes incentives.

PS/ The PM has not yet seen your note on Keith. She shd do so this weekend.

AWK

N Williams

NIGEL WILLIAMS
(Assistant Private Secretary)

*This is this
LHM
The
warn
for the
black
fund
@ am*

CHANCELLOR

FROM: G McKENZIE


DATE: 12 November 1985

cc PS/CST
PS/FST
PS/EST
PS/MST
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Monck
Mr Cassell
Mr Monger
Mr Scholar
Mr Culpin
Mr Lord
Mr Cropper
Miss Sinclair
Mr Murray 92/157
PS I/R
Mr A Walker I/R
PS C&E
Mr J Bone C&E

1986 BUDGET: MAIN REPRESENTATIONS

Attached is a list of, and Synopsis on, the main Budget representations received to date.

I hope to circulate a second edition at the end of November.


G McKENZIE

BR(86)1

BUDGET 1986 REPRESENTATIONS - FIRST EDITION

Country Landowners Association	5- 8-85
British Retailers Association	10- 9-85
British Institute of Management	18- 9-85
Scottish Landowners Federation	1-10-85
Historic Houses Association	3-10-85
The Association of Independent Investment Managers	16-10-85
Managerial, Professional and Staff Liaison Group	18-10-85
General Council of British Shipping	24-10-85
Association of Consulting Engineers	25-10-85
CBI	25-10-85
Institute of Chartered Accountants	29-10-85
National Chamber of Trade	30-10-85
British Property Federation	30-10-85

Copies of these representations can be obtained from Sue Wallis (x5423).

COUNTRY LANDOWNERS ASSOCIATION

MEETING FST 18 DECEMBER

Capital Allowances

- Recommend that writing down allowances for agricultural buildings under S.68 1968 Capital Allowances Act remain at 10 per cent. At the very least, the present rates should be retained until the Green Paper on personal tax discussions are complete.
- No change to structure of agricultural buildings allowances.
- Introduce allowance for repairs to Listed Buildings.

Corporation Tax

- Small Companies Rate: £100,000 threshold should be increased for all companies.

Capital Gains Tax

- Permit gains accruing in respect of non-qualifying assets to be rolled-over into qualifying assets.
- in all cases where a roll-over or other deferment relief is claimed on an acquisition, the indexation allowance on disposal should be calculated by reference to the actual cost, or value of the asset at the date of acquisition, without any reduction for the deferred gain.

National Insurance Contributions

- Class 4 Contributions should be abolished.
- Reduce Employers Contributions.

VAT

- Northfield Committees recommendation be adopted, and that agricultural landlords be permitted to recover VAT input tax, at any rate in relation to repairs and maintenance.
- repairs and maintenance to listed buildings should be zero-rated.

BRITISH RETAILERS ASSOCIATION

Excise Duties

- Strongly urge that beer be favourably treated in Budget.
- Reduce higher duty on sparkling wine to that of table wines.

*journey club.
 SWA.
 SMMT
 AA.
 1
 Bnews rep.*

THE SCOTTISH LANDOWNERS' FEDERATION

MEETING FST 26 NOVEMBER

Capital Allowances

- The proposed reduction in agricultural buildings allowances has no justification and should not be implemented.

Capital Gains Tax

- Alter the base date to 1982 and roll-over and retirement reliefs made available to agricultural landlords.

VAT

- Agricultural landlords should be able to claim VAT on repairs, improvements etc.

HISTORIC HOUSES ASSOCIATION

- Remove 15 per cent additional rate on the income of the maintenance fund where the trustees elect for it to be treated as their own.
- Capital Transfer Tax: where negotiations for acceptance in lieu are successfully concluded, interest on the CTT to be satisfied by the object in question should cease to run from the date on which the offer was first made.

BRITISH INSTITUTE OF MANAGEMENT

- Concerned about the efficiency of public spending with regard to investment in the nation's infrastructure.

THE ASSOCIATION OF INDEPENDENT INVESTMENT MANAGERS

- Abolish/simplify Capital Gains Tax.

MANAGERIAL, PROFESSIONAL AND STAFF LIAISON GROUP

- Reduce basic rate of tax by 3 pence.
- Reduce all higher rates by 3 per cent points.
- Raise all higher rate thresholds by 10 per cent.
- Increase VAT to 17 per cent.
- increase beer by 2p per pint.

- increase bottle of wine by 10p.
- increase bottle of spirits by £1.
- increase the price of 20 cigarettes by 30p.
- remove the £8,500 earnings limit for the taxation of fringe benefits.

ASSOCIATION OF CONSULTING ENGINEERS

- Want authority to set aside modest sums to be put toward the cost of promotional and marketing expenditure overseas.
- Budget should include directive authorising and clarifying the necessity of maintaining professional indemnity insurance contingency funds at an appropriate actuarial level.

CBI

MEETING THE CHANCELLOR ON 10 DECEMBER

Approved Share Option Schemes:

- Part-time staff should be able to participate in schemes.
- If an option is granted in excess of the appropriate limit only the "excess amount" should be non-qualifying.

Income Tax

- Abolish the schedular system.
- Set off of losses brought forward against income under Schedule A or Case III or IV of Schedule D.
- Permit as a deduction all bona fide expenses incurred by a person in his business.

Cessations

Disincorporation: introduce roll-over relief where the company's business after winding up is carried on by the same individuals as controlled the company.

Capital Allowances

- Fixtures to land: welcome opportunity of discussing solutions to this problem.
- Industrial Buildings Allowance: see no objection to replacement of the "expenditure test" by an equivalent space test.
- VAT on Imports-Guarantees: Guarantees should only be demanded from traders who prove to be bad payers.

- There should be complete set-off of double taxation relief against Advanced Corporation Tax but leaving the tax credit and any payment thereof to the shareholder unaffected.

- recommend that in the case of short term employments in the UK there should be special relief for additional housing and education costs.
- The tax bias against certain types of capital should now be removed.
- Deep Discount Securities: It should be made clear that, however they may account for accruing discount all institutional lenders will be taxed on a deferred basis like other investors.
- Agricultural land and buildings: request early consultation and an opportunity for early sight of Finance Bill draft clauses.

Advance Corporation Tax

- The current rule restricting ACT set-off to 30 per cent of income should be removed.
- ACT set-off should cease to be confined to mainstream corporation tax on income and should instead be available to corporation tax on all profits.
- The right to carry ACT back for six years should be extended to ACT surrendered by another company in the group.

VAT

- Concerned at the way in which major changes in VAT may be introduced outside the Finance Bill and by SI.
- Exempt conversion of old buildings into houses from VAT.
- Strongly opposed to the draft 12th VAT directive.

CGT

- Suggest that provisions of Section 68(7) and (8) FA 1985 should be extended to roll-overs on business assets and gifts.
- CG should be capable of offset against trading losses brought forward as well as capital brought forward and current trading losses.
- Roll-over relief should be available against gains on the sale of trade investments which are applied in the purchase of other business assets.

GENERAL COUNCIL OF BRITISH SHIPPING

(possibility of a meeting)

- Introduction of a special 50 per cent ship allowance covering new and secondhand ships.
- Extend the Business Expansion Scheme to include ship catering; and a roll-over relief for balancing charges which matches the realities of the shipping market.

NATIONAL CHAMBER OF TRADE

- Recommend that a system is introduced for small businesses so that they can set aside a proportion of their profits to a tax free investment reserve for development to be used within 10 years.
- Provide capital allowances for commercial premises.
- Two tier system for VAT should be introduced to enable small businesses to lodge appeals informally to a local body instead of the present VAT appeal tribunals.
- Keith: Oppose the Inland Revenue adopting enforcement powers, similar to those given to Customs & Excise by the Finance Act 1985.

INSTITUTE OF CHARTERED ACCOUNTANTS

- Further consideration should be given to tax legislation and to the Renton Report.
- Abolish Capital Gains Tax.
- PAYE and Social Security inspections on employers' records should be conducted on one joint visit by DHSS and Revenue.

BRITISH PROPERTY FEDERATION

- Tax gains arising from inflation prior to 1982 to be exempt allowing tax payers to elect the use of March 1982 values.
- Grant roll-over relief from capital gains tax when properties for letting are sold, and then the proceeds re-invested in other property lettings.
- Companies should be able to offset the ACT they pay, against their corporation tax liabilities, with restriction.

CHANCELLOR 12/2

FROM: G McKENZIE
DATE: 12 November 1985

- cc PS/CST
- PS/FST
- PS/EST
- PS/MST
- Sir P Middleton
- Sir T Burns
- Mr Bailey
- Mr Monck
- Mr Cassell
- Mr Monger
- Mr Scholar
- Mr Culpin
- Mr Lord
- Mr Cropper
- Miss Sinclair
- Mr Murray
- PS I/R
- Mr A Walker I/R
- PC C&E
- Mr J Bone C&E

*Worth a glance.
Rms 13/11*

1986 BUDGET: MAIN REPRESENTATIONS

Attached is a list of, and Synopsis on, the main Budget representations received to date.

I hope to circulate a second edition at the end of November.

G McKenzie
G McKENZIE

BR(86)1

BUDGET 1986 REPRESENTATIONS - FIRST EDITION

Country Landowners Association	5- 8-85
British Retailers Association	10- 9-85
British Institute of Management	18- 9-85
Scottish Landowners Federation	1-10-85
Historic Houses Association	3-10-85
The Association of Independent Investment Managers	16-10-85
Managerial, Professional and Staff Liaison Group	18-10-85
General Council of British Shipping	24-10-85
Association of Consulting Engineers	25-10-85
CBI	25-10-85
Institute of Chartered Accountants	29-10-85
National Chamber of Trade	30-10-85
British Property Federation	30-10-85

Copies of these representations can be obtained from Sue Wallis (x5423).

COUNTRY LANDOWNERS ASSOCIATION

MEETING FST 18 DECEMBER

Capital Allowances

- Recommend that writing down allowances for agricultural buildings under S.68 1968 Capital Allowances Act remain at 10 per cent. At the very least, the present rates should be retained until the Green Paper on personal tax discussions are complete.
- No change to structure of agricultural buildings allowances.
- Introduce allowance for repairs to Listed Buildings.

Corporation Tax

- Small Companies Rate: £100,000 threshold should be increased for all companies.

Capital Gains Tax

- Permit gains accruing in respect of non-qualifying assets to be rolled-over into qualifying assets.
- in all cases where a roll-over or other deferment relief is claimed on an acquisition, the indexation allowance on disposal should be calculated by reference to the actual cost, or value of the asset at the date of acquisition, without any reduction for the deferred gain.

National Insurance Contributions

- Class 4 Contributions should be abolished.
- Reduce Employers Contributions.

VAT

- Northfield Committees recommendation be adopted, and that agricultural landlords be permitted to recover VAT input tax, at any rate in relation to repairs and maintenance.
- repairs and maintenance to listed buildings should be zero-rated.

BRITISH RETAILERS ASSOCIATION

Excise Duties

- Strongly urge that beer be favourably treated in Budget.
- Reduce higher duty on sparkling wine to that of table wines.

THE SCOTTISH LANDOWNERS' FEDERATION

MEETING FST 26 NOVEMBER

Capital Allowances

- The proposed reduction in agricultural buildings allowances has no justification and should not be implemented.

Capital Gains Tax

- Alter the base date to 1982 and roll-over and retirement reliefs made available to agricultural landlords.

VAT

- Agricultural landlords should be able to claim VAT on repairs, improvements etc.

HISTORIC HOUSES ASSOCIATION

- Remove 15 per cent additional rate on the income of the maintenance fund where the trustees elect for it to be treated as their own.
- Capital Transfer Tax: where negotiations for acceptance in lieu are successfully concluded, interest on the CTT to be satisfied by the object in question should cease to run from the date on which the offer was first made.

BRITISH INSTITUTE OF MANAGEMENT

- Concerned about the efficiency of public spending with regard to investment in the nation's infrastructure.

THE ASSOCIATION OF INDEPENDENT INVESTMENT MANAGERS

- Abolish/simplify Capital Gains Tax.

MANAGERIAL, PROFESSIONAL AND STAFF LIAISON GROUP

- Reduce basic rate of tax by 3 pence.
- Reduce all higher rates by 3 per cent points.
- Raise all higher rate thresholds by 10 per cent.
- Increase VAT to 17 per cent.
- increase beer by 2p per pint.

- increase bottle of wine by 10p.
- increase bottle of spirits by £1.
- increase the price of 20 cigarettes by 30p.
- remove the £8,500 earnings limit for the taxation of fringe benefits.

ASSOCIATION OF CONSULTING ENGINEERS

- Want authority to set aside modest sums to be put toward the cost of promotional and marketing expenditure overseas.
- Budget should include directive authorising and clarifying the necessity of maintaining professional indemnity insurance contingency funds at an appropriate actuarial level.

CBI

MEETING THE CHANCELLOR ON 10 DECEMBER

Approved Share Option Schemes:

- Part-time staff should be able to participate in schemes.
- If an option is granted in excess of the appropriate limit only the "excess amount" should be non-qualifying.

Income Tax

- Abolish the schedular system.
- Set off of losses brought forward against income under Schedule A or Case III or IV of Schedule D.
- Permit as a deduction all bona fide expenses incurred by a person in his business.

Cessations

Disincorporation: introduce roll-over relief where the company's business after winding up is carried on by the same individuals as controlled the company.

Capital Allowances

- Fixtures to land: welcome opportunity of discussing solutions to this problem.
- Industrial Buildings Allowance: see no objection to replacement of the "expenditure test" by an equivalent space test.
- VAT on Imports-Guarantees: Guarantees should only be demanded from traders who prove to be bad payers.

- There should be complete set-off of double taxation relief against Advanced Corporation Tax but leaving the tax credit and any payment thereof to the shareholder unaffected.
- recommend that in the case of short term employments in the UK there should be special relief for additional housing and education costs.
- The tax bias against certain types of capital should now be removed.
- Deep Discount Securities: It should be made clear that, however they may account for accruing discount all institutional lenders will be taxed on a deferred basis like other investors.
- Agricultural land and buildings: request early consultation and an opportunity for early sight of Finance Bill draft clauses.

Advance Corporation Tax

- The current rule restricting ACT set-off to 30 per cent of income should be removed.
- ACT set-off should cease to be confined to mainstream corporation tax on income and should instead be available to corporation tax on all profits.
- The right to carry ACT back for six years should be extended to ACT surrendered by another company in the group.

VAT

- Concerned at the way in which major changes in VAT may be introduced outside the Finance Bill and by SI.
- Exempt conversion of old buildings into houses from VAT.
- Strongly opposed to the draft 12th VAT directive.

CGT

- Suggest that provisions of Section 68(7) and (8) FA 1985 should be extended to roll-overs on business assets and gifts.
- CG should be capable of offset against trading losses brought forward as well as capital brought forward and current trading losses.
- Roll-over relief should be available against gains on the sale of trade investments which are applied in the purchase of other business assets.

GENERAL COUNCIL OF BRITISH SHIPPING

(possibility of a meeting)

- Introduction of a special 50 per cent ship allowance covering new and secondhand ships.
- Extend the Business Expansion Scheme to include ship catering; and a roll-over relief for balancing charges which matches the realities of the shipping market.

NATIONAL CHAMBER OF TRADE

- Recommend that a system is introduced for small businesses so that they can set aside a proportion of their profits to a tax free investment reserve for development to be used within 10 years.
- Provide capital allowances for commercial premises.
- Two tier system for VAT should be introduced to enable small businesses to lodge appeals informally to a local body instead of the present VAT appeal tribunals.
- Keith: Oppose the Inland Revenue adopting enforcement powers, similar to those given to Customs & Excise by the Finance Act 1985.

INSTITUTE OF CHARTERED ACCOUNTANTS

- Further consideration should be given to tax legislation and to the Renton Report.
- Abolish Capital Gains Tax.
- PAYE and Social Security inspections on employers' records should be conducted on one joint visit by DHSS and Revenue.

BRITISH PROPERTY FEDERATION

- Tax gains arising from inflation prior to 1982 to be exempt allowing tax payers to elect the use of March 1982 values.
- Grant roll-over relief from capital gains tax when properties for letting are sold, and then the proceeds re-invested in other property lettings.
- Companies should be able to offset the ACT they pay, against their corporation tax liabilities, with restriction.

AFS/CHX



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

RP

Sir Nicholas Goodison,
Chairman,
The Stock Exchange
LONDON EC2N 1HP

14 November 1985

Nicholas Goodison

Thank you for your letter of 7th November, which set out your representations for the 1986 Budget.

I can assure you that these will be carefully considered in the run-up to the Budget.

*Yours
Nigel*

NIGEL LAWSON



FROM: P WYNN OWEN
DATE: 14 November 1985

MISS C E C SINCLAIR

A handwritten signature in blue ink, appearing to be "P. Wynn Owen".

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Haigh
Mr Murray
Miss Page - MCU
Mr McKenzie
PS/IR
PS/C&E

BUDGET DEPUTATIONS AND REPRESENTATIONS

As you know, all Budget representations and requests for meetings/briefings will be logged on MCU's computer before being actioned out. In accordance with your minute, I have asked Jackie Page to ensure they are then sent in the first instance to Mr Murray in FP.

A handwritten signature in blue ink, appearing to be "P. Wynn Owen".

P WYNN OWEN

(a) *Granting an amnesty coupled with a publicity campaign*

27.2.2. Witnesses pointed to the experience of other revenue authorities and also to examples of amnesties in certain limited areas that had already been tried in the United Kingdom. The common features, each an essential element, were

- (i) the establishment of a limited time during which the tax evader might come forward and make a full confession;
- (ii) that the taxpayer would face no interest charge nor any other consequence in the form of civil proceedings for a penalty or criminal proceedings, while he would be charged to tax on any underdeclaration subject to de minimis limits; and
- (iii) that the amnesty period would be followed by a new more rigorous regime of enforcement carrying a significantly greater risk of detection and punishment, in order to make the inducement credible.

In the case of the Irish example of 1976 drawn to our attention, the third element involved a change of policy away from authorising the settlement of serious evasion out of court. United Kingdom experience has been in more limited areas. For example in 1967 there was a three month moratorium on prosecutions for false claims to personal allowances. In 1977 no interest and penalties were charged in respect of late 1975/76 and 1976/77 tax returns submitted within three months of the announcement. The Inland Revenue summed up their reactions to the suggestion of further amnesties as follows: "we have not gone in for any large scale amnesties and the experience of those who have is not encouraging". It seemed to us that if any one of the three elements in the amnesty equation were missing the whole exercise could well be counterproductive. In particular if the revenue authorities were not in a position to deliver a significantly improved detection rate at the third stage, then all that would have been achieved would be a reinforcement of the belief of tax evaders that all they need to do is sit tight. An amnesty is open to the further objection that it does not meet the representation that the Departments' enforcement efforts ought to be perceived to be even-handed across all groups of taxpayers. Of its very nature it contains an element of unfairness not only towards the honest citizen who has always met his tax obligations fully and on time, but also to those citizens who, having been dishonest, have recently been discovered and suffered the normal penalty. *We recommend against the introduction of amnesties.*



Inland Revenue

Policy Division
Somerset House

19 November 1985

CHANCELLOR OF THE EXCHEQUER

OK

TAX AMNESTY

As requested, I attach a short minute which you could send the Prime Minister about the possibility of an amnesty, together with a backing note on the lines of our original submission of 7 November.

x/

C W CORLETT

cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State
 Sir Peter Middleton
 Mr Monger
 Mr Scholar
 Miss Sinclair
 Mr Cropper
 PS/C&E

Sir Lawrence Airey
 Mr Isaac
 Mr Battishill
 Mr Rogers
 Mr Pollard
 Mr Cherry
 Mr Roberts
 Mr Lawrance
 Mr Painter
 Mr Crawley
 Mr Shepherd
 Mr Hinson
 Mr O'Hare
 PS/IR
 Mr Corlett

ch

I think 'x' is with you.

The PM is likely to raise Keith with you at tomorrow's bilateral. I thought it wd be helpful for you to see a draft note before then. In this form — a short positive note from you covering a note by officials — it doesn't look too bad

AWK 19/11

PS/This was done before I saw your note below. With the addition of 'x', is this OK? AWK

Pl type for ch's
sig ✓

~~Draft minute from the Chancellor to: The Prime Minister~~

~~[cc Secretary of State for Employment]~~?

TAX AMNESTY

You asked me ~~recently~~ to consider the possibility of a tax amnesty.

I attach a note prepared by officials. For understandable reasons, they take a cautious approach.

Nevertheless, I do not think we ought necessarily to reject the idea for all time.

First, it is clear that a good deal of enterprise and entrepreneurial activity is at present taking place outside the tax system. We need to harness and legitimise this activity, and one way to do so would be to encourage and assist these people to put themselves on a proper basis.

Second, however commendable the enterprise, we cannot, of course, condone blatant tax evasion. Our commitments to law and order, and to equal treatment within a fair society, require that firm measures are taken against those who, having had the opportunity to put their affairs in order, continue to exploit the rest of the community. It is all too easy to see tax evasion as cheating on the Government or the Revenue, rather than for what it is - cheating ~~on one's neighbours and friends,~~ and on the majority of ordinary people who pay the proper tax without fuss or complaint.

Unfortunately, we are not at present in a position to mount the right sort of effective enforcement action. For that we need ~~the~~ ^{as born} Keith legislation. ^{and increased resources.} This suggests

that it might be better to hold over the possibility of an amnesty until we have the ^{relevant Keith Powers,} additional sanctions which ~~the Keith proposals will give us, and~~ by which time the Revenue ^{should} ~~may~~ be emerging from their current work-state difficulties.

? ~~[I am copying this minute to the Secretary of State for Employment.]~~

N.L.

TAX AMNESTY

1. The idea of a general amnesty has been looked at from time to time in the past, but there has always been a consensus against it.

2. The Keith Committee, which examined the suggestion, identified three conditions for success *(the relevant extract is annexed) -*

- i. a specific period, during which the evader could come forward and make a full confession;
- ii. an inducement - immunity from prosecution and penalties (and perhaps interest) - in return for paying the tax;
- iii. the period of immunity to be followed by a more rigorous regime of enforcement, with a fair certainty that those not coming forward would eventually be caught and dealt with severely.

3. The third condition is not one which the Revenue are at present in a position to deliver. First, the Keith proposals, including an increase in the penalties ~~(at present unrealistically feeble)~~ for failing to declare income or gains, will not be implemented until late 1987 at the earliest. Second, far from there being staff resources available to direct an increased effort in this direction, the Revenue's current work-state difficulties are forcing the Department to accept a reduction in enforcement activity in several important areas.

4. An alternative possibility would be to mount a less ambitious amnesty, without the threat of an enforcement blitz at the end of the immunity period. This would not be directed at those who are susceptible only to threats of detection and severe punishment. Instead, the objective would be to offer a way out to those who, having perhaps established a viable black economy business, now wish

to establish themselves on a legitimate basis but are discouraged from doing so, either because they fear prosecution or because they are unable to afford the cost in tax, penalties and interest of owning up to their past misdeeds.

5. An amnesty with this limited objective raises two main questions -

- are there in fact a significant number of people in this position, ready to come forward and legitimise themselves?
- what would be the reaction of other sections of the community not benefiting from the amnesty? First, there would be some, at present outside the black economy, who would as a result be tempted to join it, encouraged by the thought that in due course there could be a further amnesty, on equally easy terms, and without in the meantime any increased danger of being caught. If this group were large enough, the net effect of the amnesty could be to add to, rather than reduce, the size of the problem. Second, and more importantly, the majority of ordinary honest citizens (as well as those who have previously been caught and paid the penalty) might well resent the special lenient treatment, particularly if there were any suggestion that the forgiveness might cover the past tax, in addition to the penalties and interest.

6. It was on the grounds of unfairness that the National Federation of the Self Employed in 1979 took the Revenue to the House of Lords over what they - mistakenly - perceived as an amnesty for the Fleet Street casuals. And it was on both grounds that the Keith Committee came down strongly against any amnesty at all (extract from Report attached).

7. To sum up,

- a limited amnesty, lacking credible subsequent enforcement, could be counter-productive
- but a fully-effective amnesty on the basis envisaged by Keith is not feasible in present circumstances.

Take in 'X' (para. 11, 3rd time) from
✓ draft of 7/Nov.

CONFIDENTIAL

PWP



FROM: M NEILSON
DATE: 20 November 1985

PPS

ch / Pps with you?
Dwork
21/11
✓

cc; PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Mr Monger
Mr Scholar
Miss Sinclair
Mr Cropper
PS/C&E
Mr Corlett - IR
PS/IR

TAX AMNESTY

The Economic Secretary has seen Mr Corlett's minute of 19 November. He thinks that the sentence referring to the "additional sanctions which the Keith proposals will give us" is rather stark, particularly given the emphasis that has been placed on presenting Keith to No.10 as a balanced package.

M NEILSON

11264/85



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Peter Firmston-Williams Esq
Chairman
The Retail Consortium
Commonwealth House
1-19 New Oxford Street
LONDON
WC1A 1PA

30 November 1985

Dear Mr Firmston-Williams

Thank you for your letter of 14 November.

As you can imagine, Treasury Ministers receive numerous requests for meetings from representative bodies before each Budget. I am sure you will appreciate they cannot see every organisation which requests a meeting. I am afraid, therefore, that it will not be possible for Treasury Ministers to see you in the run-up to the 1986 Budget.

I can assure you, however, that your representations will be carefully considered.

Nigel Lawson

NIGEL LAWSON

RWP

FROM: D N WALTERS
DATE: 26 NOVEMBER 1985

MR KUCZYS - 12/2

cc Miss Sinclair
Mr Pratt

BUDGET 1986

I understand that you wish to circulate on the private office network a letter encouraging Departments who can be expected to submit Budget representations, to let us have their views early.

2. I attach a draft which you may care to use. You will note that I have suggested pre-Christmas submissions. I believe that is your preference. This seems sensible and neither we nor FP would wish to suggest an alternative.

3. I suggest that you cover the offices of the following:

Environment
Social Services
Trade and Industry
Agriculture, Fisheries & Food
Transport
Arts

Defence
Energy
Home Office
Wales
Scotland
Northern Ireland.



D N WALTERS

DRAFT LETTER TO SELECTED PRIVATE OFFICES

BUDGET 1986

It is in December that we begin to receive Departmental representations for the next year's Budget. As you are aware it is particularly helpful if we receive these in good time. I would be grateful therefore if you could endeavour to let us have your Departments' views before we break for Christmas.

[AWK]

CONFIDENTIAL



*Approved today
RSP*

10 DOWNING STREET

From the Private Secretary

2 December 1985

Dear Philip,

✓

TAX AMNESTY

The Prime Minister was grateful for the Chancellor's minute of 21 November. She accepts that it would be better to hold over the possibility of a tax amnesty until the relevant Keith powers are in place.

*Yours ever,
David*

(David Norgrove)

Philip Wynn Owen, Esq.,
HM Treasury.

3/12

CH/EXCHEQUER	
REC.	-2 DEC 1985
ACTION	FST
COPIES	

CONFIDENTIAL

Admin Reps

N4/42

*1. Phil
2. Ruf*



FROM: A W KUCZYS
DATE: 4 December 1985

cc Miss Sinclair
Mr Pratt
Mr McKenzie

MR WALTERS

BUDGET 1986

Thank you for your minute of 26 November about encouraging other Departments to submit their Budget representations early.

2. We discussed this and agreed that, rather than writing, we should phone last year's worst offenders. Philip Wynn Owen and I have therefore telephoned our opposite numbers in DHSS, Home Office, MAFF and Scottish Office, asking them to submit their representations as far as possible in one go and before Christmas.

3. We also agreed that, where a Department still produced very late representations, they should receive an acknowledgement pointing out that this made it difficult to take their views into account in framing the Budget. You and/or FP would be responsible for this.

A W KUCZYS

b/f 3/12
107

FROM: D N WALTERS
DATE: 26 NOVEMBER 1985

MR KUCZYS

cc Miss Sinclair
Mr Pratt

2.

BUDGET 1986

I understand that you wish to circulate on the private office network a letter encouraging Departments who can be expected to submit Budget representations, to let us have their views early.

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3. I suggest that you cover the offices of the following:

- Environment
- Social Services ✓ Fed 1687 Giles Denham
- Trade and Industry
- Agriculture, Fisheries & Food
- Transport
- Arts

- Defence
- Energy
- Home Office ✓ Fed 2524 William Fittall
- Wales
- Scotland
- Northern Ireland.

D N Walters

D N WALTERS

DRAFT LETTER TO SELECTED PRIVATE OFFICES

BUDGET 1986

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[AWK]

DEPARTMENT	DATE	MINISTER
------------	------	----------

SCOTTISH OFFICE

14/12/84

GEORGE YOUNGER

DHSS

17/12/84

NORMAN FOWLER.

ENVIRONMENT

18/12/84

PATRICK JONKIN.

ARTS & LIBRARIES

18/12/84

LORD GOWRIE

TRADE & INDUSTRY.

20/12/84

NORMAN TEBBIT.

LORD PRESIDENT OF COUNCIL.

23/12/84

VISCOUNT WHITELAW

EMPLOYMENT

28/12/84

TOM KING.

MAFF.

7/1/85

MICHAEL SOPLING

TRANSPORT.

9/1/85

WILLIAMS RIDLEY.

MAFF.

15/1/85

MICHAEL SOPLING

UNDER/SEC. WALES

23/1/85

WYN - ROBERTS.

DEFENCE.

24/1/85

MICHAEL HESLITINE.

HOME OFFICE

25/1/85.

LEON BRITAN.

MST - INDUSTRY.

30/1/85.

NORMAN LAHANT.

MST - MAFF.

14/2/85.

MICHAEL SOPLING.

S of S. - SCOTLAND.

14/2/85.

GEORGE YOUNGER

DHSS

15/2/85.

NORMAN FOWLER.

DHSS.

20/2/85.

NORMAN FOWLER.

RSP
CST
FST
EST
MST
Sir P Middleton
Mr Monger
Mr Scholar
Miss Sinclair
Mr Cropper
PS/C&E
Mr Corlett - IR



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

TAX AMNESTY

You asked me to consider the possibility of a tax amnesty.

I attach a note prepared by officials. For understandable reasons, they take a cautious approach.

Nevertheless, I do not think we ought necessarily to reject the idea for all time.

First, it is clear that a good deal of enterprise and entrepreneurial activity is at present taking place outside the tax system. We need to harness and legitimise this activity, and one way to do so would be to encourage and assist these people to put themselves on a proper basis.

Second, however commendable the enterprise, we cannot, of course, condone blatant tax evasion. Our commitments to law and order, and to equal treatment within a fair society, require that firm measures are taken against those who, having had the opportunity to put their affairs in order, continue to exploit the rest of the community. It is all too easy to see tax evasion as cheating on the Government or the Revenue, rather than for what it is - cheating on the majority of ordinary people who pay the proper tax without fuss or complaint.

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Unfortunately, we are not at present in a position to mount the right sort of effective enforcement action. For that we need both the Keith legislation and increased resources. This suggests that it might be better to hold over the possibility of an amnesty until we have the relevant Keith powers by which time the Revenue should be emerging from their current work-state difficulties.

N.L.

N.L.

21 November 1985

TAX AMNESTY

1. The idea of a general amnesty has been looked at from time to time in the past, but there has always been a consensus against it.
2. The Keith Committee, which examined the suggestion, identified three conditions for success (the relevant extract is annexed) -
 - i. a specific period, during which the evader could come forward and make a full confession;
 - ii. an inducement - immunity from prosecution and penalties (and perhaps interest) - in return for paying the tax;
 - iii. the period of immunity to be followed by a more rigorous regime of enforcement, with a fair certainty that those not coming forward would eventually be caught and dealt with severely.
3. The third condition is not one which the Revenue are at present in a position to deliver. First, the Keith proposals, including an increase in the penalties for failing to declare income or gains, will not be implemented until late 1987 at the earliest. Second, far from there being staff resources available to direct an increased effort in this direction, the Revenue's current work-state difficulties are forcing the Department to accept a reduction in enforcement activity in several important areas.
4. An alternative possibility would be to mount a less ambitious amnesty, without the threat of an enforcement blitz at the end of the immunity period. This would not be directed at those who are susceptible only to threats of detection and severe punishment. Instead, the objective would be to offer a way out to those who, having perhaps established a viable black economy business, now wish to establish themselves on a legitimate basis but are discouraged from doing so, either because they fear prosecution or because they are unable to afford the cost in tax, penalties and interest of owning up to their past misdeeds.

An amnesty with this limited objective raises two main questions

- are there in fact a significant number of people in this position, ready to come forward and legitimise themselves?

- what would be the reaction of other sections of the community not benefiting from the amnesty? First, there would be some, at present outside the black economy, who would as a result be tempted to join it, encouraged by the thought that in due course there could be a further amnesty, on equally easy terms, and without in the meantime any increased danger of being caught. If this group were large enough, the net effect of the amnesty could be to add to, rather than reduce, the size of the problem. Second, and more importantly, the majority of ordinary honest citizens (as well as those who have previously been caught and paid the penalty) might well resent the special lenient treatment, particularly if there were any suggestion that the forgiveness might cover the past tax, in addition to the penalties and interest.

It was on the grounds of unfairness that the National Federation of the Self Employed in 1979 took the Revenue to the House of Lords over what they - mistakenly - perceived as an amnesty for the Fleet Street casuals. And it was on both grounds that the Keith Committee came down strongly against any amnesty at all.

There is already considerable easing of the consequences for someone who comes forward voluntarily to disclose undeclared income and then co-operates fully in the subsequent enquiries. In practice this weighs heavily in favour of the Revenue agreeing to a monetary settlement rather than prosecuting. And in many cases it would be taken into account in setting a lower level of penalty - even if the tax and interest had to be paid in full. When the leaflet setting out the Revenue's policy on mitigating penalties is published next year - as recommended by Keith - the extra publicity given to their practice may itself prompt some people to come forward.

To sum up,

- a limited amnesty, lacking credible subsequent enforcement, could be counter-productive
- but a fully-effective amnesty on the basis envisaged by Keith is not feasible in present circumstances.

(a) *Granting an amnesty coupled with a publicity campaign*

27.2.2. Witnesses pointed to the experience of other revenue authorities and also to examples of amnesties in certain limited areas that had already been tried in the United Kingdom. The common features, each an essential element, were

- (i) the establishment of a limited time during which the tax evader might come forward and make a full confession;
- (ii) that the taxpayer would face no interest charge nor any other consequence in the form of civil proceedings for a penalty or criminal proceedings, while he would be charged to tax on any underdeclaration subject to de minimis limits; and
- (iii) that the amnesty period would be followed by a new more rigorous regime of enforcement carrying a significantly greater risk of detection and punishment, in order to make the inducement credible.

In the case of the Irish example of 1976 drawn to our attention, the third element involved a change of policy away from authorising the settlement of serious evasion out of court. United Kingdom experience has been in more limited areas. For example in 1967 there was a three month moratorium on prosecutions for false claims to personal allowances. In 1977 no interest and penalties were charged in respect of late 1975/76 and 1976/77 tax returns submitted within three months of the announcement. The Inland Revenue summed up their reactions to the suggestion of further amnesties as follows: "we have not gone in for any large scale amnesties and the experience of those who have is not encouraging". It seemed to us that if any one of the three elements in the amnesty equation were missing the whole exercise could well be counterproductive. In particular if the revenue authorities were not in a position to deliver a significantly improved detection rate at the third stage, then all that would have been achieved would be a reinforcement of the belief of tax evaders that all they need to do is sit tight. An amnesty is open to the further objection that it does not meet the representation that the Departments' enforcement efforts ought to be perceived to be even-handed across all groups of taxpayers. Of its very nature it contains an element of unfairness not only towards the honest citizen who has always met his tax obligations fully and on time, but also to those citizens who, having been dishonest, have recently been discovered and suffered the normal penalty. *We recommend* against the introduction of amnesties.



*Thank. When 500 label
pos. 2 to be dimension?
M.*

Board Room
HM Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE
From: P Jefferson Smith
11 December 1985

CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Monger
Mr Cropper
Mr Davies
Mr Lord

*Note.
MST has no
comment.*

*C.
To note - familiar
story.*

Rm 13/12

Rm 20/12

BUDGET REPRESENTATIONS : THE NATIONAL ASSOCIATION OF CIDER MAKERS

1. As they did in 1984, the Association have sent us their Budget Representations (copy at Annex A). We subsequently met their representatives along with representatives of the National Association of Perry Makers.

2. The Association's main points were very similar to those made last year:-

- i. after a period of expansion, the cider market has been in decline since the middle of 1984 (when we met the trade they provided a sales graph based on industry returns of cider leaving the factory gates - a copy is at Annex B);
- ii. the extra costs of making and distributing cider counter-balance the duty advantage over beer;
- iii. companies have already reduced their labour force and made other economies, but there is a limit to what can be achieved by such rationalisation. Surplus raw materials could soon begin to have a serious affect on apple growers;
- iv. wholesalers and retailers apply higher margins to cider than beer. Since they work on duty-paid prices the difference in mark-up magnifies the effect of duty

Internal circulation:

CPS	Mr Knox	Mr Whitmore	Mr Wilmott
Mrs Hamill	Mr Tullberg	Mr Baust	Mr Hankins

increases on cider and leads to a greater increase in retail price than would result from the same increase in money terms in the duty on beer. Efforts to persuade the wholesalers and retailers (which include tied public houses and large supermarket chains) to cut margins on cider have failed due to the cider makers' lack of relative weight. Over a number of years further narrowing of the duty differential between cider and beer could, in the Association's view, prove disastrous for the UK cider industry; and

- v. the Association argued strongly against the same pence per pint duty increase as for beer. They would prefer a uniform percentage increase applied to all alcoholic drink duties.

3. I undertook to report to you the Association's representations. They will not be seeking a meeting with a Minister.

4. We will take into account the cider makers' view when advising you on cider duty in the context of the drinks duties and the excise package as a whole.

ph ✓

P Jefferson Smith

The National Association of Cider Makers

Secretary:
A. T. BRAIN, F.C.A.

Telephone 64086 / 64316
(STD 0305)

GEORGIAN HOUSE
TRINITY STREET
DORCHESTER, Dorset DT1 1UB

Preamble

The NACM submitted a paper to Customs and Excise in November 1984 headed Beer, Lager and Cider Cost Comparison. The undermentioned notes are intended to be read in conjunction with that paper and are intended to up date the figures quoted where appropriate and to identify the reasons for the changes where they are not self-evident. (For ease of reference paragraphs where changes have been made are asterisked).

INTRODUCTION

**

The NACM repeats its fears that differential changes in excise duty to those of other competing drinks could have very serious consequences for the industry. Cider is still very small by comparison with beer and lager and the current position (end September) is as follows:-

	<u>Bulk Barrels</u> <u>000s</u>	<u>%</u>	<u>% YOY Change</u>
All Beer	36,300	95.3	- 1.1%
Cider	<u>1,790</u>	<u>4.7</u>	<u>- 3.9%</u>
	<u>38,090</u>	<u>100.0</u>	<u>- 1.3%</u>

The Messel report on the Brewing industry has not at the time of writing been up dated and thus the brewing industry costs have been stated at the same level as 1984 in the absence of more recent information. Costs for cider are stated as at September 1985 and it will be noted that these costs show virtually no change from 1984 owing to the stringent cost measures that the cider industry has been obliged to take in the light of falling volumes and profit, as mentioned on page 5.

All figures are rounded to the nearest £1 per bulk barrel and beer is taken as having an original gravity of 1036°.

1. Materials

The approximate cost of cider is	£11 per barrel
The approximate cost of beer is	£ 6
The cost differential is	£ 5

The material cost differences are quite significant. Beer and lager are produced from malted barley, sugar and hops, all of which are relatively stable in supply and price. Cider is produced from apple juice, obtained from a distinctive but limited variety of apples which are only available as fresh fruit for a few months of the year. Because of the biennial nature of the crop, it is only every other year that large quantities of juice are obtained from local growers. In years of low local yields concentrated juice has to be brought in from overseas sources.

In addition to the physical cost difference, it is necessary to hold stocks of concentrated juice because of the seasonality of apple supply and these have to be financed for periods as long as two years.

2. Production Costs

The approximate cost of production, packaging and administrative support for cider is	£23 per barrel
The approximate cost for beer is	£16
The cost differential is	£ 7

One reason for the differential is economy of scale but in addition and very importantly, the major and medium sized breweries have a fairly predictable level of demand from a largely captive managed and tenanted trade - vertical integration. In contrast cider demand is seasonally elastic, difficult to predict and "non-integrated".

Two other points must be noted:

- (a) The production of cider is subject to the added complexity of starting with a variable juice quality in different years and finishing with a product of high and consistent quality one year with another.
- (b) The length of the production cycle which may take from 6 to 24 weeks dependent upon the variety of cider being produced. (In contrast the fermentation period for beer is between 4 and 10 days and for lager 28 days.)

3. Distribution

The approximate cost for cider is £13 per barrel
The approximate cost for beer is £10

The cost differential is £ 3

The cost of physical storage and distribution is similar for both products up to the point of wholesale storage. Thereafter the economies of scale possible to the brewer give considerable cost benefit over the cider maker. The typical brewery vehicle calls at four outlets with a full load and an average drop size in excess of 1 ton. By comparison the cider vehicle covers twenty outlets with an average drop size of under 0.25 tons.

4. Other Support Costs

The impact of volume also brings with it economies of scale as regards overheads and support costs.

The cost of essential support for cider is £14 per barrel
whilst that of beer is £11
giving a cost differential of £ 3

Part of these costs are of a promotional nature (necessary for a minority product) but the major influence within these figures is the cost of supplying and servicing the keg dispense units. The typical cost of an installation for cider in a pub is £470 whilst that of the brewer is some 15% less, mainly due to the requirement for special steel in the cider makers' kegs and dispense equipment.

Sales Per Outlet and price comparisons

**

The number of beer taps in a typical average pub is still likely to be 7 and the volumes per tap and per outlet for beer and lager will not, we believe, have altered. However, the figures for cider which we are now able to obtain from an independent audit have deteriorated and are set out below. It will be seen that average tap throughput on cider is even lower now than before.

An independent audit has shown that, while the outlet rate of sale was underestimated last year (8bb), the actual level is higher only because cider makers have installed more taps per outlet. The crucial measure, rate of sale per tap, is very much lower than last year's estimate (8bb).

	<u>Barrels sold per annum</u>	
	<u>Per Tap</u>	<u>Per Outlet</u>
Bitter beer	42 x 5	210
Lager	62.5 x 2	125
Any Cider	6 x 1.7	10

This means that firstly, higher equipment costs are amortized over even lower volumes and secondly, because of this lower throughput the brewer and/or his tenant requires a higher margin.

The retail price has moved against cider if compared with bitter but has actually improved slightly against lager and the following table illustrates the current position as at October 1985.

	<u>Lager</u>	<u>Bitter</u>	<u>Cider</u>
Retail price per pint	84p	77p	87p
Wholesalers' average delivered price to Retail Outlet per B/B (inclusive of Duty)	£127.46	£116.72	£130.78
Ultimate retail price per barrel (exclusive of VAT)	<u>£210.37</u>	<u>£192.83</u>	<u>£217.88</u>
Retailer's Margin	<u>£ 82.91</u>	<u>£ 76.11</u>	<u>£ 87.10</u>

Sources: Suppliers
Trade Lists and Trade estimates.
Wyman Harris audit.

SUMMARY

**

The cost differentials which are summarised below are broadly offset by the lower excise duty payable on cider, enabling it to maintain a competitive position in the market place.

<u>Cost Penalty against Cider</u>	
	£
Materials	+ 5 per barrel
Production	+ 7
Distribution	+ 3
Other Support Costs	+ 3
	<u>+18 per barrel</u>

To this may be added the greater VAT contribution from cider (some £3 per barrel more, from the point of delivery), derived from its lower manufacturers' price but higher retail price.

The adjustment to excise duty on cider in March 1985 (+10%) although less than 1984 has not helped the market to reverse its downward path although, along with other long drinks, the indifferent summer weather was also an adverse factor. As a result cider sales at the end of September are running at -3.9% year on year and are likely to show a fall of 4 - 5% in 1985 compared with 1984. Indeed the decline in the September quarter alone is 7.0%.

The above comments deal exclusively with the cider v beer costs and price comparisons, but as the table in appendix I indicates the relative position of wine is still giving great cause for concern. We note with dismay that the clearances of imported table wines (not exceeding 15% vol.) for the year to July 1985 are reported to have increased by no less than 760,000 Hl +20.3%. If this preferential position for an imported product in relation to a product made in the U.K. is allowed to continue unchecked it can only have a further adverse effect on cider's competitive position with the consequential effect on jobs and capital investment.

These recent trends mean that the cider industry has no alternative but to carry out a careful review of its costs. Major producers are already taking steps to cut back on jobs (-15%) and capital investment programmes. The outlook for those agricultural communities dependent on the cider industry is becoming even bleaker and the wisdom of planting orchards which are a very long term investment is being questioned.

THE FUTURE

**

An examination of the changes in the last four years as set out in Appendix 1, shows that on an index basis cider has fared badly when compared to beer, or wine or consumer expenditure. But examination of one possible scenario (Appendix 2) for the future shows the position becoming much worse, not so much because of the modest changes in the beer/cider ratio (as shown) but because of the effect that this would have through the price structure. The wholesaler and the retailer (the two links in the chain after the manufacturer) both must maintain their percentage margin on the duty inclusive price. This would result in a pint of cider being sold at 14p per pint more in real terms than beer five years hence, rather than about 10p as at present. There is no way that the manufacturer can compensate for this by containing costs and it can only lead to a decline in the prosperity of the industry.

CONCLUSION

**

We must reiterate that the removal of the benefit of lower duty would accelerate the industry's current decline and would have serious consequences on local agricultural communities. We would advocate strongly that the current relative levels of beer and cider duty should at least be continued and if possible move in favour of cider.

20th November, 1985

RELATIVE CHANGES IN EXCISE DUTY AND CONSUMER EXPENDITURE

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>ALL CONSUMER EXPENDITURE</u> , indexed	100	110	117	124 e
<u>BEER</u> 1036°O.G.				
*Actual rate of duty, £/barrel	37.66	39.87	44.31	47.63
Actual rate of duty, indexed	100	106	118	126
Change relative to consumer expenditure, indexed	100	96	101	102
<u>CIDER</u> n.e. 8.5% v.v.				
Actual rate of duty, £/barrel	13.35	15.86	23.37	25.86
Actual rate of duty, indexed	100	119	175	194
Change relative to beer, indexed	100	112	148	154
Change relative to consumer expenditure, indexed	100	108	150	156
<u>WINE</u> n.e. 15% v.v.				
Actual rate of duty £/barrel	174.79	184.93	148.11	160.38
Actual rate of duty, indexed	100	106	85	92
Change relative to beer, indexed	100	100	72	73
Change relative to consumer expenditure, indexed	100	96	73	74

Rates applied at March budget in each year.

* Quoted rate reduced by 6% wastage allowance.

Sources: Central Statistical Office
H.M. Customs and Excise

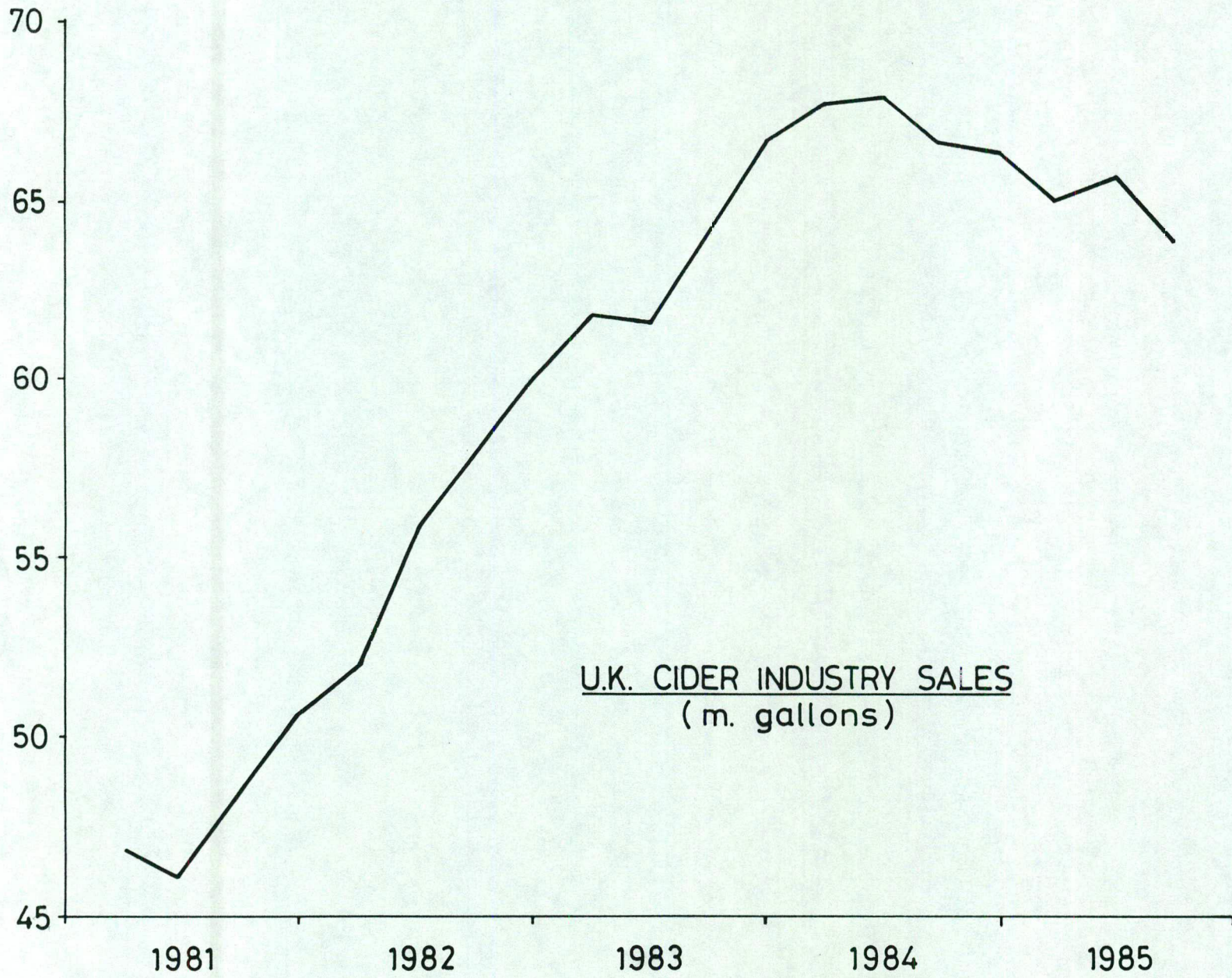
EFFECT OF AN INCREASE IN DUTY ON BOTH BITTER BEER AND CIDER EQUIVALENT TO 2p/PINT AT RETAIL (£5.01/brl ex VAT)
EXCLUDING COST INFLATION

All costs in £/barrel	1985		1986		1987		1988		1989		1990		% inc in 5 years	
	Beer	Cider	Beer	Cider	Beer	Cider	Beer	Cider	Beer	Cider	Beer	Cider	Beer	Cider
Duty (beer adjusted)	47.63	25.86	52.34	30.87	57.05	35.88	61.76	40.89	66.47	45.90	71.18	50.91	49	97
Index, Beer/Cider	1	0.54	1	0.59	1	0.63	1	0.66	1	0.69	1	0.72	0	33
Relative change	100	100	100	109	100	117	100	122	100	128	100	133		
Wholesalers' delivered price (inc. Duty, exc. VAT)	116.72	130.78	122.66	137.97	128.61	145.13	134.56	152.29	140.51	159.44	146.45	166.60	25	27
Forecast retail price (pence/pint inc VAT)	77	87	81	92	85	97	89	101	93	106	97	111	26	28

Source: Trade estimates

Note: Beer duty adjusted to allow 6% wastage, taken at 1036° O.G.

All prices assume current margins and that the current rate of VAT is maintained



U.K. CIDER INDUSTRY SALES
(m. gallons)



cc: PS/CST
 PS/FST
 PS/EST
 PS/MST
 Sir P Middleton
 Sir T Burns
 Mr Monger
 Mr Scholar
 Miss Sinclair
 Miss Page MCU
 Mr P Lilley MP

Treasury Chambers, Parliament Street. SW1P 3AG
 01-233 3000

Tim Yeo MP
 House of Commons
 LONDON
 SW1A 0AA

13 December 1985

Prof

Tim Yeo

Many thanks for your letter of 10 December covering the Budget representation from the Third Term Group. I will carefully bear in mind the points you make when formulating the Budget.

Copies of this letter go to Steve Norris, Andrew MacKay, John Hannam, Bowen Wells, Virginia Bottomley, David Harris, Sydney Chapman, Bill Benyon and David Heathcoat-Amory.

Yeo
Nigel Lawson

NIGEL LAWSON

TIM YEO MP



HOUSE OF COMMONS

LONDON SW1A 0AA

01 219 6353

10th December, 1985

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

Dear Nigel

I enclose a letter from the Third Term Group on the subject of income tax and National Insurance Contributions.

The Group would like to make this letter public at the beginning of next week, and I hope that this will give you time to consider the points which are made in the letter.

Yours

T

TIM YEO



HOUSE OF COMMONS
LONDON SW1A 0AA

10th December, 1985.

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

Dec. Nigel

The Third Term Group approves your decision not to publish a fiscal adjustment figure with the Autumn Statement and hopes that this will encourage constructive debate about the nature, as opposed to the size, of any tax cuts which may be announced in next year's Budget.

We particularly welcomed the 1985 Budget changes on National Insurance Contributions, which were very much in line with our own suggestions discussed with you last February. We believe that next year's Budget should be used to build on these foundations.

It is our view that at present there is little pressure from those with average and above average incomes for sizeable tax cuts. These groups have benefited from the reductions already made and continue to be protected by automatic indexation of thresholds.

There is however widespread concern that income tax and national insurance contributions bite too deeply into the pay packets of below average earners. The reference to the £140 per week nurse who loses



The Rt Hon Nigel Lawson, MP

10th December, 1985.

over £40 per week in deductions in your speech to the Party Conference struck a chord with us and with many of our constituents.

We also attach great importance to the need to introduce tax cuts which stimulate employment. This can best be achieved by tax and national insurance changes which significantly raise the take home pay of the lower wage earners, thus helping to make employment financially more attractive.

Accordingly we urge you most strongly to reject the idea of cutting the standard rate of income tax, for which there is limited popular demand and which is the least efficient way to relieve the burden of tax on the lower paid.

Instead we suggest that relief should be given half in the form of higher tax allowances and thresholds, and half in the form of further reductions in employees national insurance contributions in Bands 1, 2 and 3.

This combination has the advantage of conferring some benefit on all taxpayers while at the same time doing far more for every one of the 11 million workers earning up to £140 p.w. than is possible through any

continued.....



The Rt Hon Nigel Lawson, MP

10th December, 1985.

other method.

We believe that the vast majority of wage earners do not distinguish between income tax and national insurance contributions but are concerned with take home pay. Until the changes contained in your 1985 Budget were introduced, wage earners faced a basic 'deduction rate' of 39 per cent, made up of 30 per cent tax and 9 per cent national insurance contributions.

This has now been amended so that rates of 37 and 35 per cent apply to lower earners. In doing this you have effectively reintroduced the old lower rate of income tax without imposing any administrative burden on the Inland Revenue. Our proposal would take this process a stage further, without the need for structural change.

As we do not know what sum of money will be available for tax cuts we have used a figure of £2.5 billions for illustrative purposes only (the arguments hold good for any higher or lower figure).

This sum would be roughly sufficient to cut the basic and higher rates of income tax by 2 pence. This would increase the take home pay of the £140 per week nurse by £1.90 per week if single and £1.40 if married.

continued.....



The Rt Hon Nigel Lawson MP

10th December, 1985.

6.3

The same sum would finance a combination of a 4 per cent rise in all personal tax allowances and thresholds, and a 3 per cent cut in the rates of class 1 employee national insurance contributions paid by all employees in Bands 1, 2, and 3 (i.e. employees earning from £38 to £59.99 would pay 2 per cent, from £50 to £94.99 4 per cent and from £95 to £134.99 6 per cent). This would increase the take home pay of the £140 per week nurse by £5.00 per week if single and £5.47 if married.

The relative advantages of our method are even greater for those earning below £140 per week. For example at £100 per week a married man is only 60 pence better off from a 2 p tax rate cut but is £4. 27 better off under our proposal.

We recognise that for those earning over £7,280 per annum, the attractions of cuts in the rate of income tax become progressively greater as they rise up the earnings scale. In the context of the 1986 Budget however we believe that average and above average earners, all of whom would gain significantly from our proposed threshold increase, would be satisfied to see part of the relief concentrated on the lower income group.

Changes in national insurance contributions offer the only simple way to

continued.....



target relief accurately at the low paid -the one group which is
universally acknowledged to be paying too much tax - and your last
Budget recognised this.

We believe that tax changes which do something for everyone but more for
the worst off would be economically beneficial by stimulating work
incentives at a time of unemployment and politically popular because of
their obvious fairness.

You - sign
To the

TIM YEO

Steve Norris

STEVE NORRIS

Andrew J Mackay
C.

ANDREW MACKAY

John Hannam

JOHN HANNAM

Bowen Wells

BOWEN WELLS

Virginia Bottomley

VIRGINIA BOTTOMLEY

David Harris

DAVID HARRIS

Sydney Chapman

SYDNEY CHAPMAN

Bill Benyon
BILL BENYON

David Heath
DAVID HEATH-
LOAT AMOR



ML/42
X

BR.

HM TREASURY - WCU	
- 6 JAN 1986	
ACTION	Mr Walters - CU CHX, CST, PST, MST, EST, Sir Priddell, PS/DE, PS/CE Sir T Burns, Mr Cassell, Mr Manger, Mr Scholar Miss Sinclair, Mr Pratt, Mr Haigh, Mr Murray Mr Cropper, Mr Davies, Mr Lord
PPS/CHX	
10061/86	

NEW ST. ANDREWS HOUSE
EDINBURGH EH1 3SX

Mrs J R Lomax
Private Secretary to the Chancellor of the
Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

31 December 1985

Dear Rachel

1986 BUDGET

1. The Chancellor has requested representations about next year's Budget to be with him by 31 December. There are several issues which Mr Younger would like to draw to Mr Lawson's attention reflecting the wide range of functions covered by the Scottish Office. These are set out below.

Capital taxes and the tenanted sector of agriculture

2. On many occasions Mr Younger has expressed his concern over the continuing decline in the tenanted sector of agriculture, most recently in his letter to the Chancellor of 16 October when he described Lord Gray's proposals for a new capital tax initiative. This sector has traditionally given the young farmer his start in farming and is a cornerstone of the agricultural industry at large. The Government are committed to halting the decline in tenancies and as a first step in 1983 amended the law of landlord and tenant. But without adequate and complementary fiscal changes these efforts will be incomplete. Mr Younger hopes therefore that the Chancellor can make some further concessions especially on the capital taxation front.

Taxation Regime for Offshore Oil and Gas Developments

3. It is important that we should maintain the momentum of offshore oil and gas developments. Apart from the national interest in slowing the decline in our output of oil and helping meet our requirements for gas supply in the 1990s Mr Younger's interest lies in the maintenance of a reasonable flow of business for platform yards and other companies in Scotland which are dependent on oil-related work. A point of particular concern will be the need to ensure that companies undertake the necessary investment to maximise the output of existing fields: this could be particularly beneficial in involving new kinds of hardware and new areas of technology and will help us develop the sort of expertise which we can then market worldwide. He therefore hopes that it will be possible to find a satisfactory means of stimulating such investment through the tax regime. A point of perhaps secondary importance relates to the tax regime for condensate fields for which I understand that some

degree of special treatment may be required to ensure optimum development in good time. This may, however, be a point for consideration in later years rather than 1986.

Stock relief and the whisky industry

4. The Chancellor will already have received a copy of the Scotch Whisky Association's report "The Scotch Handicap" which again seeks help on the three topics the industry raised with you last year - excise duty, duty deferment and the way in which stocks are treated for corporation tax. The Association's proposal this year on stock relief - a statutory maturation allowance to reflect the legal requirement to mature whisky for a minimum of three years - while only going part of the way to meet the problems encountered by the industry does seem reasonable and one which Mr Younger believes could be defended politically if it were introduced in the next Budget.

VAT on building work

5. Concern continues to be expressed by a variety of interests - including housing associations, local authorities, building societies and the construction industry - about the effect of the imposition in June 1984 of 15% VAT on works of house alteration or improvement. It is widely believed that the addition of VAT acts as a deterrent to individual householders so depressing the volume of improvement work undertaken, and it has been suggested too that the liability of housing associations to VAT at a time when resources for improvement have at best been held steady has meant a cut in real terms in their ability to undertake rehabilitation work. Certainly there is no doubt that a great deal remains to be done in the way of essential house improvements - some 63,000 of Scotland's houses are still below our 'tolerable standard' - and equally it is certain that many landlords and owners of older, inner city properties in particular are allowing these to deteriorate.

6. While Mr Younger would place especial emphasis on removing VAT from works of improvement, I have to say that its continuation in respect of repairs has also given rise to criticism. Moreover, evidence in Scotland and, I understand, in England and Wales is that there is a very great deal of repair work indeed needing to be done on houses in the private sector and, especially if the present grants system is to be phased out, some new incentive may be required to maintain the status quo.

7. As we pointed out before the 1985 Budget, the imposition of VAT appears to have had a particularly detrimental effect on work on historic buildings where the incentive to carry out sensitive repair work has been significantly diminished.

Vehicle excise duty and petrol duty

8. Vehicle Excise Duty and duty on petrol are both sensitive issues in Scotland where many rural dwellers, among whom the Government finds a significant proportion of its support, depend on their private cars for essential transport, and often drive high mileages. Many of them will already spend a higher than average proportion of their income on car and travel costs. The considerations apply in all rural areas, but are particularly significant in the Highlands. Mr Younger therefore hopes

that increases can be avoided - and certainly that they should not be above normal valorization levels.

Student awards: deeds of covenant

9. Last year Mr Younger pointed out the desirability of extending the availability of deeds of covenant in respect of students to those under the age of 18. As you know, the presence of relatively large numbers of 17 year old higher education students is peculiar to Scotland. The Chancellor wrote to the Secretary of State on 1 March explaining why he thought a change would be inappropriate, and Mr Younger recognises the difficulties involved. Nevertheless, student awards continue to arouse a lot of public interest and pressure, and he would be grateful if the Chancellor would consider the matter again in the run up to the 1986 Budget.

10. These are the major issues my Secretary of State has asked me to mention at this stage. However, as you may know, DHSS officials are due to discuss with Customs and Excise officials in January the case on health grounds for an increase in tobacco duty. After those discussions the Chancellor will almost certainly be receiving representations on this matter from Mr Fowler, with which Mr Younger would wish to be associated.

11. Mr Younger will be happy to discuss any of these issues further with the Chancellor should he wish.

Yours sincerely

Robert Gordon.

ROBERT GORDON
Private Secretary

FROM: G MCKENZIE
DATE: 3 January 1986

CHANCELLOR

cc PS/CST
 PS/FST
 PS/EST
 PS/MST
 Sir P Middleton
 Sir T Burns
 Mr Bailey
 Mr Monck
 Mr Cassell
 Mr Monger
 Mr Scholar
 Mr Culpin
 Mr Lord
 Mr Cropper
 Miss Sinclair
 Mr Murray

PS I/R
 Mr A Walker I/R

PS C&E
 Mr J Bone C&E

Handwritten notes in red ink:
 We usually see a lot of
 take show who should
 where a m big issues.
 then we should be ready?

1986 BUDGET: MAIN REPRESENTATIONS

Attached is the second edition of the main Budget representations received to date. For ease of reference I also attach a copy of the first edition.

2. I will circulate a third edition in the near future.

swallis
 PP G MCKENZIE

BR 86(2)

BUDGET 1986 REPRESENTATIONS - 2ND EDITION

BRITISH TOURIST AUTHORITY	24-10-85
SMMT	31-10-85
ROYAL INSTITUTE OF CHARTERED SURVEYORS	6-11-85
THE STOCK EXCHANGE	7-11-85
PIPESMOKERS COUNCIL	15-11-85
BRITISH VEHICLE RENTAL AND LEASING ASSOCIATION	19-11-85
GUINNESS PEAT GROUP	22-11-85
INSTITUTE OF DIRECTORS	25-11-85
ENGINEERING EMPLOYERS FEDERATION	25-11-85
THE ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE	25-11-85
TR INDUSTRIAL TRUST	25-11-85
ASSOCIATION OF BRITISH INSURERS	25-11-85
BRITISH VENTURE CAPITAL ASSOCIATION	25-11-85
THE UNION OF INDEPENDENT COMPANIES	4-12-85
BREWERS SOCIETY	5-12-85
THE NATIONAL FARMERS UNION	10-12-85
SCOTCH WHISKY ASSOCIATION	13-12-85

BRITISH TOURIST AUTHORITY

Support the Historic Houses Association's representation on the adverse impact of CTT.

SMMT

[Met MST on 5 December]

- **Car benefits**

No increase in taxable benefit or private fuel charge

- **Capital Allowances**

special treatment for commercial vehicles over 35 tonnes

- **ACT**

set off against chargeable gains and future capital tax liability.

- **Car Tax**

Abolish

ROYAL INSTITUTE OF CHARTERED SURVEYORS

- **CGT**

present basis of computation for assets owned prior to the base date should continue: so that the taxpayer can elect either to take the April 1982 value as his acquisition cost or apportion the gain over the period of ownership.

- **Wasting Assets: Leases**

Present 50 years wastage period for assets unrealistic, change to 10 years.

- **Stamp Duty**

If Stamp Duty on property transfers is to be retained, there should be a switch in the basis of calculation to a slice scale under which duty would be levied only on the value above the threshold at which tax is payable.

- **Partnerships**

Strong case for an arrangement under which partnerships should be able to retain funds for reinvestment purposes.

- **VAT**

(a) Repairs and Maintenance: Lower rate for repair and Maintenance work.

(b) Listed Buildings and conservation areas: (i) extraordinary that the present VAT rules encourage redevelopment and reconstruction rather than the repair of listed buildings. (ii) Conservation areas containing buildings which are considered collectively, rather than individually, outstanding should be treated the same as listed buildings.

THE STOCK EXCHANGE

Abolish Stamp Duty immediately.

PIPESMOKERS COUNCIL

Leave pipe tobacco tax at its present level.

BRITISH VEHICLE RENTAL AND LEASING ASSOCIATION

- **Capital Allowances**

Private Cars: restrictions which apply to cars costing over £8,000 can usefully be abolished.

Depooling: depooling should extend to any private car so that high mileage vehicles can receive a proper capital allowance following disposal.

- **Benefit-in-kind scales for private cars**

Annual increases to the Benefit-in-kind scales should be restricted to match the change in RPI.

GUINNESS PEAT GROUP

Do not abolish Stamp Duty.

IOD

[Met I/R on 28 November]

- **VAT**

- (i) Press for adoption of EC draft 14 Directive
- (ii) Introduce more general relief for bad debts
- (iii) Press EC to drop draft 12 Directive

- **CT**

- (i) Changed ownership: reduce the scope of S483 ICTA 1970
- (ii) Trading losses: Allow off-set of BF trading losses against profits of trade

- **ACT**

- (i) Allow free transfer of ACT within group and allow elections to be revoked
- (ii) Give full imputation for company capital gains
- (iii) Allow off-set of ACT against next mainstream payment

- **Income Tax**

Announce result of overseas travel expenses consultations

- **Benefits in Kind**

- (i) Abolish threshold
- (ii) Allow all employees' expenses and benefits to be returned on a single P11D.

- **Equity Finance**

Extend relief for loan capital to equity capital

CGT

- (i) Exempt pre-1982 assets held for over 7 years.
- (ii) Extend annual exemptions to companies if no relief for pre-1982 inflation
- (iii) Allow carryback of capital losses for two years.
- (iv) Roll-over relief: amend apportionment formula where some non-trade use.

- **CTT**

- (i) Business Assets: exempt entirely or at least abolish differential discount for minority shares.
- (ii) Rate scale: flatten the scale
- (iii) Index allowances for non-domiciled spouses
- (iv) Investments: extend to all assets if present high rates of CTT are maintained.

- **Tax Treatment of Share Incentives and Investment**

- (i) Replace existing reliefs with simple income tax deduction for investment in new equity of UK quoted or unquoted trading companies.
- (ii) Approved share option schemes:
 - (a) remove ceiling in para 5 Sch 10 FA 1984
 - (b) Give the same relief in cases of mergers and takeovers as for approved SAYE-linked schemes

- **BES**

- (i) Retain BES until a better scheme is in place;
- (ii) Permit dormant subsidiaries, sub-holding companies and third party minority holdings;
- (iii) Allow intra-group lease financing and property-holding subsidiaries.
- (iv) Allow overseas subsidiaries on equivalent basis to overseas branches.
- (v) Allow joint subscription by husband and wife.

Capital Allowances

- (i) Commercial buildings: introduce allowance at 2% pa on new building
- (ii) Industrial buildings: Apply 25% limit for offices which are part of an industrial building to the area not the cost of the building.
- (iii) Cars: abolish restriction on cars costing over £8,000

ENGINEERING EMPLOYEES FEDERATION

- **NICS**
reduced rates to a low level for all employees
- **Corporation Tax**
allowances for fixed investment and stock building should at least be inflation proofed.
- **Encouragement of Investment and Innovation**
introduce a scheme of additional incentives for fixed investment and research and development.

ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE

- **CGT**
should be repealed in its entirety, or portfolio investment should be exempt and/or assets acquired before 31 March 1982 should be exempt from CGT.

- **NICS**
abolish NICS and increase the rates of taxation to make good the shortfall

- **CTT**
Abolish CTT

- TR INDUSTRIAL TRUST

Abolish Stamp Duty

ASSOCIATION OF BRITISH INSURERS

(MET FST ON 13 DECEMBER)

- **Investments**
Tax system should not tax the apparent profits arising from inflation on the holding of assets

- **CGT**

Extend CGT exemption to securities where the profits on disposal are taxable under case 1 of schedule D.

- **Pegged rate relief**

Peg should be reinstated as an important safeguard against future increases in the tax rate

- **Double taxation relief**

Should be set against ACT

- **ACT**

There should be no requirement, as at present, for the surplus of ACT to be off-set against tax liabilities of a more recent accounting period

- **Stamp Duty**

Abolish Stamp Duty on life assurance and annuity contracts

BRITISH VENTURE CAPITAL ASSOCIATION

- **Investment**

Allow managers and employees investing in their own business to off-set such investment against total taxable income.

- **CGT**

Gains released by managers and employees on the sale of shares purchased in the 5 years following commencement of trading by a private company should be free of CGT.

UNION OF INDEPENDENT COMPANIES

- **Income Tax thresholds**

(i) Abolish the wife's earned income and the married man's personal allowances. Increase single person's allowance to £2,500. Allow married man (or woman) to claim partner's unused allowance.

(ii) Increase thresholds for higher rates of income tax by 5 per cent.

CT

Rate of CT on the first £100,000 profits (small companies 'rate') should be reduced to 20 per cent.

- **CTT**

Should be held over on the gift of shares in independent trading companies to the next generation of management who are wholly employed in the business.

- **VAT**

Extend VAT to include all goods and services with exception of unprocessed food, coal, heating fuel, gas and electricity.

- **Excise Duties**

Indexation on an annual basis of a fixed amount on excise duties.

BREWERS SOCIETY

(MEETING IN JANUARY WITH CHANCELLOR)

- **BEER DUTY**

Adverse effect on the Brewery Industry (Report)

THE NATIONAL FARMERS UNION

- **Capital Allowances**

Agricultural buildings: retain 10 per cent allowance

Plant and Machinery: concerned about impact of withdrawal of first year allowance will have on small businesses.

- **CTT**

(i) Should be tailored so its burden is no more than is reasonable in relation to earning capacity and that account is taken of the need to retain capital within the business.

(ii) Annual exemption for gifts should be increased to £5,000.

(iii) Higher rate of agricultural relief should apply in all cases where the starting point for valuation is vacant possession.

- **CGT**

Roll-over relief: period for roll-over relief when assets acquired in anticipation of future disposal should be extended to two years.

SCOTCH WHISKY ASSOCIATION

[Chancellor agreed to meeting]

- Budget should continue the move towards equalisation of taxes on a per degree of alcohol basis.
- Suggest compromise method of treating stocks of maturing scotch for taxation purposes.
- Increase period of duty deferment from four to eight weeks.

cc APS/EST
APS/EST

CUSTOMS
BRIEF

FROM: G MCKENZIE
DATE: JANUARY 1986

MRS LESTER

cc Mr Walker I/R
Mr Romanski
Mr Murray

BUDGET DEPUTATION: SCOTCH WHISKY ASSOCIATION

Attached is Customs briefing for the Chancellor's meeting with the Scotch Whisky Association on 30 January. Inland Revenue ^{below} hope to have their briefing with us some time on Monday.

2. Customs will be providing official support; they will let you know the names of the officials attending early next week.

G. McKenzie
G MCKENZIE

Association's representations.

The SWA's Budget representations are contained in their letter of 10 December with which they enclosed a report by PEIDA. The main points are:

at back of string.

- a. [Inland Revenue point]
- b. The move towards excise duties directly proportionate to alcoholic strength (a per degree system) should continue; and
- c. The period of excise duty deferment should be extended from an average of 4 to an average of 8 weeks.

Points which may be raised**Prospects for the industry**

UK consumption of Scotch whisky enjoyed almost uninterrupted growth during the 60s and 70s. Consumption then fell until 1984 when the volume of sales was about 18% below the peak year of 1979. There was a similar decline in exports. As a result, the industry had very large stocks of maturing whisky on hand and surplus production capacity. Distilleries have been closed or forced to reduce output and, according to a report in the Times last November, total employment in the industry has dropped from around 25,000 at its peak to 17,000 last year.

In their submission the SWA say that they face "increasingly difficult market situations both at home and abroad"; but the indications are that there is a recovery from the relatively depressed state of the market in recent years. During the first 9 months of 1985 clearances of whisky for UK consumption were up by about 6% compared with the same period in 1984 with a predicted 4% growth for the year as a whole. The position on exports, over 80% of total sales, is less clear. The volume of exports in the first 9 months of 1985 was 3% higher than in the same period in 1984; but provisional figures for the first 11 months show a marginal drop compared with 1984. However, a report in this month's trade press, quoting the results of the annual analysis by Scottish stockbrokers Campbell Neill, is distinctly optimistic in respect of the prospects for both exports and the home market (Annex A).

Excise duty level.

The SWA are seeking a "continuation of the move towards equalisation of excise duty on a per degree of alcohol basis". The differential between the taxation of spirits and the taxation of other alcoholic drinks has narrowed in recent years. The rates of duty per degree of alcohol for spirits/beer is now 1.7 to 1 compared with a 1979 ratio of 2.8 to 1. The reduction in spirits duty of some 20% in real terms since 1979 reflected the Government's recognition of the difficulties facing the Scotch whisky industry in recent years and its importance as a major exporter. It was not part of a policy of moving towards a 'per degree' basis for excise duty. Such a basis would unduly constrain decisions on duty rates for different drinks.

The PEIDA report suggests that it would be possible to raise the revenue required for revalorisation of the alcoholic drinks duties by freezing the duty on spirits and imposing modest increases on the other alcoholic drinks. We consider that PEIDA has significantly under-estimated the increases required and their effect on the volume of sales. Moreover, beer has its problems - it is estimated that UK beer consumption fell in 1985 by about 1%, in contrast to the growth in whisky sales. Fortified wines have not fared too well, and although sales of table wine are buoyant, our room for manoeuvre is constrained by the European Court of Justice ruling in the wine/beer case.

We expect to meet comfortably the Budget estimate of £1460 million revenue from spirits in the current financial year.

Excise duty deferment

You have already decided against this.

The SWA is pressing for an extension of duty deferment from an average of 4 to an average of 8 weeks to help bridge the gap which they claim to be 8 weeks between duty payment under existing deferment arrangements and recovery of the duty from the consumer. We do not consider that the spirits industry has a good case: they have the ability to warehouse goods until they are required on the home market. Moreover, it is estimated that such a concession for wines and spirits would increase the Government's borrowing requirement by about £185 million. If there were such an extension there would probably be strong, possibly irresistible, pressure for a similar concession for beer and cider. This would increase the borrowing requirement to about £350 million. There would be the interest cost of additional borrowing.

Mr Macphail, along with the Chairmen of the other main wine and spirit trade associations, met the then Minister of State, Mr Ian Gow, on 15 October 1985 to discuss this subject. The trade were told that their representations would be borne in mind, but it was pointed out that length of credit was a commercial matter and they were given no reason to hope that their request would be granted.

Points which you may wish to raise

After a difficult trading period, partly as a result of past over-optimism in the industry, there are indications that the market is picking up. You may wish to probe the Associations view of the future, both at home and abroad.

HARPERS

WINE AND SPIRIT GAZETTE

HARPERS has been published, weekly for 106 years and today has a larger NET PAID circulation PER ISSUE than any other journal of the wine and spirit trade throughout the world.

ABC

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SUBSCRIPTION AT £36 PER ANNUM includes Harpers Directory—The Standard Work of Reference for the Wine and Spirit Trade.

The columns of HARPERS are open for discussion on all subjects of general interest to the wine, spirit and allied trades. Letters to the Editor must be accompanied by the name and address of the sender. If desired, a nom de plume may be enclosed for publication. Questions of a technical nature are answered by post and those of general interest are published unless a wish is expressed to the contrary. The Editor is pleased at all times to consider articles likely to interest the trade.

Readers are invited to notify us concerning the issue of new lists, the launching of new lines, changed addresses and telephone numbers, or any developments concerning firms or personnel. If of general interest to the trade such items will be published as news freely and without obligation.

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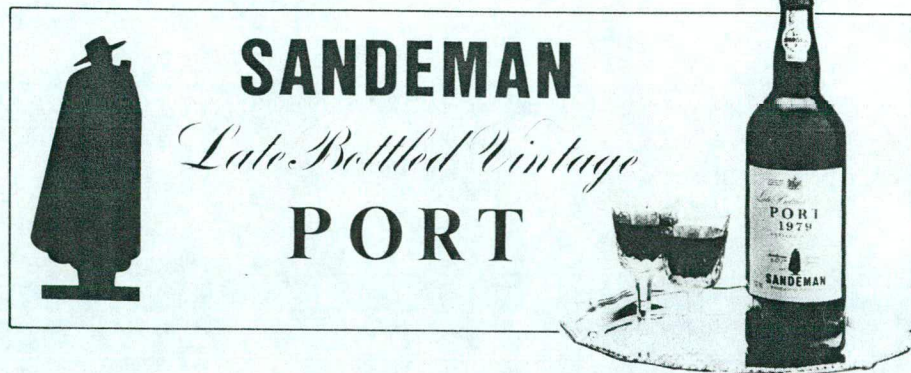
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Scotch Whisky outlook considerably "brighter" according to latest Campbell, Neill Review

A much brighter prospect for the Scotch Whisky industry is revealed in the annual Campbell Neill Scotch Whisky Review which has just been published by this respected Scottish stockbroking company. Their 1985 report anticipates that, in the home market, the decline in domestic consumption of Scotch has now ended and that a solid increase of some 4 per cent should have been achieved in the last 12 months. It is expected that by the end of last December almost 45.1 million litres of Scotch (measured in pure alcohol) will have been withdrawn from bond, recording the first increase in apparent sales since the calendar year 1979. From a high point of 52.5 million litres achieved that year, demand for Scotch Whisky has fallen in five successive years to a low point in 1984 of just 43.4 million litres.

At the same time Campbell Neill expect that exports of bottled in Scotland brands of Scotch Whisky should have recorded a reasonable advance in 1985 and this would seem to confirm that the Whisky cycle has turned upwards. "Boosted by economic recovery and more aggressive marketing by the Scotch Whisky industry, the outlook for sales of Scotch Whisky is brighter than it has been for several years. Consequently, we anticipate that both exports and domestic sales should make further headway in the current year."

This is the main conclusion of this

weighty in depth review by Campbell Neill which also highlights other areas of greater optimism for the trade. The stock/consumption ratio, for example, has continued to fall in the last five years, reflecting the substantial cut-backs in production during this period and the ratio stands now at 7.5 years compared with almost nine years in 1980. Indeed, for the second year running, Scotch Whisky production will have a modest rise, reflecting a greater degree of optimism, generally by the industry.

The bright star within the Scotch trade continues to be the growth of single malts albeit from a very small base, and sales have performed extremely well in 1985 giving indication of further impressive gains in the current year. This will be true in both the home trade and in export markets, and the longterm seems set for continued expansion with more and more companies substantially supporting their brands. Already malt whiskies receive 25 per cent or more of the total advertising spend on Scotch, compared with 20 per cent two years ago and just 11 per cent in 1981.

Improved marketing by the industry, which is beginning to pay dividends, and the recent spate of take-over bids have resulted in greater interest in Scotch and a strong stock market performance by the Scotch Whisky sector.

SP

1. Debbie - see X e-prop

FROM: MISS S WALLIS

DATE: 3 January 1986

1. MR MURRAY *Am 3/1*
2. MCU
3. MINISTER OF STATE

cc PS/Chancellor —
PS/CST
PS/IR
Mr A Walker (IR)
PS/C&E
Mr J Bone C&E

BUDGET REPRESENTATION : SCOTCH WHISKY ASSOCIATION

X I attach an acknowledgement to this representation.
(A meeting has been provisionally fixed between
the Chancellor and the Scotch Whisky Association
for 29 January 1986)

Swallis
MISS S WALLIS



Treasury Chambers, Parliament Street, SW1P 3AG

H F O Bewsher Esq
Director General
The Scotch Whisky Association
20 Atholl Crescent
Edinburgh
EH3 8HF

January 1986

Thank you for your letter of 13 December to John Moore enclosing copies of your Association's representations for the 1986 Budget.

The Chancellor will be happy to hear what you have to say about these when he meets you in the near future.

PETER BROOKE

N4/42



FROM: MRS R LOMAX
DATE: 6 January 1986

gwp

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Anson
Mr Monck
Mr Scholar
Miss Sinclair
Mr Murray

MR MONGER

BUDGET REPRESENTATIONS

Over Christmas the Chancellor saw Budget representations from MAFF, DoE, and the Department of Employment. He would be grateful for early advice. He would like to see comments on at least Lord Young's representations before Chevening.

RL.

RACHEL LOMAX



FROM: MRS R LOMAX
DATE: 3 JANUARY 1986

MR MONGER

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Mr Cassell
Mr Anson
Mr Monck
Mr Scholar
Miss Sinclair
Mr Murray

BUDGET REPRESENTATIONS

Over Christmas the Chancellor saw Budget representations ~~from~~
~~Mr Baker~~, from MAFF, from DoE, and the Department of Employment.
He would be grateful for early advice. He would like to see
comments on Lord Young's representation at least before Chevening.

RACHEL LOMAX



C.

Three separate ministerial Budget

- reps - Young
- Jerkin
- Jopling.

Advice on these sh
Govt forward ASAP.
In the case of ~~Y~~
represented @ Home,
this means you - Channing.
R 3/12
M.

NY42



FROM: MRS R LOMAX
DATE: 9 January 1986

ppp

PS/FINANCIAL SECRETARY

1986 BUDGET: SCOTTISH OFFICE

The Chancellor has seen Robert Gordon's letter to me of 31 December with the Scottish Office's Budget representations. He would be grateful for a note on the Whisky Association's proposal on stock relief - outlined in paragraph 4 - routed through the Financial Secretary.

Rh.

RACHEL LOMAX



SECRETARY - CU
- 3 JAN 1986
Mr Walters - CU
CHX, CST, PST,
MST, EST, Sir P Muddala, PS/IR, PS/CE
S-T Burns, Mr Cassell, Mr Hanger, Mr Scholer
Miss Sinclair, Mr Pratt, Mr Haigh, Mr Munn
Mr Cropper, Mr Davies, Mr Lord
PPS/CHX

NEW ST. ANDREWS HOUSE
EDINBURGH EH1 3SX

Mrs J R Lomax
Private Secretary to the Chancellor of the
Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

10061/86

31 December 1985

Handwritten notes:
PS
10061/86
P
The Law
a note
m x

Dear Rachel

1986 BUDGET

1. The Chancellor has requested representations about next year's Budget to be with him by 31 December. There are several issues which Mr Younger would like to draw to Mr Lawson's attention reflecting the wide range of functions covered by the Scottish Office. These are set out below.

Capital taxes and the tenanted sector of agriculture

2. On many occasions Mr Younger has expressed his concern over the continuing decline in the tenanted sector of agriculture, most recently in his letter to the Chancellor of 16 October when he described Lord Gray's proposals for a new capital tax initiative. This sector has traditionally given the young farmer his start in farming and is a cornerstone of the agricultural industry at large. The Government are committed to halting the decline in tenancies and as a first step in 1983 amended the law of landlord and tenant. But without adequate and complementary fiscal changes these efforts will be incomplete. Mr Younger hopes therefore that the Chancellor can make some further concessions especially on the capital taxation front.

Taxation Regime for Offshore Oil and Gas Developments

3. It is important that we should maintain the momentum of offshore oil and gas developments. Apart from the national interest in slowing the decline in our output of oil and helping meet our requirements for gas supply in the 1990s Mr Younger's interest lies in the maintenance of a reasonable flow of business for platform yards and other companies in Scotland which are dependent on oil-related work. A point of particular concern will be the need to ensure that companies undertake the necessary investment to maximise the output of existing fields: this could be particularly beneficial in involving new kinds of hardware and new areas of technology and will help us develop the sort of expertise which we can then market worldwide. He therefore hopes that it will be possible to find a satisfactory means of stimulating such investment through the tax regime. A point of perhaps secondary importance relates to the tax regime for condensate fields for which I understand that some

degree of special treatment may be required to ensure optimum development in good time. This may, however, be a point for consideration in later years rather than 1986.

Stock relief and the whisky industry

X 4. The Chancellor will already have received a copy of the Scotch Whisky Association's report "The Scotch Handicap" which again seeks help on the three topics the industry raised with you last year - excise duty, duty deferment and the way in which stocks are treated for corporation tax. The Association's proposal this year on stock relief - a statutory maturation allowance to reflect the legal requirement to mature whisky for a minimum of three years - while only going part of the way to meet the problems encountered by the industry does seem reasonable and one which Mr Younger believes could be defended politically if it were introduced in the next Budget.

VAT on building work

5. Concern continues to be expressed by a variety of interests - including housing associations, local authorities, building societies and the construction industry - about the effect of the imposition in June 1984 of 15% VAT on works of house alteration or improvement. It is widely believed that the addition of VAT acts as a deterrent to individual householders so depressing the volume of improvement work undertaken, and it has been suggested too that the liability of housing associations to VAT at a time when resources for improvement have at best been held steady has meant a cut in real terms in their ability to undertake rehabilitation work. Certainly there is no doubt that a great deal remains to be done in the way of essential house improvements - some 63,000 of Scotland's houses are still below our 'tolerable standard' - and equally it is certain that many landlords and owners of older, inner city properties in particular are allowing these to deteriorate.

6. While Mr Younger would place especial emphasis on removing VAT from works of improvement, I have to say that its continuation in respect of repairs has also given rise to criticism. Moreover, evidence in Scotland and, I understand, in England and Wales is that there is a very great deal of repair work indeed needing to be done on houses in the private sector and, especially if the present grants system is to be phased out, some new incentive may be required to maintain the status quo.

7. As we pointed out before the 1985 Budget, the imposition of VAT appears to have had a particularly detrimental effect on work on historic buildings where the incentive to carry out sensitive repair work has been significantly diminished.

Vehicle excise duty and petrol duty

8. Vehicle Excise Duty and duty on petrol are both sensitive issues in Scotland where many rural dwellers, among whom the Government finds a significant proportion of its support, depend on their private cars for essential transport, and often drive high mileages. Many of them will already spend a higher than average proportion of their income on car and travel costs. The considerations apply in all rural areas, but are particularly significant in the Highlands. Mr Younger therefore hopes

that increases can be avoided - and certainly that they should not be above normal valorization levels.

Student awards: deeds of covenant

9. Last year Mr Younger pointed out the desirability of extending the availability of deeds of covenant in respect of students to those under the age of 18. As you know, the presence of relatively large numbers of 17 year old higher education students is peculiar to Scotland. The Chancellor wrote to the Secretary of State on 1 March explaining why he thought a change would be inappropriate, and Mr Younger recognises the difficulties involved. Nevertheless, student awards continue to arouse a lot of public interest and pressure, and he would be grateful if the Chancellor would consider the matter again in the run up to the 1986 Budget.

10. These are the major issues my Secretary of State has asked me to mention at this stage. However, as you may know, DHSS officials are due to discuss with Customs and Excise officials in January the case on health grounds for an increase in tobacco duty. After those discussions the Chancellor will almost certainly be receiving representations on this matter from Mr Fowler, with which Mr Younger would wish to be associated.

11. Mr Younger will be happy to discuss any of these issues further with the Chancellor should he wish.

Yours sincerely

Robert Gordon.

ROBERT GORDON
Private Secretary



1. Philip
2. b/f with response
(as 10/1) p1

FROM: A W KUCZYS
DATE: 6 JANUARY 1986

MR MCKENZIE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Monck
Mr Cassell
Mr Monger
Mr Scholar
Mr Culpin
Mr Lord
Mr Cropper
Miss Sinclair
Mr Murray
PS/IR
Mr A Walker - IR
PS/C&E
Mr J Bone - C & E

13/1
16/1
17/1

1986 BUDGET: MAIN REPRESENTATIONS

The Chancellor was grateful for your of minute 3 January. He recalls that in previous years a table has been prepared showing who stands where on the big issues. He would be grateful if this could be done again this year.

AWK
A W KUCZYS



FROM: P WYNN OWEN
DATE: 6 JANUARY 1986

MR JEFFERSON SMITH - CUSTOMS & EXCISE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Monger
Mr Cropper
Mr Davies
Mr Lord
Ps/CRE.

Handwritten initials, possibly 'PWO', in the right margin.

BUDGET REPRESENTATIONS: THE NATIONAL ASSOCIATION OF CIDER MAKERS

The Chancellor has seen and was grateful for your minute of 11 December. He would like to know what the latest position is with regard to the EC dimension.

Handwritten signature of P. Wynn Owen.

P WYNN OWEN

FROM: MISS S WALLIS

DATE: 8 January 1986

- 1. MR MURRAY
- 2. MCU
- 3. CHANCELLOR

cc PS/CST
 PS/FST
 PS/MST
 MR ROMANSKI
 PS C&E
 J BONE C&E

BUDGET DEPUTATION : TOBACCO ADVISORY COUNCIL

The Tobacco Advisory Council's letter of 20 December asks for a meeting to discuss their Budget representations.

- 2. The Tobacco Advisory Council are on the core list of organisations to be met by Ministers. And you will no doubt wish to agree to a meeting.
- 3. I attach a final reply.

S Wallis
 MISS S WALLIS

21/1



FROM: MRS D C LESTER

DATE: 9 January 1986

MISS SINCLAIR

C.C. PS/C+E
PS/IR

BUDGET REPRESENTATION: THE BREWERS' SOCIETY

I have arranged for the Chancellor to see Mr Edward Guinness and General Mangham of the Brewers' Society on Tuesday 21 January at 11.00 am in HMT.

2. I should be grateful if you would provide briefing and attend the meeting please.

Debbie Lester

MRS D C LESTER



FEDERATION OF MASTER BUILDERS

National President: C.J. Fisk, FCIQB.
National Director: W.S. Hilton

Gordon Fisher House
33 John Street
London WC1N 2BB
Telephone: 01-242 7583
Telegrams: EFEMBE London WC1

Our Ref: RWB/SL

15 January 1986

Rt Hon Nigel Lawson Esq., M.P.
Chancellor of the Exchequer
Treasury
Whitehall
London
SW1

DATE	17 JAN 1986
RECEIVED	HF3 - Mr Wood
	cc FP
	CE
	APR/CHX
	CHX
REF No	10832/86

My dear Nigel,

At its meeting on Monday 13 January the National Council of the Federation discussed the hardship that will be experienced by small builders due to the Bank Interest Rate being raised by another one percent.

I have been asked to write to you expressing profound disappointment at this further heavy burden being placed on the shoulders of small builders and to protest at the continuing harassment of the industry.

You will recall the Federation made strong representations to you in February 1984 followed by a meeting with your Minister of State, at that time Barney Hayhoe MP, urging you not to impose a 15% VAT charge on building work and illustrating the effect such a tax would have - and the boost it would give to the "Black Economy".

In the event you decided to take no action on these matters. The result has been as forecast. The latest figures contained in "British Business", the publication issued by the Department of Trade and Industry, shows the construction industry continuing to have the largest number of bankruptcies of all the industries listed.

Whilst the Federation recognises the economic problems facing the country, they feel that small and medium sized firms are having to bear a disproportionate share of the burden.

It does seem incongruous to the Federation that on the one hand your Government appears to be anxious to reduce burdens on small business yet, on the other, the Government continues to place even heavier burdens on small builders.

The Federation would therefore seek your help in reducing the high interest rates, the high cost of tax gathering and the other financial burdens on our industry and looks forward to your reassurance.

Yours sincerely

R W Brown JP FBIM

FROM: G MCKENZIE

DATE: 16 January 1986

CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Monck
Mr Cassell
Mr Monger
Mr Scholar
Mr Culpin
Mr Lord
Mr Cropper
Miss Sinclair
Mr Murray
PS/IR
Mr A Walker - IR
PS/C&E
Mr J Bone - C&E

*Thanks. 2 Per lib no for
taxe the table for last
year.*

1986 BUDGET: MAIN REPRESENTATIONS

Your Private Secretary's note of 6 January asked for a table showing where we stand on big issues.

For ease of reference, I have produced a table showing the direct tax issues and one showing indirect taxes. These are attached as Annex 1 and Annex 2.

G McKenzie
G MCKENZIE

1 9 8 6 B U D G E T : M A I N R E P R E S E N T A T I O N S (I N D I R E C T T A X E S)

	<u>VAT (EC)</u>	<u>VAT (OTHER)</u>	<u>CAR TAX</u>	<u>EXCISE DUTY (TOBACCO)</u>	<u>EXCISE DUTY (ALCOHOLIC DRINKS)</u>	<u>BETTING AND GAMING</u>
C B I	Maintain opposition to Draft EC 12	(i) Extend Bad debt relief (ii) Extend inward processing	Abolish			
I O D	(i) Maintain opposition to Draft EC 12 Directive (ii) Adopt Draft 14 Directive	Extend Bad debt relief				
S M M T	Maintain opposition to Draft EC 12 Directive		Abolish			
A B C C	Set up Clearing House of VAT paid to EC member states	(i) Increase VAT registration threshold to £50,000 (ii) Extend Bad debt relief				
RETAIL CONSORTIUM	Resist EC pressure which might result in alteration of VAT base	Increase VAT registration threshold to £10,000				
SCOTCH WHISKY ASSOCIATION					(i) Extend period of duty defement to 8 weeks (ii) Continue move towards equalisation of taxes per degree of alcohol basis.	
BREWERS SOCIETY					Adverse effects of Beer duty increases on the Industry.	
GIN RECTIFIERS					(i) No increase duty rates on spirits (ii) Extend period of duty defement to 8 weeks	
T A C				(i) No increase in pipe-tobacco or cigar duty (ii) At most only revalorisation on cigarettes and hand-rolling tobacco		
BRITISH GREYHOUND RACING BOARD						Abolish On-course Betting Duty
JOCKEY CLUB						"
HORSERACE BETTING LEVY BOARD						"
NATIONAL ASSOCIATION OF BOOKMAKERS						"
HORSE RACING ADVISORY COUNCIL						"
HORSE RACING TOTALISATOR BOARD						"

1986 BUDGET : MAIN REPRESENTATIONS (DIRECT TAXES)

	<u>PERSONAL TAX</u>	<u>BENEFITS IN KIND</u>	<u>STAMP DUTY</u>	<u>CGT</u>	<u>CTT</u>	<u>CT</u>	<u>ACT</u>	<u>CAPITAL ALLOWANCES</u>	<u>BES</u>	<u>SHARE INCENTIVES</u>
ASSOCIATION OF BRITISH INSURERS	-	-	Abolish				Allow full set-off	Extend to commercial & retail premises		
SOCIETY OF MOTOR MANUFACTURERS AND TRADERS		No increase in car benefits					"			
BRITISH BANKERS' ASSOCIATION			Abolish Capital Duty				"			
ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE		Abolish or increase £8,500 threshold		Abolish	Abolish	Tax on a slicing basis		" and abolish limit on expensive cars		
LAW SOCIETY			Failing general reform, consolidate odds and ends						Ease restrictions; allow carry-back	
INSTITUTE OF DIRECTORS	Reduce basic rate. Raise thresholds	Abolish £8,500 threshold No real increase in car benefits		Pre 1982 indexation (or abolish)	Abolish (or ease rates and allowances)		"	" and abolish limit on expensive cars	Extend life of scheme	Treat gains on options as chargeable gains, not as income. Introduce "Loi Monory" type scheme.
CBI	Increase Thresholds		Abolish	"	"		"	Abolish limit on expensive cars		Widen scope
COUNTRY LANDOWNERS' ASSOCIATION		Increase £8,500 threshold		Exempt gains over more than 3 years	"					
GENERAL COUNCIL OF BRITISH SHIPPING								Introduce 50% allowance for ships	Include ship chartering	
BRITISH PROPERTY FEDERATION				Pre 1982 indexation			"			
BUILDING EMPLOYERS' FEDERATION	Raise thresholds	Increase £8,500 threshold	Raise thresholds Abolish Capital Duty	"		Raise thresholds		Extend to commercial & retail premises		
NATIONAL FARMERS' UNION				Exempt gains over more than 7 years		Ease rates		Re-introduce 100% FYA; allow 25% on straight-line basis		
HGV HAULAGE ASSOCIATION			Abolish	Cut	Cut			Retain 50% until 1987, then 25% straight-line.		



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

1-~~Dobbie~~
 2-b/f 20/1
 for folder

FROM: W D WHITMORE

16 January 1986

C.
 MST and Cordine
 Sinclair, plus probably
 Mr Whitmore or Mr Knox
 to attend.

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- PS/Minister of State
- Mr Monger
- Miss Sinclair
- Mr Cropper
- Mr Davies
- Mr Lord

Rs 20/1

- 1. Mr Jefferson Smith
- 2. Chancellor of the Exchequer

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PRE-BUDGET MEETING WITH THE BREWERS' SOCIETY : TUESDAY 21 JANUARY 11.00 AM

1. The Brewers' Society represents 80 or so large and medium-sized UK brewing companies which account for over 95% of UK beer production. The smaller independent brewers are represented by a separate association.
2. In recent years it has been customary for the Chancellor to meet the Society's Chairman and Director to hear pre-Budget representations. Last year you saw the then Chairman, Mr Boddington of Boddington's Brewery, and Major-General Mangham, the Director. This year the Society will be represented by its current Chairman, Mr C E Guinness, and Major-General Mangham.

- Internal circulation:
- CPS
 - Mr Knox
 - Mr Jefferson Smith
 - Mr Wilmott
 - Mrs Hamill
 - Mr Williams
 - Mr Tullberg
 - Mr Cain

Mr (Cecil) Edward Guinness took office in December. He is Vice-Chairman of Arthur Guinness and Sons (GB) and Guinness Brewing Worldwide. He joined the Guinness Brewery at Park Royal in 1945 and was appointed to the Board in 1964. In 1971 he became Chairman and Joint Managing Director of the Harp Lager Company in which Guinness have a 70% share.

According to recent press reports, sales of Guinness increased by 6% in volume last year in an overall static beer market. For some months now, Guinness have been running a strong advertising campaign with the theme: Guinness is pure genius. Guinness also have interests in whisky (having recently taken over Arthur Bell and Sons) and cider. Unlike the other major brewers they do not have any tied outlets. Arthur Guinness and Sons (GB) paid almost £43 million in excise duty last year.

The group, which has a turnover of some £1.2 billion and recently announced a 22% increase in pre-tax profit for the year ending 30 September 1985, has diversified in retailing (eg Martins the Newsagents), publishing (eg Guinness Book of Records) and health (it acquired the Portman Health Group). However, brewing remains the predominant activity.

Major-General Desmond Mangham, ex-Royal Artillery, has been the Society's Director since leaving the Army in 1980.

3. I attach a brief and propose to attend the meeting.



W D WHITMORE



FROM: MRS D C LESTER
DATE: 16 January 1986

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/C&E
Mr J Bone - C&E
PS/IR
Mr A Walker - IR

MR MCKENZIE

BUDGET REPRESENTATION: SCOTCH WHISKY ASSOCIATION

I have arranged for representatives of the Scotch Whisky Association to meet the Chancellor on Thursday 30 January at 2.30 pm at the Treasury.

2. I understand that the Financial Secretary and the Minister of State will attend.

3. I should be grateful if you would arrange for briefing and official support, please.

Debbie Lester

MRS D C LESTER

*PO*

FROM: P WYNN OWEN
DATE: 17 January 1986

MR MCKENZIE

cc: PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Monck
Mr Cassell
Mr Monger
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Lord
PS/IR
PS/C&E

1986 BUDGET: MAIN REPRESENTATIONS

The Chancellor has seen and was grateful for your minute of 16 January. He would like to see the table we had last year.

PO

P WYNN OWEN

FROM: G MCKENZIE
DATE: 20 JANUARY 1986

MR WYNN OWEN

cc PS/CST
PS/FST
PS/EST
PS/MST
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Monck
Mr Cassell
Mr Monger
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Lord
PS/IR
PS/C&E

Handwritten notes in red ink:
top left: *WFO: we had a table of representations (on the form) for the year (1985) As requested. This is for you. R 22/1*
top center: *press pt*
middle: *As requested.*
right: *for you*

1986 BUDGET: MAIN REPRESENTATIONS

Your note of 17 January asked to see last years table summarising the main representations.

2. The table produced last year (copy attached), only covered the Ministerial representations and not the main organisations. I think this may be what the Chancellor recalls seeing?

3. I understand that CU have already produced a table summarising this year's Ministerial representations (Mr Pratt's minute of 9 January refers).

G McKenzie
G MCKENZIE

MINISTER	REPRESENTATION	COMMENT	COST (-) NET YIELD (+) FULL YEAR 1985-86 basis
Norman Fowler (17 December)	- Do not put VAT on children's footwear	Chancellor has ruled out.	Potential +£55m
* Patrick Jenkin (18 December)	- Do not extend VAT to new domestic construction	Chancellor has ruled out	Potential +£525m
	- Resist Commission's VAT proposals on non-domestic construction	Government committed to fighting proposals	Potential + £100m (with option to tax) + £10m first year, building up over some years
* Norman Tebbit (20 December)	- Revalorise VAT registration limit	Budget Starter No 2	Negligible cost
	- VAT relief for bad debts	Budget Starter No 5	-£250m
	- Restore VAT PAS for goods imported from overseas owners solely for repair and maintenance	Customs reviewing options for giving relief to processors. Alternatives other than restoration of PAS may be appropriate. Submission to MST soon.	-£30-35m
Lord Gowrie (18 December)	- Do not put VAT on books	Chancellor has ruled out	Potential + £100m
Viscount Whitelaw (23 December) on behalf of Earl de la Warr	- Do not put VAT on provincial newspapers	For decision in context of VAT base	Potential + £230m from all paid-for newspapers, of which + £60m from provincials
* George Younger	- Consider carefully position of cigar industry	For decision in context of excise duty changes	-£10m if no increase
* Michael Jopling (15 Jan)	No bigger increases than revalorisation on beer and cider.		
	- Keep any increase in the duties on spirits appreciably below the rate of inflation.		
U/Sec of State for Wales (23 Jan)	expressed concern at VAT on Literature and not least on Welsh language		

MINISTER	REPRESENTATION	COMMENTS	COST
Patrick Jenkin	- Increase the threshold for stamp duty from £30,000 to £35,000.	The threshold was increased last year from £25,000 to £30,000. A £5,000 increase would be more than revalorisation.	£70m (full year)
	- Stamp duty slice scale: no duty is paid on the first tranche of the purchase price.	Cost very substantial poor value in political terms.	£250m in (1984-85)
	- A landlord should be able to set repair and loan costs against general income rather than only against rental income.	Those likely to benefit would be large landlords with high marginal rates of tax and property owning companies	negligible
	- Exempt all registered housing associations from tax.	Undesirable to introduce a special relief contrary to the general strategy of simplifying the tax system.	£3m (largely offset by a reduction in DOE grant expenditure).
	- Abolish CGT for resident landlords on the sale of let property.	This suggestion for extending the relief has been made by the DOE several times in recent years but has been rejected. It would exempt pure investment properties and present existing landlords with an uncovenanted bonus.	Not known, but could be significant in time.
George Younger (14 December)	- Individuals should be given the tax relief for the cost of employing people.	It is unlikely to create very many new jobs. The cost would be substantial and the new relief would run counter to the aim of simplification. FST has written to Mr Younger making these points.	Not known, but could be substantial

Norman Tebbit
(20 December)

- | | | |
|--|------------------|--|
| - a) Retention of 100% Scientific Research Allowances on non-oil expenditure. |)
)
)
) | Nil (100% allowance already) |
| b) Extension of definition of "Scientific Research" to cover more Research and Development. |)
)
)
) | Budget Starter No 132
Not known |
| - Business Expansion Scheme: | | |
| a) Extending the scheme to companies with overseas subsidiaries |)
)
) | Not known |
| b) Reducing from 3 to 2 years the period following the issue of BES shares during which a BES company must remain unquoted. |)
)
)
) | The Chancellor has agreed with FST that detailed changes to BES should not be made in 1985.
Not known |
| c) Increasing from £40,000 to £45,000 the maximum qualifying investment an individual can make under the scheme in one year. |)
)
)
) | £5m |
| d) Extending BES to "R&D" companies. |)
)
)
) | This proposal is being looked at by IR in the light of PS/FST's minute of 18 January expressing interest. Starter No. 163.
Not known |
| - Exempt certain venture capital companies from CGT. |)
)
)
) | Originally Starter No 203 but now dropped.
Small but could be substantial if extended to other investment vehicles. |
| - Stamp duty on stocks and shares should be halved with final abolition in 1986. |)
)
)
) | A cut in the rate would increase stock market turnover and be a useful preparation for the reforms planned for 1986. However, Ministers have agreed that it cannot be afforded.
£130m - £170m |

- Profits from dealing in futures which do not amount to trading should be treated as capital rather than income.	Budget Starter No 164	Negligible
- Tax on the undrawn profits of an unincorporated trading business should be restricted to the basic rate.	The FST has already rejected this proposal.	£400m
- No CTT should be payable until assets were sold for cash or otherwise realised in liquid form.	This was considered and rejected in 1983.	For all businesses - up to £60m in a full year.
- Introduce roll-over relief for Capital Gains Tax purposes for acquisition and disposal in unquoted shares in trading companies.	Benefits which might result are not commensurate with the tax which is likely to be lost.	Could be substantial.
- Reform of the CGT indexation provision.	It has been agreed that the 12 month rule should be lifted for equity transactions from April 1985 and for securities from April 1986 provided that measures to combat bondwashing have been introduced by then. Reform of loss of relief also agreed.	Nil in 1985-86, £60m in 1986-87.
- Tax relief for self employed NIC.	Agreed in principle. Decisions to be taken on method of relief: all Class II; all Class IV, or ½ of Class II and Class IV.	£50m -£110m in 1985-86 depending on method. £100m in full year.
- The limitation on the 'material interest' of participants in these schemes should be raised from 10% to 25% at least for unquoted companies.	Too high a limit risks CGT treatment of share options going to benefit individuals for whom it was not intended.	-
- To introduce relief from CGT on disincorporation.	Budget Starter No 157	Unlikely to be substantial.

Norman Tebbit

- Share options and share incentive schemes. When a company has more than one class of ordinary share capital, majority of shares used in its approved scheme must be less by non-employees. This safeguard should be replaced by a requirement that the shares issued should have no better rights "in the material respects" from any other class of shares.)
)
)
)
)
)Originally Budget Starter
) No 124 But FST has decided
) not to proceed in 1985. Unquantifiable
)
)

Lord Young

- An equipment manufacturer who donates equipment to an educational or training institution should have an additional tax deduction for all or part of the profit foregone in not selling the equipment. IR see no merit in this proposal and recommended against it. Not available

- BES should be extended to companies building houses for rental. Other policy instruments - eg direct assistance to Housing Associates are a more effective means of increasing the supply of relatively low cost rental accommodation. Not available.

Tom King
(28 December)

- Share options:
the period for which an employee must hold shares allocated to him under FA 1978 Profit Sharing Scheme before they can be taken free of income tax, should be reduced from 7 to 5 years. A matter of judgement what the qualifying period should be and the Chancellor has expressed sympathy with the suggestion. Mr Farmer's minute of 18 January recommends against a change but suggests that the case be considered within the shape of Budget measures as a whole affecting employee share options. [All action on other starters has now been ruled out]. Negligible

Michael Jopling
(7 January 1985
and
(15 January 1985)

- First year capital allowances
for expenditure on plant and
machinery to be retained for
unincorporated businesses.

Contrary to 1984 Budget philosophy
and would represent a major
weakening of that reform package. -

* Nicholas Ridley
(9 January)

Capital Allowances.
- freeze 85/86 or 86/87 capital
allowance regime for 1-2 years.

- treat second hand ships on same
basis as new ships.

- balancing changes to be available
against new investment.

- improved consortium-group relief

)
)
)
) Such changes would be
) repercussive, costly and
) would undermine the basis
) of the 1984 Budget changes.
)
)
)

BES

- limited extension to shipping.

Treasury Ministers are against
an extension to shipping.

MINISTER

REPRESENTATION

Michael Heseltine
(24 January)

- Supports Mr Ridley's view that the Budget should contain fiscal measures which would halt or reverse the decline in the number of UK merchant ships.

Norman Lamont
(30 January)

-Do not put VAT on printed matter.

Leon Brittan*
(25 January)

- Provide some new fiscal benefits for charities: There should be political as well as practical advantages if incentives are given to corporate or individuals.

- Increase the present £5,000 limit on higher rate tax relief for covenants.

(Ministers have decided to increase it to £10,000)

- Introduce tax concessions for help in kind
(Ministers have rejected this)

Michael Jopling
(14 February)

- Supports Mr Ridley's proposal for phasing in the VED increased duty rates.

George Younger
(14 February)

- Do not put VAT on printed matter

- Taxation of retirement lump sums and investment income; if both these developments are pursued there would be very damaging political consequences and these should be taken into account before going down this road.

- Whisky duty and stock relief: under revalorisation of whisky and concessions on stock relief to the whisky industry.

- Do not abolish vehicle excise duty.

- Improve the present CTT arrangements on the heritage.

MINISTER

George Younger
(Cont'd)

REPRESENTATION

- The new capital allowances system will hurt the unincorporated sector.

- Extend CGT indexation and allow agricultural landlords CGT rollover relief when the sale proceeds are invested in let land.

- Covenants for students under 18.

- The health implications of alcohol and tobacco should be taken into account when excise duties are being considered.

Norman Fowler
(15 and 20 February)

BRIEF

PRE-BUDGET MEETING WITH THE BREWERS' SOCIETY : TUESDAY 21 JANUARY 11.00 AM

PURPOSE OF THE MEETING

1. This is the annual pre-Budget meeting on beer duty.

THE SOCIETY'S REPRESENTATIONS

2. The Society's representations are contained in a memorandum submitted in October (copy at Annex A - the manuscript amendments on page 2 have been agreed with the Society following our examination of the figures).

Main point

The substantial increase in beer duty in real terms since 1979 has had an adverse effect on the level of beer consumption, and therefore on employment in the industry. Although the rate of decline has slowed down, the beer market shows no sign of recovery.

Other points

Wine and spirits duties have been reduced in real terms and this has led to some switching of consumption from beer to wine and spirits. A higher proportion of wine and spirits than beer is imported and the transfer of consumption from beer implies that jobs have been exported.

Beer taxation is regressive.

The decline in beer consumption has been greater in the case of pubs and clubs than supermarkets and similar outlets.

POINTS WHICH THE SOCIETY MAY MAKE

3. It is likely that, as on previous occasions, the Society's representatives will highlight points in the paper.
4. **Static beer market.** In the 30 years up to 1979 the market grew steadily. Consumption then fell in the following 3 years, but increased marginally in 1983 before falling back slightly in 1984. The Society predicts a 1% reduction in 1985 compared with 1984. The poor summer seems to have been an important factor in this decline. Independent forecasts predict a virtually static

market overall during the next few years, within which lager is expected to take an increasing share.

5. **Duty has contributed significantly to beer's decline.** In real terms, the duty is still lower than in the late '60s and early '70s when consumption was increasing. (The attached table at Annex B shows how the real value of beer duty has changed since 1966). However, there is little doubt that real price increases in recent years, attributable in part to duty and VAT increases, have contributed to the decline in beer drinking. Although the tax element has risen faster than the RPI since 1979, so have other components in the price of beer. Brewers have not been slow to put up their prices and have therefore contributed to any consequential reduction in demand. The brewing industry generally has remained profitable despite the volume reduction.
6. Whilst price increases have contributed to the decline in beer consumption there have been other factors, notably the recession, which particularly hit beer's traditionally strong markets (eg the North and heavy industry); a shift in consumer preference in favour of other drinks; and competition from other leisure activities.
7. **Wine and spirits have been treated favourably compared with beer.** The ratios between beer duty and those for wines and spirits have moved to the disadvantage of beer. Duty on table wine is constrained by the European Court judgment in the beer/wine case. The relatively favourable treatment of spirits in recent years reflects a recognition of the plight of the Scotch whisky industry and of the importance of its exports. There is no "correct" beer/spirits duty ratio. Duty accounts for about 25% of the price of a pint of beer but about 60% of the price of a bottle of spirits.
8. **Beer duty increases hit the least affluent hardest.** There is no conclusive evidence, but Family Expenditure Survey data suggests that beer accounts for a higher proportion of expenditure in poor households than in richer ones, while the reverse is true for wine and spirits.
9. **Pubs and Clubs.** Beer has been the mainstay of pubs and clubs and the lower consumption of beer has had an adverse effect. But social changes and economic factors have also contributed to the decline in popularity of these establishments.

10. **Health.** As part of their representations last year, the Society suggested that any reduction in the ratio between the taxation of beer and spirits would encourage consumption of the latter, and this would be undesirable on health grounds. The Government's published policy is that the importance of health considerations is recognised and taken into account when changes in duty on alcohol are considered; but there should not be systematic use of tax rates as a means of regulating consumption. According to the DHSS booklet "Drinking Sensibly", there is no "objective evidence to suggest that consumption of any one type of alcoholic drink should be encouraged at the expense of another because it is less likely to lead to misuse".

POINTS YOU MAY WISH TO RAISE

11. The Society's October 1985 paper reiterates familiar points. As a result of the annual meetings which focus on the relatively narrow issue of beer duty, and other contacts, the trade's views are well understood; and the Society has acknowledged constraints on the Chancellor. In essence, brewing is an important domestic industry whose market is static for a number of reasons; but it is also an important source of revenue (we expect to achieve the Budget estimate of £1960 million from beer duty in the current financial year).



Page

RECORD OF A MEETING HELD AT 2.30 PM ON 21 JANUARY 1986 IN HM TREASURY

Those present: Chancellor of the Exchequer
Minister of State
Miss Sinclair
Mr Whitmore - C&E

Mr C E Guinness - Chairman, Brewers' Society
Major-General Mangham - Director, Brewers' Society

Mr Guinness said the Society's Budget representations had been sent to the Treasury in October. Subsequently, November had seen a drop in production of 6.4% and sales for 1985 as a whole were thought to be 1% down. Some major brewers may have announced reasonable pre-tax profits, but smaller brewers were doing nothing like as well. Since may 1979 there had been an overall drop in beer consumption of 11%, equivalent to one large brewer closing, which included a 15% drop in draft and bottled beers.

2. Since 1979 there had been considerable housekeeping improvements, but such a capital intensive industry had little more scope for paring costs. For instance, about £2 million per day was spent on refurbishing pubs so as to compete in the leisure market. Pubs and clubs fulfilled an important social role. Duty increases in six successive Budgets had had a marked effect on the price of beer. He had spent 40 years brewing (and had even married the daughter of another major brewer), and was genuinely concerned that beer consumption could not continue to decline without very serious problems arising.

3. Mr Whitmore asked what effect the poor summer had had on demand. Major-General Mangham said a marvellous summer could boost consumption by 2%. The 1985 summer had been bad, though recovering a little in September, and had probably reduced consumption by around 1%. That, combined with the miners' strike, had added up to a few



bad years for the industry. Beer was still the only alcoholic drink suffering from falling consumption. The discrimination against it since 1979 had been very heavy. If the Chancellor would only let beer consumption recover, he would doubtless benefit in revenue terms.

4. The Chancellor said that he would far rather tax beer more lightly compared to wine, but the EC rules left him no freedom. He had done as much as he could.

5. The Chancellor wondered whether Mr Guinness' presence meant he would receive joint deputations from the brewers and the Scotch Whisky Association in future! Mr Guinness said he was strictly representing the brewers, but mentioned in passing that if Guinness could stop Distillers being disembodied then it had fine prospects for overseas expansion and a competent management.

6. Returning to beer, Mr Guinness stressed it was made from indigenous products. Major-General Mangham said beer was more important to society in the North than the South and particularly to the poorer sections of society (the C and D classes in marketing terminology). He acknowledged that lager was a little more expensive, but did not think it was necessarily consumed by wealthier people. Lager was, however, one reason why major brewers were bearing up better than smaller ones. The Chancellor could help the less affluent by not taxing beer. Votes might be at stake, though such a political judgement was clearly not for the Brewers' Society.

7. The Chancellor thanked the Brewers' Society for their cogent representations and said he would take them into account in formulating his Budget. Unfortunately, as the oil price fell, the overall Budget prospect became less good. Mr Guinness noted that beer and oil had never mixed well. He thanked the Chancellor for bearing his representations in mind and left the thought that his worries about the decline in the industry were not superficial.

R.



Distribution:

Those present
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Monger
Miss Sinclair
Mr Cropper
Mr Davies
Mr Lord
PS/C&E
PS/Mr Whitmore



FROM: P WYNN OWEN

DATE: 22 January 1985

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Mr R Allen
Mr McKenzie
Mr Baillie
Miss Page - MCU

MR HALLIGAN

BUDGET REPRESENTATIONS

This minute records several of the points I discussed with you and Mr McKenzie on the phone.

2. There are a small number of MPs (and others) who, if they write to the Chancellor, must receive a reply from the Chancellor. These include all Cabinet colleagues and all MPs bearing the prefix Rt. Hon. I attach, as an annex, a full list of almost 30 other MPs who should always receive a Chancellor's reply (provided they have written to him), and several other close friends of the Chancellor who deserve similar treatment.

3. It would be helpful if all your submissions on Budget Representations could be copied to all the Ministerial offices, so that Private Secretaries can spot where their Minister might have an interest.

4. A number of Budget Representations have been actioned out from Private Offices, and they should be returned direct to them. But several come out from MCU and it would be helpful if they returned by that route. This should help spread the typing load and complete the records of the MCU computer so that those letters can be tracked more easily when queries arise.

5. I also mentioned that a large number of FPs' submissions arrived several days after they were ostensibly sent out. It seems a pity if something is delaying the otherwise rapid turnover of Budget Representations, so I would be grateful if you could look at ways of speeding up the process of transmission.

A handwritten signature in dark ink, appearing to be 'P. Wynn Owen'.

P WYNN OWEN

All Cabinet Ministers

All Rt. Hons.

MPs

Sir Anthony Buck QC
 Tim Brinton
 Peter Bruinvels
 Graham Bright
 Sir John Biggs-Davison
 Mr John Carlisle
 Sir William Clark
 Sir Walter Clegg
 Mr Paul Dean
 Sir Reginald Eyre
 Mr George Gardiner
 Mr Michael Grylls
 Mr John Selwyn Gummer
 Sir Philip Holland
 Mr Ralph Howell
 Mr John Hannam
 Mr John Heddle
 Mr Barry Henderson
 Mr Toby Jessel
 Mrs Jill Knight
 Hon. Mark Lennox-Boyd
 Mr Peter Lilley
 Sir Peter Mills
 Hon. Charles Morrison
 Mr David Madel
 Mr Michael Portillo
 Sir Michael Shaw
 Mr Nigel Spearing
 Sir Patrick Wall
 Mr John Wheeler
 Mr John Wilkinson

Others

Lord Jock Bruce-Gardyne
 Geoffrey Chandler - Cazenoves
 Martin Jacomb - Kleinworts
 Sir John Nott - Lazards
 Sir Emmanuel Kaye
 Lord John Peyton
 Gordon Pepper - Greenwells
 Sam Brittan - FT

Mr Robin Maxwell-Hyslop
 Mr Cranley Onslow



b/f 29/1 pt

FROM: P WYNN OWEN
DATE: 23 JANUARY 1986

b/f 31/1 pt

MR G MCKENZIE

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Monck
Mr Cassell
Mr Monger
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Lord
PS/IR
PS/C&E

PM

1986 BUDGET: MAIN REPRESENTATIONS

The Chancellor has seen your minute of 20 January. Unfortunately, this is not what he recalled seeing. He thinks we had a table of representations from outside bodies (in the form of a matrix), for the 1985 Budget, though it may have been for the 1984 Budget.

Rs.

P WYNN OWEN

FROM: G MCKENZIE
DATE: 24 JANUARY 1986

MR WYNN OWEN

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Monck
Mr Cassell
Mr Monger
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Lord
PS/IR
PS/C&E

C. Ask for X?

Ym psk w
Re 24/1

1986 BUDGET: MAIN REPRESENTATIONS

Your further minute of 23 January refers.

2. I attach the 'matrix' that the Chancellor recalls seeing; which was indeed produced for the 1984 Budget.

3. You will see that the tables attached to my minute of 16 January, differ slightly from the matrixes produced in 1984. If the Chancellor would like this year's tables consistent with the 1984 matrixes then I would be happy to oblige.

G McKenzie
G MCKENZIE



FROM: MRS D LESTER

DATE: 27 January 1986

cc PS/Financial Secretary
PS/Minister of State
Miss Sinclair
Mr Romanski
Mr Murray
PS/C&E
Mr Whitmore - C&E
Mr J Bone - C&E
PS/IR
Mr A Walker - IR

MR MCKENZIE

BUDGET REPRESENTATION: SCOTCH WHISKY ASSOCIATION

The Chancellor will now meet representatives of the Scotch Whisky Association on Tuesday 4 February at 4.00 pm in HM Treasury. He would like the Financial Secretary and the Minister of State to be present please.

2. The SWA representatives will comprise:

Mr Macphail - Chairman
Col. Bewsher - Director
Professor Mackay - Economic Consultant
and 1/2 others

3. I shall let you know the names of the other representatives in due course.

Debbie Lester

MRS D C LESTER

b/f 30/1 pl



FROM: P WYNN OWEN
DATE: 27 January 1986

MR G MCKENZIE

cc Mr Monger
Miss Sinclair

1986 BUDGET: MAIN REPRESENTATIONS

The Chancellor has seen and was grateful for your minute of 24 January. He would be grateful if you could produce as soon as possible a matrix of a similar nature for the 1986 Budget.

A handwritten signature in cursive script, appearing to be 'PWO'.

P WYNN OWEN



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

27 January 1986

Col. Bewsher
The Scotch Whisky Association
20 Atholl Crescent
Edinburgh
EH3 8HF

Dear Colonel Bewsher,

I am writing to confirm that the Chancellor would be pleased to meet representatives of the Scotch Whisky Association on Tuesday 4 February at 4.00 pm in HM Treasury. I apologise for any inconvenience which this change of date may cause.

I should be grateful if you would confirm the names of the Scotch Whisky Association representatives nearer the date itself please.

Yours sincerely
Debbie Lester

MRS D C LESTER
Diary Secretary

cc APS/FST
APS/EST ✓

H/2

FROM: G MCKENZIE
DATE: 28 JANUARY 1986

REVENUE
BRIEF

MRS LESTER

cc Miss Sinclair
Mr Romanski
Mr Murray

BUDGET DEPUTATION: SCOTCH WHISKY ASSOCIATION

Further to my minute of 24 January I now attach the Inland Revenue's briefing for the meeting with the Scotch Whisky Association (now planned for 4 February).

- 2. Mr Bolton will be representing the Revenue and Miss Sinclair FP.

G McKenzie
G MCKENZIE

STOCK RELIEF

1. Background and History

Ever since the abolition of stock relief was announced in the 1984 Budget, SWA has been campaigning vigorously for special treatment. They have had several meetings with Ministers and officials but concessions have been consistently refused. It has all along been recognised that the 1984 package of reforms would produce winners and losers at least in the short term and that the whisky industry would be particularly badly hit in the period of transition whilst tax rates were coming down. SWA represented that stock relief should be phased out over a period broadly in parallel with the changes in capital allowances. However, Ministers felt that such a concession would endanger the whole strategy of the CT reforms particularly if one industry was singled out.

2. Point now at issue

The report "The Scotch Handicap" marks a shift in SWA's campaign. Having apparently conceded defeat on the transitional effects of stock relief abolition, they now turn their attention to the permanent impact of the 1984 reforms. In essence, they claim that the whisky industry will suffer a competitive disadvantage from the tax changes ie it will do less well out of the reforms than will its competitors.

The disadvantage, they explain, stems from the uniquely long periods for which the whisky industry has to hold its stock. Indeed, the law demands a three-year minimum period of "maturation" and, in practice, the period is usually longer.

3. The "maturation allowance"

SWA has pitched its proposals modestly seeking a form of stock relief only in respect of stock holding over the statutory minimum three-year period. It would be a deduction from profits calculated by applying the retail price index to the value of stock held at the start of each accounting period so far as that stock was whisky distilled within the previous three years. It would, therefore, be a special new relief geared to the precise needs of one particular industry. Although a form of stock relief, it could not be represented as a mere revival of an old allowance.

4. General criticism

In proposing the special allowance, SWA takes on a burden of proof even more heavy than they had with their earlier pleas. The 1984 reforms did hit the whisky industry particularly hard in the first years yet Ministers have consistently refused them any concession. It would be much more difficult to justify a brand new relief just for one sector and even harder still to resist special pleading from other quarters.

The 1984 package of business tax reforms is part of the Government's strategy of removing distortions and establishing a broadly based tax system with low rates. This strategy encourages profitable, enterprising and successful companies. (Indeed, SWA have expressed their general support for this policy.) Now to introduce a relief as narrowly targeted as the proposed maturation allowance would clearly run counter to this thrust.

5. Some specific points

a. The impact of the 1984 reforms

- i. There are inevitably winners and losers from the CT reforms, particularly in the transitional period. It has never been the intention that every loser should be compensated.
- ii. It is accepted that whisky companies would probably pay more CT in financial years 1984 and 1985 while the CT rate was still falling. The long term effects of the reform on the industry is unlikely to be adverse.
- iii. As "The Scotch Handicap" mentions, whisky companies' discontent with the long term effects of the CT reforms reflects a feeling that inflation is not fully under control and that the tax structure will leave them significantly exposed should the rate of inflation rise. However, the Government has often made it clear that they are determined to secure further reductions in inflation and to keep it down.

b. Structural problems of the whisky industry

- i. Part of the problem faced by the industry is due to its very low rate of return. This leaves whisky companies unable to take full advantage of the opportunities offered by a low CT rate.
- ii. The fact that there is a statutory requirement to mature whisky for three years does not mean that tax relief has automatically to follow. Many other sectors are bound by legislation for which no reliefs are available.

3. Other industries have special treatment

It has been pointed out that both the shipping and film industries have recently had special treatment. In the case of shipping, such changes as there have been reflect special arrangements which have been present in the tax system since at least 1965 and which recognise the strategic importance of that industry. As to films, there have been some changes to improve the regime for a sector with one-off products so as to equate it more closely with the system applying to the generality of traders who produce continually. The film industry does not enjoy a better treatment than anyone else.

By contrast, the changes which the SWA seek would give an additional relief from tax not available to anyone else.



FROM: MRS D C LESTER
DATE: 28 JANUARY 1986

MR MCKENZIE

cc PS/Financial Secretary
PS/Minister of State
Miss Sinclair
Mr Romanski
Mr Murray
PS/C&E
Mr Whitmore C&E
Mr J Bone C&E
PS/IR
Mr A Walker IR

BUDGET REPRESENTATION: SCOTCH WHISKY ASSOCIATION

In my minute of yesterday I said that in addition to Mr Macphail, Col. Bewsher and Professor Mackay the SWA would bring one or two others representatives. I am now told that they will be Mr R S Temple, Finance Director of Distillers and Member of the Council and Mr I C Straker Chairman of Seagram Distillers, Chairman of the SWA's Public Affairs Committee and Member of Council.

Debbie Lester

MRS D C LESTER

	<u>CBI</u>	<u>IOD</u>	<u>SMMT</u>	<u>ABCC</u>	<u>RETAIL CONSORTIUM</u>
PERSONAL TAX	Increase thresholds	Reduce basic rate - raise thresholds			
BENEFITS IN KIND		Abolish £8500 threshold. No real increase in car benefits	No increase in car benefits	Abolish or increase £8500 threshold	
STAMP DUTY	Abolish				
CGT	Pre-1972 indexation (or abolish)	Pre-1982 indexation (or abolish)		Abolish	
CTT	Abolish (or ease rates + allowances)	Abolish (or ease rates + allowances)		Abolish	
CT				Tax on slicing basis	
ACT	Allow full set-off	Allow full set-off	Allow full set-off		
CAPITAL ALLOWANCES	Abolish limit on expensive cars	Abolish limit on expensive cars		Abolish limit on expensive cars	
BES		Extend life of scheme			
SHARE INCENTIVES	Widen scope	Treat gains on options as chargeable gains, not as income. Introduce 'Loi Monory' type scheme			
VAT	1. Maintain opposition to EC12 Directive. ii. Extend bad debt relief. iii. Extend inward processing	1. Maintain opposition to draft EC12 Directive. ii. Adopt draft 14 Directive iii. Extend bad debt relief	Maintain opposition to draft EC12 Directive	1. Set up clearing house of VAT paid to member states. ii. Increase VAT registration threshold to £50,000. iii. Extend bad debt relief	1. Resist EC pressure which may result in alteration of VAT base ii. Increase VAT registration to £10,000
CAR TAX	Abolish		Abolish	Abolish	
EXCISE DUTIES					
BETTING AND GAMING					

	<u>ASSOCIATION OF BRITISH INSURERS</u>	<u>BRITISH BANKERS ASSOCIATION</u>	<u>LAW SOCIETY</u>	<u>COUNTRY LANDOWNERS ASSOCIATION</u>	<u>GENERAL COUNCIL OF BRITISH SHIPPING</u>
PERSONAL TAX					
BENEFITS IN KIND				Increase £8500 threshold	
STAMP DUTY	Abolish	Abolish capital duty	Failing general reform, consolid- ate odds & ends		
CGT				Exempt gains over more than 3 years	
CTT				Abolish (or ease rates & allowances)	
CT					
ACT	Allow full set- off				
CAPITAL ALLOWANCES	Extend to commercial & retail premises	Allow full set- off			Introduce 50% allowance for ships
BES			Ease restrictions; allow carry back		Include ship chartering
SHARE INCENTIVES					
VAT					
CAR TAX					
EXCISE DUTIES					
BETTING AND GAMING					

	<u>SCOTCH WHISKY ASSOCIATION</u>	<u>BREWERS SOCIETY</u>	<u>GIN RECTIFIERS</u>	<u>TAC</u>	<u>BRITISH GREYHOUND RACING BOARD</u>
PERSONAL TAX					
BENEFITS IN KIND					
STAMP DUTY					
CGT					
CTT					
CT					
ACT					
CAPITAL ALLOWANCES					
BES					
SHARE INCENTIVES					
VAT					
CAR TAX					
EXCISE DUTY	1. Extend period of duty deferment to 8 weeks. ii. Continue move towards equalisation of taxes for degree of alcohol basis	Adverse effects of beer duty increase on the industry	1. No increase in pipe tobacco or cigar duty ii. At most only revaluation on cigarettes & hand-rolling tobacco		
BETTING AND GAMING					Abolish on course betting tax

	<u>JOCKEY CLUB</u>	<u>HORSERACE BETTING LEVY BOARD</u>	<u>NATIONAL ASSOCIATION OF BOOKMAKERS</u>	<u>HORSE RACING ADVISORY COUNCIL</u>	<u>HORSE RACING TOTALISATOR BOARD</u>
PERSONAL TAX					
BENEFITS IN KIND					
STAMP DUTY					
CGT					
CTT					
CT					
ACT					
CAPITAL ALLOWANCES					
BES					
SHARE INCENTIVES					
VAT					
CAR TAX					
EXCISE DUTIES					
BETTING AND GAMING	Abolish on-course betting duty	Abolish on-course betting duty	Abolish on-course betting duty	Abolish on-course betting duty	Abolish on-course betting duty

	<u>BRITISH PROPERTY FEDERATION</u>	<u>BUILDING EMPLOYERS FEDERATION</u>	<u>NATIONAL FARMERS UNION</u>	<u>ROAD HAULAGE ASSOCIATION</u>
PERSONAL TAX		Raise thresholds		
BENEFITS IN KIND		Increase £8500 threshold		
STAMP DUTY		Raise thresholds abolish capital duty		Abolish
CGT	Pre-1982 indexation	Pre-1982 indexation	Exempt gains over more than 7 years	Cut
CTT				Cut
CT		Raise thresholds	Ease rates	
ACT	Allow full set off			
CAPITAL ALLOWANCES		Extend to comercial & retail premises	Re-introduce 100% FYA; allow 25% on straightline basis	Retain 50% Allowance until 1987 then 25% straightline
BES				
SHARE INCENTIVES				
VAT				
CAR TAX				
EXCISE DUTIES				
BETTING AND GAMING				

	<u>OTHER</u>	
PERSONAL TAX	Raise thresholds Reduce BR Raise HR thresholds Reintroduce LR band Limit reliefs to BR Index all reliefs Introd. xferable allces	(2) (1) (2) (1) (1) (1) (1)
BENEFITS IN KIND	No inc. in car benefits Raise £8500 threshold Align engine sizes to EEC <u>EMISSION CONTROL SIZES</u>	(2) (1) (1)
STAMP DUTY	Abolish Slicing basis for property transfers	(5) (2)
CGT	Abolish or exempt gains over 4-7 yrs Index short term gains Ease retirement provisions	(5) (1) (2)
CTT	Halve rates	(1)
CT	Tax on slicing basis	(2)
ACT	Allow full set off	(1)
CAPITAL ALLOWANCES	Reintroduce 100 per cent FYA	(3)
BES	-	
SHARE INCENTIVES	Raise max contribution to £200pm Repeal S'9 FA 1972	(1)
VAT	VAT points	(18)
CAR TAX		
EXCISE DUTIES	Other excise duty points	(15)
BETTING AND GAMING	Abolish on course tax	(3)

	<u>OTHER</u>	
PERSONAL TAX	Raise thresholds Reduce BR Raise HR thresholds Reintroduce LR band Limit reliefs to BR Index all reliefs Introd. xferable allces	(2) (1) (2) (1) (1) (1) (1)
BENEFITS IN KIND	No inc. in car benefits Raise £8500 threshold Align engine sizes to EEC <u>EMISSION CONTROL SIZES</u>	(2) (1) (1)
STAMP DUTY	Abolish Slicing basis for property transfers	(5) (2)
CGT	Abolish or exempt gains over 4-7 yrs Index short term gains Ease retirement provisions	(5) (1) (2)
CTT	Halve rates	(1)
CT	Tax on slicing basis	(2)
ACT	Allow full set off	(1)
CAPITAL ALLOWANCES	Reintroduce 100 per cent FYA	(3)
BES	-	
SHARE INCENTIVES	Raise max contribution to £200pm Repeal S79 FA 1972	(1)
VAT	VAT points	(18)
CAR TAX		
EXCISE DUTIES	Other excise duty points	(15)
BETTING AND GAMING	Abolish on course tax	(3)

C Did this come back by mistake?

FROM: G MCKENZIE
DATE: 30 JANUARY 1986

C As requested, Ro 3/2.

MR WYNN OWEN

cc Mr Monger
Miss Sinclair

Ro 30/1

1986 BUDGET : MAIN REPRESENTATIONS

As requested in your minute of 27 January I now attach a matrix for the 1986 Budget.

2. I will up-date the matrix when circulating the next summary of the main Budget representations.

*Thanks. No
answer to
update ~~matrix~~
para 2 - ASAP.*

G McKenzie
G MCKENZIE

*(NB so far none of the
small projects / ungranted
business bodies seen for work)*

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*Take
prohibitive
No further work.
Costs
M.*

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

From: B H KNOX
Date: 30 January 1986

CHANCELLOR

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Monger
Mr Scholar
Mr Cropper
Mr Lord
Mr H Davies

*C. As requested. The
likely costs - para's 7 to 12 -
are the nub.*

Rm 3/1

KNOX
to
CHEX
30/1

DUTY DEFERMENT FOR SCOTCH WHISKY

1. You asked for a quick note on the case for and the cost of increased duty deferment for Scotch whisky.

The case

2. The Scotch Whisky Association, the Wine and Spirit Association and the other bodies representing the wine and spirits trade have made increased duty deferment a central item in their Budget representations, and pressed their views at their recent meeting with the Minister of State.

who you see on Tuesday,

Internal circulation: CPS, Mr Jefferson Smith, Mr Wilmott, Mr Whitmore,
Mr Bone, Mrs Hamill

Their case rests on two broad arguments:

- the benefit of the 4 weeks average deferment first granted in 1984 has been eroded by other developments (eg withdrawal of stock relief, high interest rates); it is time now for a further concession
- as the excise duty is a charge on consumption by the final consumer, it should not therefore be effectively payable until the time of retail sale; the average period from withdrawal from bond to final sale is around 3 months, and logically this is the ideal deferment period. But the industries would be prepared to accept a lesser period (8 weeks average deferment, an extension of 4 weeks).

3. Although we acknowledge that the Scotch whisky industry was hit hard by the withdrawal of stock relief, we are not convinced that this constitutes a sufficient case for an extension of duty deferment. The cost could be considerable (see below), and the industry has in any case benefited from a fall of 20 per cent in the real value of the duty since 1979 (at a cost currently of some £200 million a year in terms of revenue forgone by comparison with the proceeds of revalorisation). Insofar as the industry has been affected by more general economic circumstances, we see no grounds for giving them a measure of alleviation through the excise duty that is neither sought by nor on offer to other sectors of industry.

4. We have no detailed information with which either to confirm or to refute the assertion that the industry has to wait 3 months on average before recouping the duty from the final customer. But we are more than a little sceptical about the case. Although it may be true for some imported goods sold through traditional retail outlets, where shippers, wholesalers and retailers may each hold stocks for an appreciable time, we remain to be convinced that stock turnover periods are anywhere near as long for domestic goods sold through the on-trade (which accounts for nearly half of whisky sales by volume) or large volume supermarkets. The picture is in any case complicated by the commercial terms of trade between the parties concerned (producer, wholesaler, retailers), and it is not clear just who would benefit most from increased deferment.

5. The Scotch Whisky Association claims that the period of UK deferment is shorter than that enjoyed elsewhere in Europe (typical periods range from one and a half months in Denmark to four in Belgium and, reputedly, up to six in Luxembourg). We do not deny the figures quoted, but are not sure just what point is really at issue. First, deferment periods apply to domestic and imported goods alike, so foreign products compete in the UK market on the same terms as Scotch. Second if the industry argues that a short deferment period materially affects the home market (which, they argue, must be strong to support exports), they need to present a better documented and argued case in support of this link in a sector where the home market accounts for only 16 per cent by volume of total world sales of Scotch.

6. In summary, although the whisky industry's case for some favourable treatment is not to be dismissed out of hand, we do not consider that they have marshalled sufficiently cogent specific arguments to justify an extension of deferment. But our opposition to such an extension is based mainly on considerations of cost.

The cost

7. A once-for-all cost arises because extra deferment postpones the payment of some duty from one financial year to the next. If an additional month's deferment were granted in 1986-87, it would be the revenue for clearances between 15 February 1987 and 14 March 1987 (under present arrangements payable on 29 March 1987) that would slip into 1987-88. It is difficult to estimate the amount of revenue at stake because Budget forestalling distorts the end-of-year figures. A perhaps more reliable guide to the magnitudes involved is the average amount of duty collected monthly. On this basis, our estimate of the cost of extra deferment for Scotch whisky is £60 million.

8. But we could not stop at Scotch. Deferment would have to extend to all spirits to avoid immediate infraction proceedings under the EEC Treaty. This would cost (in total) some £130 million.

9. Again, we doubt if the line could be drawn there. Heavy wines (sherry, port, vermouth etc) compete with spirits, and the need to avoid discrimination argues strongly in favour of extending extra deferment to this sector. There is also a practical argument, in that the trade deals in mixed stocks of wines and spirits, and treating them differently could raise awkward practical problems

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for us as well as for warehouse-keepers. For similar reasons, it would probably be necessary to give the same treatment to table wines. The cost of extra deferment for all wines and spirits would be about £185 million.

10. To complete the picture, an extension of deferment on this scale could stir up the brewers. They would be likely to argue strongly and persistently for a similar extension on grounds of equity. Also, although they would probably not have as strong a case for similar treatment under EC law (which generally does not seek to stop Member States discriminating against domestic industries), the risk of EC proceedings cannot be ruled out, as some beer is brewed abroad and imported (about 5 per cent of total consumption). So the cost of extra deferment for beer, wines and spirits would be some £350 million.

11. The extra borrowing that an extension of deferment would impose on the Government would have a continuing cost (at current interest rates, say, up to £40 million a year).

12. As the costs mentioned above result from the postponement to the following year of payments due on 29 March (wine and spirits) or 25 March (beer), there is little scope for minimising the PSBR effects through phasing. We have recently been giving some thought to possible technical changes that would have the incidental effect of clawing back some of this cost; by de-bonding some distribution warehouses (the existence of which enables traders to delay duty deferment) we could push the duty point back closer to the point of production or importation. But the issues involved are complex, and we do not think we could manage such a change without proper preparation involving consultations with the trade. While some de-bonding would obviously reduce the cost in relation to spirits and wine, we are not able to say by how much; and there would be no reduction in the cost of any additional deferment granted for beer.

Conclusion

13. We object to any further extension of duty deferment primarily on the grounds of cost, but also because we do not think a good enough case has been made out by the industry. Assistance in this form could not be targeted on Scotch alone, and we think pressure to extend it to all sectors of the drinks trade would be irresistible.

Bryce Knox



INLAND REVENUE
CENTRAL DIVISION
SOMERSET HOUSE

hwp

31 JANUARY 1986

PS/ECONOMIC SECRETARY

CONSERVATIVE SMALL BUSINESS BACKBENCH COMMITTEE
1986 BUDGET RECOMMENDATIONS

You asked for urgent briefing on these representations.

... I attach comments on the Inland Revenue points. Recommendation 7, about the Loan Guarantee Scheme, will be covered separately by IAE3.

AJW
A J WALKER

cc PS/Chancellor

PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Mr Murray (FP)
Mr Cunningham (IAE3)

Mr Isaac
Mr Battishill
Mr Painter
Mr Lewis
Mr Corlett
Mr Houghton
Mr Deighton
Mr Johns
Mr Farmer
Mr Draper
Mr Bryce
Mr Elliott
Mr Speyers
PS/IR
Mr Walker

1. PROFITS OF UNINCORPORATED BUSINESSES

Point at Issue

Profits of unincorporated businesses retained in the business as working capital to be charged at Corporation Tax rates [30 per cent for small companies] and not at higher personal rates [40 per cent up to 60 per cent].

Background

Following the 1984 Budget there were many representations of this kind. The argument was that whereas companies had been compensated for the abolition of stock relief and withdrawal of first year capital allowances by reductions in CT rates, the unincorporated sector had received no such relief and was liable to tax at rates of up to 60 per cent. In fact only about 10 per cent of the self-employed pay higher rate tax. Schemes for special tax treatment for retained profits have been considered in the past but raise a number of problems - a check would have to be made on the use to which retained profits were put to curb abuses, but this would be administratively costly; profits relieved or partly relieved from tax could be spent on items which already attract tax relief; an artificial distinction would have to be created between the self-employed person and his business, which could increase his compliance burden. Ministers looked at a scheme proposed by DTI in 1985 but rejected the idea.

Line to take

Balance of advantage between the incorporated and unincorporated sectors is constantly changing. 1984 Budget may have tipped the balance one way but the NIC changes this year shifted it in the other direction.

Only about 10 per cent of the self-employed pay higher rate tax. For the majority paying basic rate only, the income tax rate is the same as the small companies CT rate (30 per cent).

Schemes for relieving retained profits have been considered in the past but raise a number of difficulties and would be administratively costly.

CONSERVATIVE SMALL BUSINESS BACK BENCH COMMITTEE
BUDGET REPRESENTATIONS 1986

2. Recommendation 2 Government Research and Development Bonds

A Government Research and Development Bond, investment in which by a limited company would qualify as a tax deductible expense and sale of which would be treated as taxable income.

Line to Take

Practical problems:

- would enable a company to shift taxable profits from one year into another. This could provide opportunities for tax planning at the Exchequer's expense, eg companies would contrive to be liable when the bond is bought and to have no liability when it is encashed.

Wider aspects:

- it might perversely encourage companies to invest in bonds instead of making productive investments.
- though these would be a cash flow benefit to the Exchequer this would not be helpful since it would be borrowing. The short term tax loss would have to be made up by tax increases elsewhere.

3a. CAPITAL GAINS TAX

Proposal

To extend rollover relief to investment in equity shares of an unquoted company.

Present position

The existing rollover relief for the replacement of business assets is intended to allow a business to re-equip itself without incurring an immediate tax charge; this is achieved by rolling-over the gain on disposal of the original asset into the cost of the replacement asset. It is available in respect of disposals and acquisitions of:

- land and buildings
- fixed plant and machinery
- goodwill
- ships, aircraft and hovercraft

The relief does not extend to shares of any kind.

Comment

It is unclear whether the proposal is for investors to be eligible for rollover relief on the sale of other assets in order to purchase shares in unquoted companies, or for the relief to be available on disposal of, and reinvestment in, such shares. However, to extend the rollover relief to any form of portfolio investment would have two important results:

- it would be extremely costly, as it would be difficult to deny the relief for other forms of investment
- it would breach the principle on which the relief is based. The current legislation is designed to cover, broadly, assets likely to be of central importance to the vitality of the business itself.

Line to take

- Tax treatment for investment in unquoted companies is already extremely favourable. For example, generous income tax relief under the Business Expansion Scheme, and capital losses on shares available for offset against income (contrary to normal rules).

- Do not see a compelling case for extension of the capital gains tax rollover relief as it would constitute a fundamental change in the nature of the relief itself and would inevitably lead to pressure for extension to other investments.

Proposal

Relief to be available to an investor whose loan to a small business proves irrecoverable; similarly, in respect of any payment called to be made under a guarantee.

Present position

Section 136, Capital Gains Tax Act 1979, already provides relief for losses on loans and payments made under guarantees in respect of loans used by borrowers for the purposes of their trades. The provisions apply where the loan was made, or the guarantee was given, after 11 April 1978.

Line to take

Relief already available under existing legislation. Not clear, therefore, what Committee has in mind. Would welcome clarification of the proposal.

Recommendation 3(b)

(b) Allow BES relief against tax on capital gains realised in the same year.

Line:

This seems to be a request to allow BES relief to be set against capital gains instead of income. This would only be helpful in the rare case where someone has insufficient taxable income to absorb the BES relief and also has some taxable capital gains. There is no objection in principle to extending BES in this way but it would be an additional complication which would only be relevant to a few people.

4. TAX-FREE BAND FOR BUSINESSES

Point at Issue

Business Relief tax free band of £5,000 per annum to be available for each company qualifying for small company status, and to each unincorporated small business.

Background

The Institute of Directors, among others, have previously sought an exemption for the first £5,000 of profits earned in the early years of a business. This representation seeks relief for all small businesses however long established.

The proposal would be very costly and the proposed levy on profits in excess of £100,000 would have to be pretty punitive if it were (as suggested) to recoup that cost. (In any event, the idea of a levy sits rather oddly with the Committee's wish to move, step by step, to taxation at a "standard" rate.)

It would be difficult to justify a substantially higher tax threshold for the self-employed (including professional people) which was not available to employees; it is frequently argued that the self-employed already enjoy a more favourable tax regime than employees.

Line to take

The Government accept that the burden of tax is too heavy and try to reduce it when circumstances permit. Substantial reductions in the rate of corporation tax and a raising of income tax thresholds have already been achieved.

It would seem difficult to justify such over discrimination in favour of the self-employed. The cost would be very high.

Recommendation 5: Business Expansion Scheme

(a) Allow directors, employees and their families investing in a qualifying company to obtain tax relief.

Line:

Unpaid directors can already qualify for relief as can relatives outside the immediate family of directors and employees. The main arguments against admitting paid directors, employees and their close relatives are:

- BES is designed to encourage equity investment by outsiders: there would be a large deadweight cost in allowing relief to insiders.
- There would be a danger of abuse through money coming out of the company as remuneration or dividends and being reinvested with BES relief.
- A number of other tax schemes are specially designed for employees and directors such as profit sharing schemes and share option schemes.

Background

The Chancellor has decided against this extension.

Commendation 5: Business Expansion Scheme

[b] Allow payment to non-executive directors of a BES company up to a maximum of £2,500 or 5% of the amount invested, and to be paid gross.

Line to Take

It is doubtful whether this is necessary. Experience suggests that many people with useful knowledge would be happy to play their part in helping a company either for the BES relief, or for a salary, rather than both.

Background

The Chancellor has decided against giving relief to paid non-executive directors.

Commendation 5: Business Expansion Scheme

[c] The CBBC suggest that the various time periods contained within the BES rules be shortened.

Line to Take

The appropriate length of the time periods is a matter of judgment. There have been few representations advocating reductions. On the specific points:

(a) The 4 month trading rule. At present a company must have been trading for 4 months before an investor can be given relief. This seems a reasonable period over which to demonstrate trading: with only one month, as they suggest, some trades might display little activity.

(b) The "relevant" 5 year period for which an investor must hold on to the shares to retain full tax relief. They suggest shortening this period by a year. 5 years seems a reasonable period to ensure that the investor was making a genuine commitment to the success or failure of the company.

(c) The "relevant" 3 year period throughout which the company must carry on a qualifying trade. They also suggest shortening this by a year. Again it seemed reasonable to require the trade to be carried on for 3 years so that the investment was genuinely at risk. Even with a 3 year period we see "safe" trades qualifying for BES with little chance of making or losing large amounts of money (eg fine wines, antiques and property-backed investments). Shortening the period might increase this tendency.

Background

Ministers have not during the current review of BES considered shortening these periods. As we indicate above, we do not think there is a strong case for reductions.

Recommendation 5: Business Expansion Scheme

[d] Allow BES relief on "loan capital" when invested alongside an equal or larger amount of equity investment.

Line to Take

The BES was carefully targeted on outside investors and new full-risk ordinary shares. Extending relief to loan capital would not be as helpful to companies which need equity. It would therefore make the Scheme less cost-effective: the increased cost would not be justified by the increased benefit.

Background

The BES was introduced with the specific aim of helping unquoted trading companies raise new equity so that, amongst other things, they need not be overdependent on loan finance. The proposal to allow BES relief on loan capital runs directly contrary to this aim.

Recommendation 6: Business Expansion Scheme

That a new form of institutional intermediary should be introduced to BES - investment trusts (BESIT's), with a restriction of £20,000 investment into any one company.

Line to Take

The concept of an investment trust is similar to that of a Small Firms Investment Company (SFIC) which has been considered before by Ministers. The same fundamental problems arise, which are:

One object of the BES is to encourage individual investors to take a direct equity stake in unquoted companies - a BESIT would break that direct link.

By providing for tax relief on the making of an investment in the BESIT, other BES investors would be put at a disadvantage, because their money would be at risk from the start.

Complexity; another layer of rules would be required.

The existing approved investment funds offer many of the same institutional advantages that are claimed for BESIT's, so it is doubtful whether a new kind of intermediary is needed anyhow.

Background

Since 1981 the possibility of adding SFIC's to both the BSS and BES has been raised by outside bodies and investment managers. BESIT's are akin to SFIC's and would fulfill a similar role.

Ministers have considered the case for SFIC's on a number of occasions and each time they have concluded that they are not necessary. This conclusion is increasingly being supported outside. Much of the argument in favour of SFIC's or BESIT's stems from the alleged poor performance of the BES so far. But latest results for 1983/84, the first year of the scheme show that 715 companies raised more than £100m. 60 per cent of the total amount invested went to young or very young start-up companies, and approximately 54 per cent of all companies raised £50,000 or less.

8. STAMP DUTY

Point at issue

Stamp Duty on property transactions should be calculated only on the excess value over £30,000.

Background

At present, the £30,000 threshold on conveyances triggers a charge to Stamp Duty on the purchase price of the property. Although the slab scale approach inevitably causes a high marginal rate at the £30,000 level, it is administratively simple. A slice scale on the other hand is arguably fairer but it would inevitably add some complexity, particularly in cases where a single transaction involved several conveyances presented for stamping at different times. The overriding consideration is cost: the cost of a switch to a slice scale would be about £m300.

Line to take

The cost of the change suggested by the Small Business Committee would be prohibitive: about £m300.

9. Share option schemes: Private companies

1. We assume this representation seeks easier access for private companies to the approved employee share scheme legislation, in particular that relating to share options contained in the 1980 and the 1984 Finance Acts.
2. Private companies as such are not debarred from introducing or operating either FA 1980 or FA 1984 approved share option schemes. They may, however, encounter two particular kinds of difficulty in attempting to do so:

i. The shares to be used

The legislation restricts the type of shares which may be used in approved schemes to

- quoted shares, or
- shares in a company not controlled by any other; or
- shares in a subsidiary of a quoted company.

Thus unquoted companies may use their own shares in an approved scheme under the second or third of these alternatives. Otherwise, if they are subsidiaries, they may be able to participate in a group scheme operated by their parent. But an unquoted subsidiary of an unquoted parent may not use its own shares in an approved scheme.

These restrictions are necessary to avoid abuse by manipulation and value shifting [Ministers have decided that the legislation should not be changed].

ii. Employee pre-emption

Shares used in an approved scheme may not be subject to restrictions requiring an employee to sell them when he leaves his company. Many representations have been made that such restrictions should be permitted. The point is of particular interest to small and family-owned companies anxious to keep tight control over the ownership of their shares. At 1985 Finance Bill Committee Stage the Financial Secretary undertook to review the matter before Finance Bill 1986 [Ministers have decided to make changes in 1986].

CONFIDENTIAL



FROM: P WYNN OWEN
DATE: 1 February 1985

MR HALLIGAN

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Mr R Allen
Mr McKenzie
Mr Bailey
Miss Page - MCU

BUDGET REPRESENTATIONS

Further to my minute of 22 January, Michael Portillo MP should be added to the list of MPs who should receive a reply from the Chancellor if they write to him.

P.

P WYNN OWEN



fw

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon Lord Erroll of Hale
The Automobile Association
Fanum House
BASINGSTOKE
Hampshire
RG21 2EA

3 FEBRUARY 1986

Dear Lord Erroll,

... I enclose a copy of the record of your meeting with the Chancellor last Friday, as requested. The Chancellor looks forward to receiving your written Budget representations shortly.

Yours sincerely,

Philip Wynn Owen

P WYNN OWEN
Private Secretary



A RECORD OF A MEETING HELD AT 11 AM ON 31 JANUARY 1986 IN NO 11
DOWNING STREET

Present: Chancellor of the Exchequer
Miss Sinclair
Lord Erroll - Chairman of the Automobile Association (AA)

The Chancellor apologised for postponing the meeting previously.
Lord Erroll said he fully understood, given recent events.

2. Lord Erroll said as Chairman of the AA he spoke for up to 6 million members. The AA monthly survey discovered what members wanted and tested new ideas on them. It included a public policy question. So, for instance, the AA had been able to support compulsory seat-belts. Each point he made reflected close canvassing of AA members.

PETROL TAX

3. Lord Erroll said a strong dislike of petrol tax was the prime concern of AA members. He was not arguing for a reduction, since he recognised a healthy apple tree was of more value to a Chancellor than a withered one. But the Chancellor should not revalorise this tax. An increase of around 5 per cent for inflation did not reap as much revenue as in days of high inflation. The Chancellor could argue that a fall in oil prices allowed him to boost petrol tax relatively harmlessly. But the main part of the revenue came from the specific duty, which was the same whatever the pump price. A little revenue might be lost from non-revalorisation, but it would be a very popular decision.



LEAD-FREE PETROL

4. Lord Erroll recognised lead-free petrol was likely to be more expensive than leaded until it was well established and its expense might be a deterrent to motorists. So the Chancellor might be tempted to use tax to equate the prices. He could do this either by lower duty for lead-free or higher duty for leaded petrol. The AA advocated lower tax on lead-free, rather than increasing tax on leaded. The latter would hit old cars, without lean-burn engines.

VEHICLE EXCISE DUTY (VED)

5. Lord Erroll said the Chancellor had suggested a year ago that he should speak to Mr Ridley. He had done so and was most grateful that the Government had decided to stick with VED. He now hoped that the Chancellor could avoid revalorisation. £100 was a nice round figure, as opposed to £105. Motorists would take negative pleasure from its not being revalorised. Interestingly this was the only excise duty where the Chancellor was not responsible for collection. It must be annoying, relying on the police, who did not want to be tax collectors, though they were jealous of their sole right to meddle with motorists. It would help greatly to increase the VED take if Swansea would notify local police forces of VED defaulters, so the police could visit them. This would create a higher degree of organised police enforcement.

6. The Chancellor said Mr Ridley would probably have thought of that, since enforcement was his responsibility. But the Treasury would enquire whether there was scope for improving the co-operation between DVLC Swansea and the police. Lord Erroll



said Mr Ridley might be more concerned with his obligation to ensure drivers had the correct MOT and third party insurance, since the VED money did not enter his coffers. The Chancellor said the critical PAC report had made Mr Ridley sensitive to this issue.

ROADS

7. Lord Erroll said the AA did not want the UK covered with concrete. But they welcomed the Chancellor's recent Autumn Statement announcement of a modest increase in the road construction programme, as well as Mr Ridley's decision to spend £300 million on local roads which had more than local significance.

8. Lord Erroll said in the UK 29 per cent of motoring taxes were allocated to road construction, with the other 70 odd per cent going into general revenue. The average amongst other EC partners was 55 per cent of motoring taxes ploughed back into roads. He was not advocating hypothecated revenue, but UK motorists could have grounds for complaint, since the UK was 25 per cent behind EC partners in allocating road revenue to roads.

BY-PASSES

9. Lord Erroll said 840 prospective by-passes had been identified, but at the present rate over half would still be waiting by the mid-1990s. If the Government was planning a little more spending on roads, he urged acceleration of the by-pass programme. The AA was pleased to see the Oakhampton by-pass completed, but there was scope for acceleration elsewhere. Politically, it was worthwhile concentrating on by-passes for marginal constituencies. The Chancellor said Mr Ridley was in



the lead. The Treasury's concern was with the amount which could be afforded in total for roads. It also looked for an adequate rate of return on projects, but did not normally interfere in the detailed choice of which by-pass went ahead. Lord Erroll said he had also spoken to Mr Ridley, for whom he had high regard as a Minister.

TOLLS

10. Lord Erroll said figures on toll were difficult to obtain. The best were for 1982/83, but he had little reason to think the picture had altered greatly. Total revenue from tolls was £45 million, which left about £19 million income once administrative costs were deducted. However, during 1982/83 debts had risen £47 million; and accumulated debt now amounted to £450 million. So tolls were hopelessly insolvent, not even meeting the costs of the overall debt as it grew. He advocated total abolition of tolls. The Chancellor had asked before how often the average driver used tolls and whether it really mattered. A survey of AA members showed those who paid tolls regularly complained bitterly, while the rest were mildly indifferent. But it was another tax on vehicle users. If it was valid, it should be extended to motorways as in France and Italy. But it was clearly an anomaly and should be abolished.

11. It could be argued that those who benefitted from estuarial crossings should pay for them. That was ostensibly valid, but was not entirely true. For instance, all South Wales benefitted from the Severn Bridge but did not pay for it. It would be no bad thing to abolish tolls a few months before the next Election.

12. Lord Erroll said he did not know how much of the toll money came to central Government, but some of the revenue did go straight to local authorities. This reinforced the need, which he had mentioned the previous year, for the Government to set preparatory



work in hand now. It needed to examine, for instance what would happen to redundant toll-keepers and the differences in the debt structure of the various crossings - ranging from the Humber Bridge, which was worst, to those which almost paid their way.

13. Lord Erroll said that total abolition, similar to the sudden abolition of exchange controls, would be much the best and most popular course.

P.

P WYNN OWEN

31 January 1986

Distribution

Those present

PS/Chief Secretary

PS/Financial Secretary

PS/Minister of State

PS/Economic Secretary

Sir P Middleton

Sir T Burns

Mr Monger

Mr Scholar

PS/Customs & Excise

PS/Inland Revenue



FROM: P WYNN OWEN

DATE: 3 February 1986

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Monger
Mr Scholar
Mr Cropper
Mr Lord
Mr H Davies
PS/C&E

MR KNOX - CUSTOMS AND EXCISE

DUTY DEFERMENT FOR SCOTCH WHISKY

The Chancellor has seen and was grateful for your minute of 30 January. He notes that the cost of any such change would be prohibitive and has decided that there should be no further work on this option.

P.O.

P WYNN OWEN

PLD
7
KNOX
3/2

8534



The Automobile Association

Head Office: Fanum House, Basingstoke, Hampshire RG21 2EA
Telephone: Basingstoke (0256) 20123

HM TREASURY - M/CU	
- 7 FEB 1986	
FP	
cc ASD/CHX ←	
cc PS/MST	
CHX	
REF No.	Director General 12258/86
O. F. LAMBERT CBE	

[Handwritten signature]

Chairman
THE RT. HON. LORD ERROLL OF HALE

5th February 1986

b/f 17/4/2 with reply pl

My dear Nigel,

As Chairman of the Automobile Association I am writing to you in connection with your forthcoming Budget Statement and would kindly ask you to consider a number of points in relation to motoring taxation.

As you are aware, the Automobile Association has just on six million members, including a considerable number of commercial fleet operators. Through regular market research of our members' opinions we are able to gauge the feelings of motorists on a wide range of matters, including those which affect the cost of owning, maintaining and running a motor vehicle.

Perhaps, therefore, I could put the following points to you:

Petrol Taxation

Whenever taxation questions are raised there is one aspect on which motorists have no doubts - the cost of petrol is always considered to be too high.

The use of a private car is for more and more people essential, whether for the journey to work, for shopping or for social and recreational purposes. This is particularly true of those living in rural areas where public transportation is at a low level or is non-existent. The car is no longer for the majority of households in the country an option or luxury - but the fiscal treatment of motoring does not reflect this fact. The scale of the use of the motor car - business and private - is now such that any increase in motoring costs must have an inflationary effect.

The price of petrol - of which over 53 per cent is tax - is a direct and immediate cost and a significant element in total motoring expenses.

/It is...

It is, of course, true to say that at this particular time, petrol prices are in decline. Past experience suggests, however, that such declines are no more than a deviation in an upward trend. For this reason, assuming that a reduction in the tax on petrol cannot be contemplated, the Association strongly urges that there should be no increase in the rates of duty applied to petrol, or diesel, fuels for motor vehicles.

Vehicle Excise Duty

It is noted that the Government has in recent months re-affirmed that there is no intention to transfer Vehicle Excise Duty to petrol taxation. The Association fully supports this decision.

In last year's Budget, vehicle excise duty was increased by more than the rate of inflation. It rose by 11 per cent. The Association hopes that this will not be overlooked in your deliberations this year and urges you to consider making no adjustment whatsoever in Vehicle Excise Duty.

Introduction of Unleaded Petrol

The European Community requirement is that unleaded petrol shall be freely available in all EEC countries from 1989. The Association urges you to ensure that, should unleaded fuel appear in the market place during the coming financial year, the prices at the pump of unleaded and leaded fuel are kept the same by adjustment of the taxation level.

It is acknowledged that the cost of producing unleaded fuel will be significantly higher than for leaded. The producers and the refiners will not be able to recover these higher production costs from sales of unleaded petrol, because demand will be insufficient. If there is no Government intervention, the producers may seek to recover the extra cost of producing unleaded petrol by increasing the cost of leaded petrol.

Such an increase would be strongly resented by motorists, and would be particularly hard to bear by the many on low incomes who are essential users of motor cars.

The price of these fuels, net of tax, is determined by production and distribution costs, plus profit margins. The gross price - paid by the motorist at the pump - is largely determined by Government fiscal policy. The Association holds that the cost of the two kinds of petrol as supplied to the retailer should be the same. Fiscal adjustments should therefore be made by Government to ensure that the tax levied upon the unleaded fuel is at a lower level so as to minimise any difference in the pump prices.

/The cost...

The cost to the Treasury of any such adjustment should not be borne by the road user, for example, by a compensating increase in other motoring taxation particularly the duty applied to leaded fuel. It is accepted that there will probably come a time when the pricing structure of the two fuels will have to be revised, but initially, the users of current vehicles requiring leaded petrol, who will form the majority for some years, should not be penalised.

The benefits of motor vehicle emission controls remain uncertain, and it would be inequitable if road users had to bear the total costs for the suggested benefits. The community as a whole will benefit from the removal of lead from petrol and the Association believes the community as a whole should bear the cost.

In this context it is appropriate to mention the New Car Tax. The United Kingdom is alone in Europe in imposing this tax, an anachronism left over from the time when a car was seen to be a luxury in purchase tax terms. It is long past the time when it should be abolished. Such action could well stimulate changes in the total vehicle population, and would not only encourage the purchase of vehicles that can use unleaded petrol but act as a stimulus to the motor vehicle manufacturing industry.

Road Construction and Maintenance

The construction and maintenance of the country's road system remains a matter for serious concern. The recent planned increases in road expenditure are to be welcomed, but the fact remains that Britain's roads are the most crowded in Europe, despite the fact that vehicle ownership is now at a lower level than in most of Europe.

The high demand for road space results in congestion and rapid wear of running surfaces. This, together with a continual growth in road traffic, should be a matter of major concern to Government. The need for adequate infrastructure investment is well recognised by other EEC Member States spending an average of 55 per cent of motoring taxation revenues on the building and maintaining of highways.

The UK spends only 29 per cent.

Without much greater investment in roads, more forward planning, and quicker implementation, the road system will not meet the demands of the year 2000 and beyond. Traffic growth will ensure that the peak hour congestion and delays of today will be experienced for most of the working day.

Roads and their maintenance are of fundamental economic importance to this Country. The Association again urges you, as Chancellor, to demonstrate greater cognizance of this fact when determining taxation and public expenditure.

/Tolls...

Tolls

In the light of the tax take from road users, the Association remains strongly opposed to the continued imposition of tolls for use of public highways such as estuarial crossings. The present financial arrangements for the payment for, and the administration of, estuarial crossings are little short of chaotic. The total amount remaining to be paid is now more than the original construction costs because of escalating interest charges. The debts continue to grow and tolls barely pay for the cost of administration.

The undertakings are insolvent and the Government should write off the debts now and abandon tolls altogether. Should any new schemes be contemplated and thought be given to their being built by the private sector then the financial arrangements should be by Royalty payments, from central funds, rather than by imposing direct tolls on drivers.

These crossings are integral parts of the nation's road infrastructure and should be funded from general taxation.

Yours ever,

Freddy

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

BUDGET DEPUTATION: AA - MOTORING TAXATION (except VED)

a) **PETROL DUTY** - Last year Lord Erroll said that AA members were very sensitive to minor fluctuations in the overall price of petrol and he argued against an annual revalorisation of excise duties. The increase in duty in the 1985 Budget was 4.6 per cent, precisely equivalent to the year-on-year RPI increase at December 1984, and meant a 4.1p rise in the price of a gallon. Revalorisation of the duty by 5 1/2 per cent (the Autumn Statement assumption) would lead to a 5.2p increase in the price after consequential VAI has been taken into account. The table at Annex A shows how taxation levels on petrol in the UK compare with those in other Member States.

b) **PETROL COSTS** - Petrol prices are a matter for the commercial judgment of the oil companies.

Petrol prices at the pump are no longer marked by consistent urban/rural differentials but vary over the country depending on competitive conditions in particular areas. At 25 November 1985, typical garage pump prices for 4 star petrol sold by majors ranged between 188 and 191 pence per gallon, with higher prices in Glasgow, Edinburgh and Suffolk (as high as 198.7p in Edinburgh) and lower prices reported from Essex and Rotherham. Because of appreciation of sterling against the dollar in 1985 and the force of free market competition, petrol prices are still generally below those prevailing immediately before the 1985 Budget.

c) **CAR TAX** - The AA opposes car tax, but sees it as a much less important issue, since it does not affect those who own company cars or buy second-hand ones. The Society of Motor Manufacturers and Traders has pressed strongly for abolition. The chief argument against this, apart from loss of revenue (likely to be over £800 million in 1985/86) has been the uncertain ability of UK manufacturers to expand production and the possible resultant increase in market penetration by imports.

E C PETROL (4 STAR) PRICES AS AT 3 DECEMBER 1985⁽ⁱ⁾

	FACTOR COST ⁽ⁱⁱ⁾	EXCISE DUTY	VAT	RSP	TAX AS % OF RSP
BELGIUM	86	67	38	191	55%
DENMARK	90	76	37	203	56%
FRANCE	78	104 ⁽ⁱⁱⁱ⁾	34	216	64%
GERMANY	87	64	21	172	49%
GREECE	111	53	-(iv)	164	32%
IRELAND	100	96	45	241	59%
ITALY	83	114	35	232	64%
LUXEMBOURG	88	53	17	158	44%
NETHERLANDS	81	75 ⁽ⁱⁱⁱ⁾	30	186	56%
UK	85	82	25	192	56%

(i) Prices in pence per gallon rounded

(ii) Factor cost based on EC Oil Bulletin showing situation at 3.12.85.
Exchange rates as at 4.12.85

(iii) Includes parafiscal taxes and/or supplementary levies

(iv) Greece has not yet introduced VAT



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

*1 stamp / How much work X.
 increase / how much work X.
 with addition / lower effect
 Mr. -*

FROM: W D WHITMORE
 5 February 1986

- cc PS/Chancellor of the Exchequer ✓
- PS/Financial Secretary
- PS/Economic Secretary
- Mr Monger
- Mr Cropper
- Mr Davies
- Mr Lord
- Mr Bolton (Inland Revenue)

C. / As requested. Customs think SWA want X still to apply.

Ro 5/2

Minister of State

SCOTCH WHISKY ASSOCIATION (SWA) BUDGET REPRESENTATIONS : MATURATION REQUIREMENTS

1. In support of their case for action by the Inland Revenue to mitigate the effects of the withdrawal of stock relief, the SWA have stressed the statutory three-year minimum maturation requirement. The Chancellor has asked me to let you have a note.
2. Restrictions on the sale of immature spirits were introduced by the Immature Spirits (Restrictions) Act 1915. It appears that this was one of the measures designed to curtail drunkenness among munition and other workers, and to conserve supplies of alcohol for the manufacture of essential chemicals. It was also argued that immature spirits contained elements particularly harmful to health.

Internal circulation: CPS
 Mr Knox
 Mr Jefferson Smith
 Mr Wilmott
 Mr Williams
 Mr Tullberg

3. In 1981, following widespread consultation with trade interests, including the SWA, it was concluded that the restriction was outmoded and possibly contrary to the Treaty of Rome; and that it should be abolished. Provision for the abolition was included in the 1982 Finance Bill but the SWA, belatedly, raised objections. They were concerned that the change would benefit cheaper imported spirits, in particular brandy, at the expense of Scotch whisky.
4. The Government accepted the SWA's suggestion that a delegated power for the Treasury to abolish the restriction by Order should be substituted for abolition by primary legislation. In 1982, at the rum industry's request, an Order was made to phase out the requirement for rum to be matured; but the requirement was retained for whisky and brandy (compounded spirits such as gin and most of the vodka sold in the UK have not been subject to an ageing restriction).
5. More recently, the SWA have objected to a request by the Vodka Trade Association for the maturation restriction to be removed from uncompounded vodka. The SWA argue that removal of the restriction in respect of uncompounded vodka would make it virtually impossible to resist a request for the restriction to be removed for immature brandy.
6. There is no reason for a compulsory maturation period as far as excise duty is concerned; and it would be very difficult to defend now on public health grounds. The SWA may well have good commercial reasons for wishing to keep this law as it stands. But as the restriction remains in force because of representations by the Scotch whisky trade, the Association's use of it to bolster their claim for tax relief is somewhat ironic.



W D WHITMORE

Briefing
Arrived from
C&E

12/2



FROM: MRS D C LESTER
DATE: 5 FEBRUARY 1986

MR MURRAY

cc PS/MST
Miss Sinclair
Mr Romanski
PS/C&E
Mr Bone C&E

TOBACCO ADVISORY COUNCIL: BUDGET REPRESENTATION

I have arranged for the Chancellor to see a small delegation from the Tobacco Advisory Council on Wednesday 12 February at 2.30pm in the Treasury.

The delegation will comprise Mr Stewart Cameron, Mr Andrew Reid and Mr Bryan Simpson. The Minister of State will also attend.

+ Mr Jefferon-Smith + Mr Romanski

I should be grateful if you would arrange briefing please and one or two officials in support.

Debbie Lester

MRS D C LESTER

b/f 14/2 pd

b/f 12/2 pd *b/f 7/2 pd*
b/f 10/2 pd



FROM: P WYNN OWEN
DATE: 6 FEBRUARY 1986

PS/MINISTER OF STATE

cc PS/Financial Secretary
PS/Economic Secretary
Mr Monger
Mr Cropper
Mr Davies
Mr Lord
PS/Inland Revenue
Mr Bolton IR
PS/C&E
Mr Whitmore C&E

SCOTCH WHISKY ASSOCIATION (SWA) BUDGET REPRESENTATIONS: MATURATION REQUIREMENTS

The Chancellor has seen Mr Whitmore's minute of 5 February to the Minister of State and strongly agrees with the final sentence. He wonders how much abolition would lower prices?

P.O.

P WYNN OWEN



CST
FST
MST
EST
Sir P Middleto
Sir G. Little
Sir T. Burns
Mr F. Butler
Mr Cassell
Mr Scholar
Mr Odling-Sm
Mr H. Evans
Mr Cropper
Mr Lord
Mr H. Davies

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

7 February 1986

David Norgrove Esq
No 10 Downing Street

Dear David,

PAPER FOR ECONOMIC CABINET

I attach a draft of the Chancellor's paper for the Cabinet discussion of economic strategy next Thursday. The Chancellor would like to know that the Prime Minister is content, before it is circulated to other Cabinet colleagues on Monday.

*Yours ever
Rachel*

**RACHEL LOMAX
PRINCIPAL PRIVATE SECRETARY**

15/2/86

SECRET

ECONOMIC STRATEGY

Memorandum by the Chancellor of the Exchequer

1. The approach to the 1986 Budget is inevitably dominated by the dramatic changes taking place in the oil market. The large price fall that has already occurred means a sharp reduction in prospective oil tax revenues.

2. The current North Sea oil price of [\$16-17] per barrel is some [45 per cent] below the end-November level - a change almost as great as the price increases of 1973 and 1979. It is hard in current circumstances to make a reliable judgement about the new level at which oil prices may settle. We therefore have to consider the Budget against the prospect not merely of greatly reduced oil revenues but also considerable uncertainty about how large the reduction will be.

3. Our current estimates suggests that if oil prices settle at \$15 a barrel our revenues from the North Sea will be reduced to £6 billion for the next financial year. This compares with receipts of £12 billion in 1984-85. In last year's Medium Term Financial Strategy (MTFS) we expected revenues of £11½ billion for 1986-87.

4. There has inevitably been some turmoil in financial markets as they have responded to the oil price change. Sterling has fallen by about [7½] per cent and there has been persistent upward pressure on short term interest rates. So far we have weathered the collapse in oil prices and consequent financial market turbulence pretty well - though it may not be over yet. In so doing we are helped both by the underlying strength of the economy, in terms of growth, inflation and the external account; and above all by the reputation we have acquired for sound and prudent policies.

Fiscal position

5. Faced with this background my judgement is that we must approach the Budget with considerable caution. This means trying to avoid going above the £7½ billion Public Sector Borrowing Requirement (PSBR) figure set out in last year's MTFs. If anything there is a strong case for going somewhat below it.

6. Much may change between now and Budget Day. Because non-oil revenues are now projected to be higher than expected I hope to be able to avoid a net increase in taxes in the Budget. But there looks like being little, if any, scope for a net reduction in taxation. We should just meet the public expenditure planning total set for the current financial year. The need to cope successfully with the unprecedented situation which the oil price fall has created for the public finances underlines the importance of holding public spending next year similarly within the planning total we have announced.

Economic prospects

7. But while lower oil prices have a profound impact on what is possible in the Budget, they should not greatly affect our overall economic performance - although there will be significant changes within the economy. For the world as a whole, lower oil (and commodity) prices will have beneficial effects in 1986 on the oil-consuming countries. The forecast for the major industrialised countries is for output growth averaging 3 per cent - a little better than achieved last year. Inflation will stay low: indeed in Germany and Japan it is likely to approach zero.

8. For the UK, the oil price fall has not caused me to revise my view that 1986 will be a further year of steady growth, at an annual rate of about 3 per cent, accompanied by declining inflation. Different parts of the economy will be affected in different ways by lower oil prices. While the oil sector will not do so well, manufacturing industry in particular should benefit considerably.

9. The UK economy is now in a stronger position to take advantage of the opportunities created by lower oil prices. The underlying improvement shows up in a number of indicators. Last year manufacturing productivity increased by a further 4 per cent. Since 1979 it has now grown at an average annual rate of $3\frac{1}{4}$ per cent. As the table below shows, our performance here compares very favourably with the recent past; and even with the majority of our principal overseas competitors.

Output per man hour in manufacturing
annual average growth rates, per cent

	1973-79	1979-85
US	$1\frac{1}{2}$	$2\frac{1}{2}$
Japan	$6\frac{1}{2}$	$6\frac{1}{2}$
Germany	3	3
France	5	$3\frac{1}{2}$
UK	1	$3\frac{1}{4}$

10. Capital spending by business has generally been rising faster than output in recent years and further growth is expected in 1986, as a response to higher profits and continued expansion in output. Exports performed well in 1985: indeed, UK exporters increased their share of world trade. The prospect is for continued export growth, albeit at a slower pace. Even after the fall in oil prices, another sizeable current account surplus is in prospect for 1986, helped by rising earnings from our increasing stock of overseas assets. (Our net overseas asset position is now second only to that of Japan).

11. This year is likely to see a significant rise in consumer spending. This reflects rapid growth in real disposable incomes - itself a result of the high level of wage settlements in 1984 and 1985 and the reduction in inflation expected this year. Earnings are currently rising at or over $7\frac{1}{2}$ per cent. With inflation likely to fall to 4 per cent this year, the average employee's pay may rise by some 4 per cent in real terms during 1986.

12. However, this excessive earnings growth remains the chief threat to jobs. Despite five years of continuous output growth, and a growth in the number of people in work of over 600,000 since the last election, which I expect to continue, unemployment is unlikely to show much of a reduction while wages rise so far ahead of prices. The plain fact is that, despite our very good productivity record, UK unit labour costs have been increasing much more rapidly than those of our competitors.

13. Annex 1 sets out key figures from the forecast. Annexes 2 and 3 set out the revenue effects of selected tax changes, together with a note on the tax burden.

Summary and conclusions

14. The dramatic change in oil prices has had a major - and adverse - impact on the public finances; but I very much hope that, thanks to the sound financial policies we have been following, it will prove possible to avoid raising taxes overall in the Budget. The impact of lower oil prices on the UK economy as a whole is more neutral. I expect to see continuing steady growth for the sixth year in succession; and lower inflation. This is a measure of the strength of our underlying economic performance.

15. I seek colleagues' views on the appropriate shape of the Budget in the light of the circumstances I have outlined.

SELECTED ECONOMIC INDICATORS

	1979	1980	1981	1982	1983	1984	1985	1986 ⁽¹⁾
(2) World GNP, in major 7 economies (per cent change)	3½	1	1½	- ½	2½	4½	2½	3
(2) UK GDP, (per cent change)	2½	- 2½	- 1½	2	3½	2½	3½	3
(2) Domestic demand, (per cent change)	4	- 3½	- 2	2½	4½	2½	2	3½
Retail prices Q4 (per cent change)	17½	15½	12	6	5	5	5½	4
Interest rates (average 3-month interbank)	13½	16½	14	12½	10	10	12	13 ⁽³⁾
Current balance (£ billion)	- ½	3	6	4	3	1	3½	3½
Unemployment (UK, per cent excluding school leavers)	5	6	9½	11	12	12½	13	13 ⁽⁴⁾
Sterling Index	87	96	95	90½	83	78½	78	74 ⁽³⁾
Oil prices, \$, North Sea	20½	34½	37½	33	30	29½	27½	17 ⁽⁵⁾

(1) Provisional pre-Budget figures.

(2) At constant prices.

(3) February 7.

(4) Not a forecast. Figures based on assumptions in PEWP.

(5) Brent price for delivery in March, as of February 7.

REVENUE EFFECTS OF TAX CHANGES

A. Direct Taxes: Indexation

The RPI increased in the year to December 1985 by 5.7 per cent. With indexation by this amount and statutory rounding, the figures for the main allowances and other thresholds would be:

<u>Personal allowances</u>	<u>1985-86</u>	<u>1986-87</u>
	£	£
Single and wife's earned income allowance	2205	2335
Married allowance	3455	3655
<u>Bands eg</u>		
30% rate	0-16200	0-17200
60%	over 40200	over 42700

The total revenue costs of indexation of income tax (reflected in the forecast) are £1140m in 1986-87, and £1490m in a full year, at forecast 1986-87 prices and incomes.

B Indirect Taxes: Indexation

The effects of 5.7 per cent revalorisation of the exercise duties (including VAT effects, price changes rounded) are as follows:

Typical Price Change		Revenue effect	
		(1986-87 prices) £m	RPI impact £m
Beer	1p/pint	100	0.07
Wine	5p/70cl light wine	20	0.02
Spirits	31p/bottle	45	0.04
Tobacco	5p/20 King size	150	0.14
Petrol	5p/gallon	260	0.13
Derv	5p/gallon	65	nil
VED	£5/car	<u>100</u>	<u>0.05</u>
Overall effect (reflected in forecast)		<u>740</u>	<u>0.45</u>

Note: First year and full year revenue effects are virtually identical.

C. Ready Reckoner: Illustrative Tax Changes

INCOME TAX	£ million at forecast 1986-87 income levels	
	<u>1986-87</u>	<u>Full Year</u>
<u>Allowances and Thresholds</u>		
1% above indexation on all statutory allowances	210	175
1% above indexation on all statutory allowances and thresholds	245	190
<u>Rates</u>		
Change basic rate by 1p	1175	975
CORPORATION TAX		
Change main rate by 1 percentage point	180	310
Change small companies' rate by 1 percentage point	16	30
OTHER TAXES		
Change VAT rate by 1 percentage point ⁽¹⁾	700 ⁽²⁾	925

(1) A 1% change in the VAT rate would change the RPI by 0.5%.

(2) Provisional forecast

THE TAX BURDEN

Since the Government came to power total taxes and NICs as a proportion of GDP at market has risen by about 5 percentage points, though the ratio has fallen slightly since 1981-82. The figures are as follows:

Table 1

<u>Total taxation* as a % of GDP (market prices)</u>	
1978-79	33.9
1979-80	35.2
1980-81	36.4
1981-82	39.3
1982-83	39.1
1983-84	38.6
1984-85	39.2
1985-86 (estimate)	38.7
1986-87 (assuming indexation)	38.6

* Including NICs and the local authority rates.

Personal sector

2. Despite reductions in income tax, total personal taxes (direct and indirect, including employees' NIC and domestic rates) in 1985-86 are about £15 billion higher in real terms (ie 1985-86 prices) than they were in 1978-79. For income tax and national insurance contributions the following table shows how the proportion of gross pay they represent has risen, particularly for the low paid:

Table 2

	<u>Income tax and NICs as a % of gross earnings*</u>		
	$\frac{1}{2}$ average earnings	Average earnings	$\frac{2}{2}$ average earnings
1978-79	16.0	27.8	31.4
1981-82	20.8	29.3	32.2
1982-83	20.8	29.8	32.3
1983-84	20.1	29.6	31.7
1984-85	19.3	29.2	31.5
1985-86 (estimate)	19.0	29.0	31.5
1986-87 (indexation)	19.3	29.1	31.7

* Adult male earnings (all occupations). Married couple, wife not working: the couple are assumed to have no children, to avoid distortion of the figures from the abolition of child tax allowances.

CONFIDENTIAL

3. These figures reflect the rise in the standard employees' NIC rate from 6½% to 9%. The lower rates introduced in the 1985 Finance Act do not affect the cases shown. So far as income tax is concerned, personal allowances have increased by over 19% in real terms since 1978-79 and have increased slightly faster than earnings. The basic rate has been reduced from 33p to 30p, but the 25p reduced rate band has been abolished.

4. As the table shows, indexation of allowances in the Budget would lead to a very slight rise in the proportion of incomes taken in tax and NIC. This is because earnings are assumed to rise by 7% compared with the indexation percentage of 5.7%.

5. Since 1978-79 total taxes paid by businesses (outside the North Sea) have fallen slightly as a percentage of GDP. Within this total, the major change has been a fall in employers' NIC and NIS as a percentage of GDP, partially offset by an increase in business rates, and 'other' taxes as the following table shows:

Taxes paid by businesses £bn in 1985-86 prices
(figures in brackets are %s of GDP)

	Corporation tax ¹	Taxes on self employment incomes	Employers' NIC and NIS	Rates	Other ²	Total
1978-79	7.1 (2.2)	2.4 (0.7)	9.9 (3.1)	4.7 (1.4)	3.7 (1.1)	27.7 (8.6)
1985-86 (estimate)	8.2 (2.3)	3.1 (0.9)	8.0 (2.2)	5.9 (1.7)	4.8 (1.4)	30.0 (8.4)

1. Excludes North Sea, but includes ACT

2. VED, car tax, road fuel duty, duty on rebated oils, capital taxes.

J/K
Do you have X?
Ro 14/2

Tam
No. P2
chase Gary. for 14/2
b/f 14/2 PL

Dist
I think Gary
has 'X'
1-14/2



FROM: P WYNN OWEN
DATE: 10 February 1986

cc Mr Monger
Miss Sinclair

MR MCKENZIE

Nigel
I thought I'd agreed tonight
for this with Gary. Pl chase him
on Monday.

Ro 14/2

1986 BUDGET: MAIN REPRESENTATIONS

X The Chancellor has seen your minute of 30 January and awaits the update promised in paragraph 2, which he would like to see as soon as possible please.

2. He notes that so far none of the small/independent/unquoted business bodies seem to be in the matrix.

Ro.

P WYNN OWEN

Covering SECRET

FROM: M C SCHOLAR
DATE: 12 February 1986

CHANCELLOR

cc: Sir P Middleton
Sir T Burns

BRIEFING FOR CABINET: 13 FEBRUARY

Following your discussion this afternoon with Sir T Burns, he and I have redrafted the speaking note which I submitted to you yesterday evening.

2. This is attached.

MCS

M C SCHOLAR

Covering SECRET

SECRET

SPEAKING NOTE FOR CABINET ON 13 FEBRUARY

1. As the paper I have circulated makes clear, we have seen a dramatic fall in oil prices: and that inevitably has a profound impact on the public finances. At end-November, when oil was trading at \$29 a barrel, a fall to \$20 would have seemed fanciful. Yesterday the price for oil delivered in April was [\$16], and there are not many around who would put money on an oil price as high as \$20 through 1986-87.

2. Recently there has been considerable comment about the effect on the UK economy "when the oil runs out". The prospect was of declining oil revenues stretched out over several generations, well into the next century. We now face the likelihood of oil revenues halving between this financial year and the next.

3. Almost certain that we shall face uncertainty all the way up to the Budget and beyond about new level at which oil prices may settle. OPEC arranged their next conference to coincide with the Budget. It appears to be a Saudi objective to maximise uncertainty at the moment. But one thing perfectly clear: prospective oil revenues - which fall $\frac{1}{2}$ billion, all else equal, for every \$1 fall in oil price - well below $\frac{1}{2}$ billion assumed in Red Book last year.

SECRET

4. For the last MTFS we looked forward to a fiscal adjustment of £3½ billion for next year. If oil prices settle at \$15 our revenues will have been reduced by £5 billion or so compared to the MTFS assumption of £11½ billion. It is only because non-North Sea revenues have been buoyant that I am able to offer the prospect of no increase in taxes this Budget.

5. It is, of course, a considerable disappointment to lose the scope for tax cuts. This time last year we thought that, within a framework of prudent and sound financial policies, there might be scope for significant tax reductions in 1986-87. That prospect has now - temporarily, I hope - receded.

6. Against the background of so much uncertainty we must proceed very cautiously. We cannot be sure that there will be no further slide in the oil price. We must put ourselves in a position so as to be invulnerable - or as invulnerable as it is possible to be - to such a turn of events. This means that it would be prudent to leave a margin of safety.

7. Another factor I must take into account is the projected high level of proceeds from privatisation. Some critics - for example the Treasury Committee - have argued that the privatisation proceeds should not count

as negative public expenditure; instead they would prefer to describe them as a financing item. They argue that the £7½ billion PSBR set out in last year's MTFS for 1986-87 is in reality equivalent to borrowing more than £12 billion.

8. I do not accept that approach. But nevertheless it is true that privatisation puts an additional demand on financial markets even though it is in the form of equities rather than gilts. The institutions buying the companies we are privatising are the same as those to whom we sell gilts in order to finance the PSBR. In the circumstances it is only prudent to rein back to some extent the demands we make upon the financial markets from the sale of gilt edged securities.

9. These factors together mean that we should choose a PSBR no higher than the £7½ billion in last year's Red Book: and my preference would be for one somewhat below that figure. That, in turn, means that there will be little, if any, scope for a net reduction in taxation, after providing for indexation - and that judgement, in turn, depends on our being successful in holding to the public expenditure totals this year and next.

10. These last few weeks have seen a fair amount of volatility in financial markets. We have weathered

this pretty well - thanks to the perception that the underlying economy is strong, and that our policies are right.

11. For the moment markets seem to be suspending judgement. Whether we can succeed in holding interest rates at present levels will in part depend on the Budget.

12. In my view there are two reasons for our high level of interest rates. Credit demand in the UK continues to be very strong; and there has been a widespread view that sterling was likely to fall because of the rapid growth in UK labour costs and the projected decline in oil output. We now have an opportunity to create the conditions which will give us a better chance of getting interest rates down. Oil prices have fallen sharply. If we can demonstrate that we are able to maintain a prudent fiscal stance under these circumstances, market fears of the consequences of declining oil output should abate.

13. Of course it is not only ^{up}~~open~~ to us. Industry has its part to play in restraining the growth of unit labour costs. It is important for them to realise that they have the power to make a substantial contribution towards lower interest rates.

The Economy

14. Although the assessment of the impact of lower oil prices is, naturally at this time of year, dominated by public finance considerations, the effect on the economy will be profound and pervasive.

15. In the face of the first two oil shocks the industrialised countries adjusted slowly to their loss of income: profits were squeezed and there was damage to investment and growth - and, above all, to employment. It will not be clear for some time to what extent third oil shock will be the obverse of the first two. But we may confidently expect, for industrialised countries as a whole, a considerable terms of trade gain, higher national disposable incomes and - provided it is not all taken out in wages - improved profitability and investment.

16. For our economy, the effect immediately more neutral with a loss of net oil exports and deterioration in the terms of trade. But overall growth should be broadly unaffected; we are looking for non-oil GDP to grow by 2½ per cent in both 1986 and 1987. And there should be a further decline in inflation. Most importantly, with the prospect of more lively demand abroad, and with the inflationary consequences of exchange rate depreciation offset by falling oil prices and world

inflation, manufacturing industry stands to benefit considerably from these changes. We should, in short, see much more rapid progress than anyone expected with the adjustment which so much worried the House of Lords "after the oil runs out".

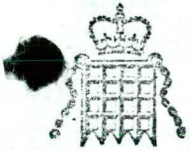
17. And, as paper makes clear, we start from a much improved base. For example:-

- it is quite remarkable both how consistently productivity has grown, and how consistently we have underestimated this. Instead of being at the bottom of the league table we are now second only to Japan, with productivity growth four times as fast as in the '70s;
- exports, too, rose more strongly than we expected in 1984 and 1985: for manufactures some way ahead of the growth in world trade;
- with a further rise in profits in 1985 capital spending by businesses continues to grow faster than output.

18. Our problem continues to be that this very buoyant economy is still not delivering falling unemployment. But there has been a marked improvement in the trend - taking account of the disappointing December

and January figures - since spring last year. With the 1985 Budget expansion of the Community programme still less than half completed, with little, if any, of the effects of the NIC restructuring yet felt, with labour force growth slowing down, prospects for further improvement look good. If industry will control its pay costs and get itself into a position to take full advantage of the more lively demand in prospect abroad, we should see a marked increase in its activity and a further marked improvement in the prospects for employment.

19. The task for us, however, is to maintain a framework of policy which makes it easier not harder for industry to get this right. Most immediately we have to consider a Budget which will cope with the damage to our public finances which has been the first effect of the oil price fall.



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

Please Dial my Extension Direct:
Use Code (01)-382 followed by
Extension Number 5.072...

ppro pl

Prof

Minister of State

From: W D Whitmore

13 February 1986

cc PS/Chancellor of the
Exchequer ✓
PS/Financial Secretary
PS/Economic Secretary
Mr Monger
Mr Cropper
Mr Davies
Mr Lord
PS/Inland Revenue
Mr Bolton(Inland Revenue)

*As requested.
C. Thumbs down to
abolition. OK?*

✓ H

Ro 13/2

SCOTCH WHISKY ASSOCIATION BUDGET REPRESENTATIONS: MATURATION REQUIREMENTS.

1. Mr Wynn Owen's note of 6 February recorded the Chancellor's question about how much the abolition of the maturation requirement might lower prices.
2. The spirits market is very competitive and given the high incidence of tax in the selling price the scope for price reductions is limited. We would not, therefore, expect abolition of the maturation requirements to have a marked effect on Scotch whisky prices. Moreover, the industry is keen to maintain an image of Scotch as a quality product and it is unlikely that they would willingly reduce their standards. There is the possibility that one or more companies might, if the maturation requirement were abolished, break rank and market a whisky less than 3 years age or such a whisky might be imported; but MAFF intend to introduce a statutory definition of whisky which will include a minimum maturation period of 3 years.
3. What the Scotch whisky industry fear is an increase in imports of cheaper, unmaturred spirits (in particular brandy), which might take sales away. There must be some doubt whether consumers would switch from Scotch to cheaper imported spirits in any substantial numbers, but to the extent that there would be any change it would be detrimental to UK producers.
4. Our assessment is that abolition of the maturation requirement would have little or no effect on prices, but might benefit imported spirits at the expense of UK producers.

W D Whitmore

W D WHITMORE

FROM: MISS S WALLIS
DATE: 14 February 1986

- 1. MR MURRAY
- 2. CHANCELLOR

14/2

- cc PS/CST
- PS/FST
- PS/EST
- PS/MST
- Sir P Middleton
- Sir T Burns
- Mr Bailey
- Mr Monck
- Mr Cassell
- Mr Monger
- Mr Scholar
- Mr Culpin
- Mr Lord
- Mr Cropper
- Miss Sinclair
- Mr McKenzie
- PS I/R
- Mr A Walker I/R
- PS C&E
- Mr J Bone C&E

*McKenzie
Matrix*

*C. To note.
Matrix follows Monday.*

Ro 14/2

1986 BUDGET: MAIN REPRESENTATIONS

Attached is the third edition of the main Budget representations received to date. For ease of reference I also attach a copy of the first and second editions. I have also updated the matrix table attached to Mr McKenzie's note of 30 January.

2. I have now updated the matrix table to include the small/independent/unquoted business bodies. This will follow on

x/ Monday.

Swallis
MISS S WALLIS

BR 86(3)

BUDGET 1986 REPRESENTATIONS - 3RD EDITION

BRITISH MEDICAL ASSOCIATION	11-12-85
BRITISH GREYHOUND RACING BOARD	11-12-85
THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS	19-12-85
NATIONAL UNION OF VICTUALLERS	19-12-85
TOBACCO ADVISORY COUNCIL	20-12-85
BRITISH RETAILERS ASSOCIATION	20-12-85
UNQUOTED COMPANIES GROUP	30-12-85
LAW SOCIETY OF SCOTLAND	31-12-85
LONDON CHAMBER OF COMMERCE AND INDUSTRY	2-1-86
WINE AND SPIRIT ASSOCIATION OF GREAT BRITAIN AND NORTHERN IRELAND	8-1-86
CHARITIES - VAT REFORM GROUP	13-1-86
ASSOCIATION OF INDEPENDENT BUSINESSES	13-1-86
ROYAL AUTOMOBILE CLUB	13-1-86
NATIONAL UNION OF TEACHERS	16-1-86
TRADE UNION CONGRESS	4-2-86

BRITISH MEDICAL ASSOCIATION

(MST agreed to meeting)

- significantly increase tax on tobacco products

BRITISH GREYHOUND RACING BOARD

(Met MST on 21 January)

- Abolish on-course General Betting Duty on greyhound totaliser

THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS

- CAPITAL ALLOWANCES

Where applicable a straight line write off should be allowed instead of reducing balance

- STOCK RELIEF

Re-introduce indexed relief

- CAPITAL GAINS TAX

The grouping of CGT gains and losses should be available for trading losses and losses offset against CT

- ADVANCE CORPORATION TAX

ACT which cannot be offset against CT should be recovered from the Revenue

TOBACCO ADVISORY COUNCIL

(Chancellor meeting 12 February)

- Limit cigarette duty increase to indexation
- No increase for cigars and pipe tobacco

BRITISH RETAILERS ASSOCIATION

- Supports representations from the Retail Consortium and Wines and Spirits Group
- Introduce Group Relief System for Capital Gains and losses

THE UNQUOTED COMPANIES GROUP

- CAPITAL TRANSFER TAX

Increase business property relief to 100 per cent.

- CAPITAL GAINS TAX

Gains should be exempt after a holding period of not more than 5 years

- Reduce to 20 per cent

- Taxpayers should be entitled to carry losses against gains during previous six years

LAW SOCIETY OF SCOTLAND

- CAPITAL GAINS TAX

- Absolve trustees from liability to CGT where beneficiary emigrates

- STAMP DUTY

Abolish duty on house purchases or increase the current £30,000 threshold

- Remove 50p deed stamp

CAPITAL TRANSFER TAX

- Render date of transfer for CTT as the same as CGT

LONDON CHAMBER OF COMMERCE AND INDUSTRY

- PERSONAL TAXATION

Incorporate National Insurance Contributions into the tax system

- ADVANCED CORPORATION TAX

ACT should be set-off against capital gains tax

- PIID

Increase threshold to £20,000

- CAPITAL GAINS TAX

should be a tax on real gains and not inflationary gains

- exempt on disposal of assets held for more than 10 years

- CAPITAL TRANSFER TAX

Introduce a tapering relief

- BUSINESS EXPANSION SCHEME

Exporting operations carried on in UK should be reviewed

- restrict companies deriving substantial amounts from leasing royalties or licence fees

WINES AND SPIRIT ASSOCIATION OF GREAT BRITAIN AND NORTHERN IRELAND

- Duty on Wine over 15% alcoholic content should be reduced
- Reduce excise duty on spirits
- Partial deferral of monthly VAT payments

CHARITIES VAT REFORM GROUP

(Met MST on 13 December)

- Seek VAT relief on the following:
 - (a) services comparable to those run by statutory authorities
 - (b) Building alterations and extensions
 - (c) Advertising
 - (d) Medicines and drugs

ASSOCIATION OF INDEPENDENT BUSINESSES

- BUSINESS TAXATION

100% capital allowance should be given on first £50,000 of capital expenditure

- Reduce small company's rate
- Re-introduce stock relief

- MEASURES TO INCREASE EMPLOYMENT

Reduce premiums for the Small Firms Loan Guarantee Scheme

- Reduce National Insurance Contribution by 1%
- Combine PAYE and NIC's
- Restore Upper Earnings Limit

- PERSONAL TAXATION

Increase personal allowances

- Simplify Business Expansion Scheme

- Relax Revenue's enforcement powers

- VALUE ADDED TAX

Raise registration threshold

- CAPITAL TAXES

Abolish Capital Gains Tax

ROYAL AUTOMOBILE CLUB

- No increase in Vehicle Excise Duty

- Abolish 10% tax on sale of new cars and motor cycles

NATIONAL UNION OF TEACHERS

- abolish taxation of travelling allowances

TUC

- Call for a Budget for jobs

- Increase public spending and create more jobs

- Costs will be met from increasing corporation tax and CGT and re-introducing investment income surcharge

FROM: G MCKENZIE
DATE: 3 January 1986

CHANCELLOR

cc PS/CST
PS/FST
PS/EST
PS/MST
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Monck
Mr Cassell
Mr Monger
Mr Scholar
Mr Culpin
Mr Lord
Mr Cropper
Miss Sinclair
Mr Murray

PS I/R
Mr A Walker I/R

PS C&E
Mr J Bone C&E

1986 BUDGET: MAIN REPRESENTATIONS

Attached is the **second edition** of the main Budget representations received to date. For ease of reference I also attach a copy of the first edition.

2. I will circulate a third edition in the near future.

swallis
PP G MCKENZIE

BR 86(2)

BUDGET 1986 REPRESENTATIONS - 2ND EDITION

BRITISH TOURIST AUTHORITY	24-10-85
SMMT	31-10-85
ROYAL INSTITUTE OF CHARTERED SURVEYORS	6-11-85
THE STOCK EXCHANGE	7-11-85
PIPESMOKERS COUNCIL	15-11-85
BRITISH VEHICLE RENTAL AND LEASING ASSOCIATION	19-11-85
GUINNESS PEAT GROUP	22-11-85
INSTITUTE OF DIRECTORS	25-11-85
ENGINEERING EMPLOYERS FEDERATION	25-11-85
THE ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE	25-11-85
TR INDUSTRIAL TRUST	25-11-85
ASSOCIATION OF BRITISH INSURERS	25-11-85
BRITISH VENTURE CAPITAL ASSOCIATION	25-11-85
THE UNION OF INDEPENDENT COMPANIES	4-12-85
BREWERS SOCIETY	5-12-85
THE NATIONAL FARMERS UNION	10-12-85
SCOTCH WHISKY ASSOCIATION	13-12-85

BRITISH TOURIST AUTHORITY

Support the Historic Houses Association's representation on the adverse impact of CTT.

SMMT

[Met MST on 5 December]

- **Car benefits**

No increase in taxable benefit or private fuel charge

- **Capital Allowances**

special treatment for commercial vehicles over 35 tonnes

- **ACT**

set off against chargeable gains and future capital tax liability.

- **Car Tax**

Abolish

ROYAL INSTITUTE OF CHARTERED SURVEYORS

- **CGT**

present basis of computation for assets owned prior to the base date should continue: so that the taxpayer can elect either to take the April 1982 value as his acquisition cost or apportion the gain over the period of ownership.

- **Wasting Assets: Leases**

Present 50 years wastage period for assets unrealistic, change to 10 years.

- **Stamp Duty**

If Stamp Duty on property transfers is to be retained, there should be a switch in the basis of calculation to a slice scale under which duty would be levied only on the value above the threshold at which tax is payable.

- **Partnerships**

Strong case for an arrangement under which partnerships should be able to retain funds for reinvestment purposes.

- **VAT**

(a) Repairs and Maintenance: Lower rate for repair and Maintenance work.

(b) Listed Buildings and conservation areas: (i) extraordinary that the present VAT rules encourage redevelopment and reconstruction rather than the repair of listed buildings. (ii) Conservation areas containing buildings which are considered collectively, rather than individually, outstanding should be treated the same as listed buildings.

THE STOCK EXCHANGE

Abolish Stamp Duty immediately.

PIPESMOKERS COUNCIL

Leave pipe tobacco tax at its present level.

BRITISH VEHICLE RENTAL AND LEASING ASSOCIATION

- **Capital Allowances**

Private Cars: restrictions which apply to cars costing over £8,000 can usefully be abolished.

Depooling: depooling should extend to any private car so that high mileage vehicles can receive a proper capital allowance following disposal.

- **Benefit-in-kind scales for private cars**

Annual increases to the Benefit-in-kind scales should be restricted to match the change in RPI.

GUINNESS PEAT GROUP

Do not abolish Stamp Duty.

IOD

[Met I/R on 28 November]

- **VAT**

- (i) Press for adoption of EC draft 14 Directive
- (ii) Introduce more general relief for bad debts
- (iii) Press EC to drop draft 12 Directive

- **CT**

- (i) Changed ownership: reduce the scope of S483 ICTA 1970
- (ii) Trading losses: Allow off-set of BF trading losses against profits of trade

- **ACT**

- (i) Allow free transfer of ACT within group and allow elections to be revoked
- (ii) Give full imputation for company capital gains
- (iii) Allow off-set of ACT against next mainstream payment

- **Income Tax**

Announce result of overseas travel expenses consultations

- **Benefits in Kind**

- (i) Abolish threshold
- (ii) Allow all employees' expenses and benefits to be returned on a single P11D.

- **Equity Finance**

Extend relief for loan capital to equity capital

CGT

- (i) Exempt pre-1982 assets held for over 7 years.
- (ii) Extend annual exemptions to companies if no relief for pre-1982 inflation
- (iii) Allow carryback of capital losses for two years.
- (iv) Roll-over relief: amend apportionment formula where some non-trade use.

- **CTT**

- (i) Business Assets: exempt entirely or at least abolish differential discount for minority shares.
- (ii) Rate scale: flatten the scale
- (iii) Index allowances for non-domiciled spouses
- (iv) Investments: extend to all assets if present high rates of CTT are maintained.

- **Tax Treatment of Share Incentives and Investment**

- (i) Replace existing reliefs with simple income tax deduction for investment in new equity of UK quoted or unquoted trading companies.
- (ii) Approved share option schemes:
 - (a) remove ceiling in para 5 Sch 10 FA 1984
 - (b) Give the same relief in cases of mergers and takeovers as for approved SAYE-linked schemes

- **BES**

- (i) Retain BES until a better scheme is in place;
- (ii) Permit dormant subsidiaries, sub-holding companies and third party minority holdings;
- (iii) Allow intra-group lease financing and property-holding subsidiaries.
- (iv) Allow overseas subsidiaries on equivalent basis to overseas branches.
- (v) Allow joint subscription by husband and wife.

Capital Allowances

- (i) Commercial buildings: introduce allowance at 2% pa on new building
- (ii) Industrial buildings: Apply 25% limit for offices which are part of an industrial building to the area not the cost of the building.
- (iii) Cars: abolish restriction on cars costing over £8,000

ENGINEERING EMPLOYEES FEDERATION

- **NICS**
reduced rates to a low level for all employees
- **Corporation Tax**
allowances for fixed investment and stock building should at least be inflation proofed.
- **Encouragement of Investment and Innovation**
introduce a scheme of additional incentives for fixed investment and research and development.

ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE

- **CGT**
should be repealed in its entirety, or portfolio investment should be exempt and/or assets acquired before 31 March 1982 should be exempt from CGT.
- **NICS**
abolish NICS and increase the rates of taxation to make good the shortfall
- **CTT**
Abolish CTT

- TR INDUSTRIAL TRUST

Abolish Stamp Duty

ASSOCIATION OF BRITISH INSURERS

(MET FST ON 13 DECEMBER)

- **Investments**
Tax system should not tax the apparent profits arising from inflation on the holding of assets

CGT

Extend CGT exemption to securities where the profits on disposal are taxable under case 1 of schedule D.

- Pegged rate relief

Peg should be reinstated as an important safeguard against future increases in the tax rate

- Double taxation relief

Should be set against ACT

- ACT

There should be no requirement, as at present, for the surplus of ACT to be off-set against tax liabilities of a more recent accounting period

- Stamp Duty

Abolish Stamp Duty on life assurance and annuity contracts

BRITISH VENTURE CAPITAL ASSOCIATION

- Investment

Allow managers and employees investing in their own business to off-set such investment against total taxable income.

- CGT

Gains released by managers and employees on the sale of shares purchased in the 5 years following commencement of trading by a private company should be free of CGT.

UNION OF INDEPENDENT COMPANIES

- Income Tax thresholds

(i) Abolish the wife's earned income and the married man's personal allowances. Increase single person's allowance to £2,500. Allow married man (or woman) to claim partner's unused allowance.

(ii) Increase thresholds for higher rates of income tax by 5 per cent.

CT

Rate of CT on the first £100,000 profits (small companies 'rate') should be reduced to 20 per cent.

- **CTT**

Should be held over on the gift of shares in independent trading companies to the next generation of management who are wholly employed in the business.

- **VAT**

Extend VAT to include all goods and services with exception of unprocessed food, coal, heating fuel, gas and electricity.

- **Excise Duties**

Indexation on an annual basis of a fixed amount on excise duties.

BREWERS SOCIETY

(MEETING IN JANUARY WITH CHANCELLOR)

- **BEER DUTY**

Adverse effect on the Brewery Industry (Report)

THE NATIONAL FARMERS UNION

- **Capital Allowances**

Agricultural buildings: retain 10 per cent allowance

Plant and Machinery: concerned about impact of withdrawal of first year allowance will have on small businesses.

- **CTT**

(i) Should be tailored so its burden is no more than is reasonable in relation to earning capacity and that account is taken of the need to retain capital within the business.

(ii) Annual exemption for gifts should be increased to £5,000.

(iii) Higher rate of agricultural relief should apply in all cases where the starting point for valuation is vacant possession.

- **CGT**

Roll-over relief: period for roll-over relief when assets acquired in anticipation of future disposal should be extended to two years.

SCOTCH WHISKY ASSOCIATION

[Chancellor agreed to meeting]

- Budget should continue the move towards equalisation of taxes on a per degree of alcohol basis.
- Suggest compromise method of treating stocks of maturing scotch for taxation purposes.
- Increase period of duty deferment from four to eight weeks.

CHANCELLOR

FROM: G McKENZIE

DATE: 12 .November 1985

cc PS/CST
PS/FST
PS/EST
PS/MST
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Monck
Mr Cassell
Mr Monger
Mr Scholar
Mr Culpin
Mr Lord
Mr Cropper
Miss Sinclair
Mr Murray 92/157

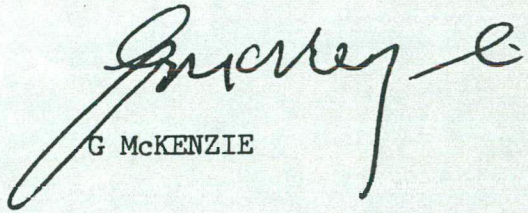
PS I/R
Mr A Walker I/R

PS C&E
Mr J Bone C&E

1986 BUDGET: MAIN REPRESENTATIONS

Attached is a list of, and Synopsis on, the main Budget representations received to date.

I hope to circulate a second edition at the end of November.


G McKENZIE

BUDGET 1986 REPRESENTATIONS - FIRST EDITION

Country Landowners Association	5- 8-85
British Retailers Association	10- 9-85
British Institute of Management	18- 9-85
Scottish Landowners Federation	1-10-85
Historic Houses Association	3-10-85
The Association of Independent Investment Managers	16-10-85
Managerial, Professional and Staff Liaison Group	18-10-85
General Council of British Shipping	24-10-85
Association of Consulting Engineers	25-10-85
CBI	25-10-85
Institute of Chartered Accountants	29-10-85
National Chamber of Trade	30-10-85
British Property Federation	30-10-85

Copies of these representations can be obtained from Sue Wallis (x5423).

COUNTRY LANDOWNERS ASSOCIATION

MEETING FST 18 DECEMBER

Capital Allowances

- Recommend that writing down allowances for agricultural buildings under S.68 1968 Capital Allowances Act remain at 10 per cent. At the very least, the present rates should be retained until the Green Paper on personal tax discussions are complete.
- No change to structure of agricultural buildings allowances.
- Introduce allowance for repairs to Listed Buildings.

Corporation Tax

- Small Companies Rate: £100,000 threshold should be increased for all companies.

Capital Gains Tax

- Permit gains accruing in respect of non-qualifying assets to be rolled-over into qualifying assets.
- in all cases where a roll-over or other deferment relief is claimed on an acquisition, the indexation allowance on disposal should be calculated by reference to the actual cost, or value of the asset at the date of acquisition, without any reduction for the deferred gain.

National Insurance Contributions

- Class 4 Contributions should be abolished.
- Reduce Employers Contributions.

VAT

- Northfield Committees recommendation be adopted, and that agricultural landlords be permitted to recover VAT input tax, at any rate in relation to repairs and maintenance.
- repairs and maintenance to listed buildings should be zero-rated.

BRITISH RETAILERS ASSOCIATION

Excise Duties

- Strongly urge that beer be favourably treated in Budget.
- Reduce higher duty on sparkling wine to that of table wines.

Jeremy Clark.
SMA
SMMT
AA
1
Brewers rep.

THE SCOTTISH LANDOWNERS' FEDERATION

MEETING FST 26 NOVEMBER

Capital Allowances

- The proposed reduction in agricultural buildings allowances has no justification and should not be implemented.

Capital Gains Tax

- Alter the base date to 1982 and roll-over and retirement reliefs made available to agricultural landlords.

VAT

- Agricultural landlords should be able to claim VAT on repairs, improvements etc.

HISTORIC HOUSES ASSOCIATION

- Remove 15 per cent additional rate on the income of the maintenance fund where the trustees elect for it to be treated as their own.
- Capital Transfer Tax: where negotiations for acceptance in lieu are successfully concluded, interest on the CTT to be satisfied by the object in question should cease to run from the date on which the offer was first made.

BRITISH INSTITUTE OF MANAGEMENT

- Concerned about the efficiency of public spending with regard to investment in the nation's infrastructure.

THE ASSOCIATION OF INDEPENDENT INVESTMENT MANAGERS

- Abolish/simplify Capital Gains Tax.

MANAGERIAL, PROFESSIONAL AND STAFF LIAISON GROUP

- Reduce basic rate of tax by 3 pence.
- Reduce all higher rates by 3 per cent points.
- Raise all higher rate thresholds by 10 per cent.
- Increase VAT to 17 per cent.
- increase beer by 2p per pint.

- increase bottle of wine by 10p.
- increase bottle of spirits by £1.
- increase the price of 20 cigarettes by 30p.
- remove the £8,500 earnings limit for the taxation of fringe benefits.

ASSOCIATION OF CONSULTING ENGINEERS

- Want authority to set aside modest sums to be put toward the cost of promotional and marketing expenditure overseas.
- Budget should include directive authorising and clarifying the necessity of maintaining professional indemnity insurance contingency funds at an appropriate actuarial level.

CBI

MEETING THE CHANCELLOR ON 10 DECEMBER

Approved Share Option Schemes:

- Part-time staff should be able to participate in schemes.
- If an option is granted in excess of the appropriate limit only the "excess amount" should be non-qualifying.

Income Tax

- Abolish the schedular system.
- Set off of losses brought forward against income under Schedule A or Case III or IV of Schedule D.
- Permit as a deduction all bona fide expenses incurred by a person in his business.

Cessations

Disincorporation: introduce roll-over relief where the company's business after winding up is carried on by the same individuals as controlled the company.

Capital Allowances

- Fixtures to land: welcome opportunity of discussing solutions to this problem.
- Industrial Buildings Allowance: see no objection to replacement of the "expenditure test" by an equivalent space test.
- VAT on Imports-Guarantees: Guarantees should only be demanded from traders who prove to be bad payers.

- There should be complete set-off of double taxation relief against Advanced Corporation Tax but leaving the tax credit and any payment thereof to the shareholder unaffected.
- recommend that in the case of short term employments in the UK there should be special relief for additional housing and education costs.
- The tax bias against certain types of capital should now be removed.
- Deep Discount Securities: It should be made clear that, however they may account for accruing discount all institutional lenders will be taxed on a deferred basis like other investors.
- Agricultural land and buildings: request early consultation and an opportunity for early sight of Finance Bill draft clauses.

Advance Corporation Tax

- The current rule restricting ACT set-off to 30 per cent of income should be removed.
- ACT set-off should cease to be confined to mainstream corporation tax on income and should instead be available to corporation tax on all profits.
- The right to carry ACT back for six years should be extended to ACT surrendered by another company in the group.

VAT

- Concerned at the way in which major changes in VAT may be introduced outside the Finance Bill and by SI.
- Exempt conversion of old buildings into houses from VAT.
- Strongly opposed to the draft 12th VAT directive.

CGT

- Suggest that provisions of Section 68(7) and (8) FA 1985 should be extended to roll-overs on business assets and gifts.
- CG should be capable of offset against trading losses brought forward as well as capital brought forward and current trading losses.
- Roll-over relief should be available against gains on the sale of trade investments which are applied in the purchase of other business assets.

GENERAL COUNCIL OF BRITISH SHIPPING

(possibility of a meeting)

- Introduction of a special 50 per cent ship allowance covering new and secondhand ships.
- Extend the Business Expansion Scheme to include ship catering; and a roll-over relief for balancing charges which matches the realities of the shipping market.

NATIONAL CHAMBER OF TRADE

- Recommend that a system is introduced for small businesses so that they can set aside a proportion of their profits to a tax free investment reserve for development to be used within 10 years.
- Provide capital allowances for commercial premises.
- Two tier system for VAT should be introduced to enable small businesses to lodge appeals informally to a local body instead of the present VAT appeal tribunals.
- Keith: Oppose the Inland Revenue adopting enforcement powers, similar to those given to Customs & Excise by the Finance Act 1985.

INSTITUTE OF CHARTERED ACCOUNTANTS

- Further consideration should be given to tax legislation and to the Renton Report.
- Abolish Capital Gains Tax.
- PAYE and Social Security inspections on employers' records should be conducted on one joint visit by DHSS and Revenue.

BRITISH PROPERTY FEDERATION

- Tax gains arising from inflation prior to 1982 to be exempt allowing tax payers to elect the use of March 1982 values.
- Grant roll-over relief from capital gains tax when properties for letting are sold, and then the proceeds re-invested in other property lettings.
- Companies should be able to offset the ACT they pay, against their corporation tax liabilities, with restriction.

LP6.76



FROM: P WYNN OWEN
DATE: 17 February 1986

MISS S WALLIS

cc Mr Murray

A handwritten signature in blue ink, appearing to be "P. Wynn Owen".

1986 BUDGET: MAIN REPRESENTATIONS

The Chancellor has seen and was grateful for your minute of 14 February. He awaits the matrix today.

A handwritten signature in blue ink, appearing to be "P. Wynn Owen".

P WYNN OWEN



As requested (see below)
12258/86
Myer

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Myer

Rt Hon Lord Erroll of Hale
Chairman
Automobile Association
Fanum House
Basingstoke
HAMPSHIRE
RG2 2EA

17 February 1986

John Erroll

Thank you for your letter of 5 February enclosing your Association's representations for the Budget.

I can assure you that the points you have raised will be carefully considered in the run-up to the Budget.

Nigel Lawson

NIGEL LAWSON



FROM: APS/Minister of State

DATE: 17 February 1986

MR W D WHITMORE - C&E

cc PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
Mr Monger
Mr Cropper
Mr Lord
Mr Davies
PS/Inland Revenue
Mr Bolton - IR
PS/Customs & Excise

SCOTCH WHISKY ASSOCIATION BUDGET REPRESENTATIONS: MATURATION REQUIREMENTS

The Minister of State was grateful for your minute of 13 February and has commented that this seems conclusive. In the margin of another meeting, the Minister would welcome a brief conversation on this, (but that does not detract from his comment above).

MISS E C FRANKIS
Assistant Private Secretary

RP

FROM: H J DAVIES
DATE: 18 FEBRUARY 1986

MR WYNN OWEN

cc PS/MST
Mr Romanski

Mr Jefferson-Smith C&E

TAC REPRESENTATIONS: 12 FEBRUARY

A small point on your minute of the above meeting, dated 14 February.

2. All the comments you attribute to Mr Simpson were made by Mr Cameron and vice versa.

had

condemner

COPY NO 1 OF 6

FROM: G W MONGER
DATE: 4 March 1986

(2)

PS/CHANCELLOR

cc Sir P Middleton
Mr Cassell
Mr Scholar

DIRECT TAX

I attach as requested a first draft of a minute to the Prime Minister on direct tax.

G W Monger

G W MONGER

CONFIDENTIAL

Chy
Michael Scholar plans both going to work on this -
has any immediate reactions / guidelines of overall speed
humps up. We expect to try to get this across tomorrow.

*Re.
4/3.*

BUDGET SECRET

DRAFT MINUTE FOR CHANCELLOR TO SEND TO THE PRIME MINISTER

I am writing to let you know about my Budget proposals for direct tax, other than those on income tax about which I shall write later.

I have in mind a number of measures which should help business and enterprise.

First, the Business Expansion Scheme. This is due to end next year and I have been reviewing its future with the help of a report from Peat Marwick. This report shows that it has been very successful in its aim of attracting new equity capital into unquoted companies, a high proportion of them new and small businesses. I therefore propose to continue the Scheme indefinitely. At the same time I shall take action to prevent abuse by providing that it cannot be used by companies holding more than half their assets in the form of land and buildings or investing in other assets likely to rise in value over time. These exclusions will target the scheme more firmly on risk investment. I therefore propose also to exempt BES shares issued after Budget Day from Capital Gains Tax on first sale.

I also have in mind a major change in Capital Transfer Tax. This tax discourages risk-taking and enterprise. We strongly opposed its introduction and we are committed to reforming it. I propose to abolish the tax on lifetime gifts, which has had a particularly damaging effect in locking up assets and impeding the mobility of capital. This will be the fourth tax abolished since 1983.

The cost will be £35m in 1986-7 and £55m in 1987-8. The charge on death would of course remain, supported by a tapered charge on gifts made within seven years of death. In recognition of the radically changed nature of the tax it will be renamed the Inheritance Tax.

I shall also rectify an anomaly by imposing a withholding tax of 30% on the earnings of overseas entertainers and sportsmen visiting the UK. Such a tax is normally imposed by other countries on visiting British entertainers and sportsmen. There is no reason to give foreign visitors here more favourable treatment than British visitors receive abroad. The change will bring in extra revenue of about £75m in 1987-8 [latest Revenue estimate].

I also intend to introduce some measures to encourage saving and investment.

The first concerns pension funds. I have no plans to change the favourable tax treatment they receive. But I intend to deal with the problem of pension fund surpluses. These have grown substantially over the last few years because of the favourable climate for investment. Excessive surpluses are undesirable. They are an abuse of the tax privileges enjoyed by the funds and they increase the proportion of funds controlled by the institutions. The Inland Revenue has some power to require reduction of surpluses but it is discretionary, and funds cannot be sure of their position. I therefore propose clear and objective legislation under which funds with surpluses of more than 5% can be required to eliminate the excess. How they do so will be a decision for the trustees. They can choose an increase

BUDGET SECRET

in benefits, a contribution holiday or a refund to the company. If there is a refund there will be a tax of 40% on the company to recover at least part of the tax relief it will have obtained on its contributions. Altogether the changes should bring in an extra £25m in 1986-7 and £140m in 1987-8.

I have also considered the level of Stamp Duty. At 1%, it threatens to make London uncompetitive in the world market for financial services that is developing, and it discourages wider share ownership. I intend therefore to cut the rate to $\frac{1}{2}$ %. But it would be wrong to reduce the contribution which financial services make to the Exchequer. I therefore propose to recoup all the cost of the rate reduction by applying the duty to other transactions which now escape it, such as intra-account transactions and takeovers and mergers. There will also be a special rate of 5% on the conversion of UK shares into American Depository Receipts, the method increasingly used to escape stamp duty and transfer dealings abroad.

I am anxious in other ways to promote our policy of encouraging direct share ownership by individuals. I intend to propose a radical new scheme under which individuals can invest up to £2,400 a year in stocks and shares to be held in a special account known as a Personal Equity Plan. While in the Plan they will be free of capital gains tax and income tax on dividends. They need be held only for a short qualifying period before they can be withdrawn tax-free. The cost will be negligible in 1986-7, and about £25m in 1987-8. I am sure that over time this measure will dramatically extend share ownership in Britain, just as the rather different Loi Monory does in France.

BUDGET SECRET

I have also reviewed the tax treatment of charities. Charitable giving substitutes private action for State action and we have already done much to encourage it. I now propose major changes. First, I intend to abolish the upper limit on relief at the higher rates of tax on charitable covenants, while at the same time stopping the abuse of the tax system by certain sorts of private charity. Secondly, I propose to allow companies, other than close companies, tax relief on one-off gifts up to a maximum of 3% of their dividend payments. Thirdly, I shall propose a new scheme of payroll giving under which if employers agree, employees can have charitable donations of up to £100 a year deducted from their pay, and get tax relief on it. These new measures will of course be in addition to the present tax relief for covenants by both companies and individuals. They should lead to a substantial increase in charitable giving. The net cost will be negligible in 1986-7 and about £30m in 1987-8.



FROM: A J WALKER

INLAND REVENUE
CENTRAL DIVISION
SOMERSET HOUSE

DATE: 2 APRIL 1986

PS/FINANCIAL SECRETARY

CONSERVATIVE SMALL BUSINESS BACKBENCH COMMITTEE:
BUDGET REPRESENTATIONS

Following his meeting with the Committee on 13 February, the Financial Secretary asked us to prepare a more detailed response to the Small Business Committee's representations after the Budget.

I attach a letter for him to send.

cc A J WALKER

cc PS/Chancellor
Mr Murray
Mr Cunningham

Mr Isaac Mr Reed
Mr Battishill Mr Farmer
Mr Painter Mr Walker
Mr Draper Miss Dyall
Mr Elliott Mr Michael
Mr Bryce Mr Shaw
Mr Spence PS/IR

JAHAAX



Treasury Chambers, Parliament Street, SW1P 3AG

Henry Bellingham Esq MP
House of Commons
London SW1A 0AA

2 April 1986

Budget Representations of the Smaller Business Committee

Now that the Budget is past, I thought I should write to you giving a slightly fuller response than I was able to give to the Smaller Business Committee's representations at our meeting on 13 February.

I deal with each of the points in the order your raised them.

1. Profits of Unincorporated Businesses

At the meeting you presented your first recommendation in terms of a measure to assist and encourage disincorporation. I am not convinced that there has been strong pressure towards disincorporation since we cut the small companies rate of corporation tax from 35% to 30% as part of the business tax reforms (and now, of course, have cut it still further to 29%). More fundamentally we take the view that it is up to the individual businessman to decide whether to operate his business in corporate or unincorporated form and there is no reason why we should try to influence that decision.

The proposal to restrict the tax charge on undrawn profits of unincorporated businesses to a rate equivalent to the small companies rate of corporation tax is a familiar one but it does raise formidable problems. While a company is a legal entity separate from its directors no such distinction exists between the self-employed and their businesses and an artificial distinction would have to be created. Whatever form a scheme of this kind took it would inevitably impose additional accounting requirements on the self-employed at a time when we are trying to lighten the burdens placed upon them. There would also be heavy administrative costs for the Inland Revenue in operating such a scheme and ensuring its provisions were not abused. For example, checks would have to be made to ensure that profits taxed at this special rate were in fact used in the business.

The proposal would have little impact on the majority of unincorporated businesses since 90% of the self-employed pay no higher rate tax. Nor is it at all clear that a scheme of this kind would encourage small companies to disincorporate, since in some

which it would mean that unincorporated businesses had to be treated more like companies.

2. Government Research and Development Bonds

Your second proposal was the introduction of Government research and development bonds to encourage small companies to invest in R & D. Your view was that investment in such a bond should be tax deductible, and that the sale proceeds would be taxable income.

I am afraid that the availability of such a bond might distort decision-making by encouraging companies to invest in bonds instead of making productive investments and whilst there would be a cash flow advantage to the Exchequer this would not be helpful since it would be borrowing. Moreover any loss of tax in the short term would have to be made good by tax increases elsewhere. The suggestion also presents practical problems in that it could open up opportunities for tax planning at the Exchequer's expense: bonds might be purchased at times when a company was liable to tax and sold when there was no liability.

3. Capital Gains Tax

You made two proposals here. First, that rollover relief should be available against any investment in equity shares of an unquoted company.

The relief for the replacement of business assets - rollover relief - enables a trader who disposes of qualifying assets and invests the proceeds in fresh qualifying assets, in effect, to defer any capital gains tax liability on the disposal. Qualifying assets defined in the legislation consist principally of land and buildings used in a trade, fixed plant or machinery, and goodwill. But as you know, the relief does not extend to shares. We are often asked to widen the scope of the relief, but I have not been persuaded that it would be right to do so. It is important not to allow the tax base to be eroded too far and to ensure that tax reliefs are directed to the specific areas for which they are intended. Of course, we fully recognise the importance of the unquoted sector and I am sure you will agree that the tax treatment for investment in unquoted companies is now very favourable. In particular, there is generous income tax relief under the Business Expansion Scheme and, contrary to the rules elsewhere, capital losses on unquoted shares in trading companies are available for offset against income.

Your second proposal on CGT was that relief should be available to an investor whose loan to a small business proves irrecoverable; and similarly, in respect of any payment called to be made under a guarantee.

You will be pleased to know that relief for losses on loans and payments made under guarantees in respect of loans used by borrowers for the purposes of their trade is already available by virtue of Section 136, Capital Gains Tax Act 1979. Although the relief was originally introduced in 1978 important Government amendments were made at Report stage of that year's Finance Bill as a direct consequence of points raised by Ian Stewart in Standing Committee.

4. Tax-free band for businesses

The major disadvantages of your proposal for a tax free band for small companies and unincorporated businesses is its high cost. If, for example, a tax free band of £5,000 per annum were introduced the likely cost would be in excess of £1.5 billion. To recoup this amount a levy of about 4% on business profits over £100,000 would be required, which would effectively raise the corporation tax rate to 39% and wipe out part of the reductions we were able to make in the 1984 business tax reforms. Nor do I think it would be equitable or desirable for larger businesses to bear this burden which could be seen very much as a penalty for success.

Our preferred policy is not to proliferate special reliefs of this kind but to broaden the tax base and reduce the burden of taxation on all sectors of business. The further reduction in the tax rates for small companies and unincorporated businesses announced in the Budget will, of course, help the small business sector you have in mind, and Nigel made it clear that we hope to be able to go further down this road in the future.

5. Business Expansion Scheme

You suggested that paid directors, employees and their families should be allowed to obtain a tax relief for investment in a BES company. But I am afraid that to allow this would change the nature of the scheme and would increase the deadweight cost of relief on investments that would have gone ahead anyway. This would make it less cost effective as a way of encouraging outside investment. Moreover, there would be a danger of avoidance with money being paid out as remuneration and reinvested under BES: this would increase the cost and could bring the scheme into disrepute.

You also suggested that the scheme should be extended to allow relief on loan capital when invested in combination with equity. This proposal runs directly contrary to the scheme's specific aim of helping unquoted trading companies raise new equity so that, among other things, they need not rely too much on loan finance. It, too, would make the scheme less cost effective since the increased cost would not be justified by the increased benefit.

Although we have not felt able to adopt your specific suggestions, I am sure you will agree that the changes Nigel proposed in the Budget go a long way in improving its effectiveness. The exclusion of investment in companies with high asset backing in terms of land and buildings or those that carry on the trade of holding investment goods, for example fine wines and antiques, should ensure closer targeting on high risk investment. And the exemption of new BES shares from capital gains tax on their first disposal should encourage individuals to undertake high risk investment. In addition, we are extending the scheme to certain ship chartering companies to help promote high risk investment in the United Kingdom shipping industry. These measures together with a number of detailed technical changes that we also intend to make will I am sure build upon the considerable success the scheme has already achieved whilst at the same time improving it significantly.

6. BES Investment Trusts

We have considered the concept of an investment trust (BESIT) on a number of occasions, but we do not think it would be appropriate to add this to the Scheme. The real problem is that a BESIT would break the direct equity link between investor and BES company and would put investors in it at an advantage over other BES investors whose relief would not be due until their money was at risk in the company. In addition, you will appreciate that we would be reluctant to add the additional layer of rules which would be required, as that would inevitably increase the complexity of the Scheme.

7. Loan Guarantee Scheme (LGS)

Your main proposal here was for a reduction in the premium from 2 per cent to 5 per cent. I am sure you will have been pleased, therefore, that Nigel went a long way down that road when he announced that the Scheme would be extended for three years and that the premium would be halved.

8. Stamp Duty

You suggested that stamp duty on property transactions should be calculated on the excess of value over £30,000, in order to remove the effect of the current provisions where no duty is charged on properties under £30,000 but, for example, £310 is charged on £31,000. I am afraid that the major objection to the proposal is its cost, which is estimated at £270 million in 1986-87. And, as I mentioned at the meeting, the average house sale in the North is well below £30,000: for example, a recent Building Societies Association report put the average house price in the North at just under £23,000. So it is only in the relatively prosperous South and East that the majority of people are paying the duty at all.

9. Share Option Schemes: Private Companies

You did not expand at our meeting on your suggestion that approved share option schemes for private companies should be introduced. Private companies as such are not debarred from operating either all-employee or discretionary share option schemes, but I accept that there are restrictions (eg as to the type of shares which may be used in approved schemes) which may prevent some private companies from introducing approved schemes. I am pleased to say that we are proposing a number of changes in this year's Finance Bill which will help the spread of employee share schemes generally. And one measure in particular - the permission of use of shares which must be sold after employment ceases - should make it easier for private companies to introduce schemes.

RF

Ad 7/4

FROM: D WISEMAN
DATE: 7 APRIL 1986

1. MR MURRAY
2. MCU
3. FINANCIAL SECRETARY

cc PS/Chancellor 12/2
PS/CST
PS/IR
Mr A Walker IR

ROBERT HARVEY MP

I attach a draft reply to Mr Harvey's representation.

David Wiseman

D WISEMAN

DRAFT

Robert Harvey Esq MP
House of Commons

LONDON
SW1A 0AA

7 April 1986

You wrote to Nigel Lawson on 12 February enclosing correspondence from Mr D Gwynne Morris of "Tanglewood", 27 Tan-y-Bryn, Llanbedr D.C., Ruthin, Clwyd, about Income Tax. I apologise for ~~the~~ delay in replying; I can now offer a substantive reply to the points Mr Gwynne Morris raises.

I would like to explain to Mr Gwynne Morris why the Government is committed to lower taxes. We believe that the only way to achieve the growth which will create lasting jobs is to improve the competitive position and long-term performance of the economy. This will only be achieved if we improve the reward gained from working and develop a culture which encourages enterprise. *That is why a feature of this year's Budget was a further reduction in income tax, with the basic rate cut to 25 per cent.*

// However, the Government is not neglecting the infrastructure; public sector capital investment is running at £22 billion per year and repairs and maintenance expenditure add £5 billion to this total. Within the economy as a whole, fixed investment is running at a record of £55 billion per year.

JOHN MOORE

Tanglewood
27 Tan-y-Bryn,
Hamstead D.C.,
Ruthin.

Clwyd. LL15 1AQ

Mr Robert Harvey M.P.
House of Commons,
Whitehall. LONDON.

2nd ~~December~~^{FEB} 1980.

Dear Mr Harvey,

I write on behalf of my wife and myself as two constituents who although not 'party' members have always voted Conservative in general elections.

We wish to note our concern of press reports that there are to be income tax reductions in forthcoming pre election budgets. While it would be very pleasant to be able to keep our own money we feel that the money would be better spent on building projects - i.e. housing and roads projects. This surely would

have many benefits including putting people to work who would themselves pay tax and be removed from the unemployment register. Their ability to spend in turn would create ~~the~~ employment for others.

A relief of income tax would to a large extent be 'saved' or spent on buying goods - some of which would be brought in from abroad.

Notwithstanding the present problems in our schools the solving of which we hope cannot long be delayed - - - we are both by the way school teachers - it is our hope that we can continue to vote Conservative in future. To do so needs some signs of flexibility from the present Administration.

Yours faithfully,
D. Lawrence Morris

1212

FROM: D WISEMAN
DATE: 11 APRIL 1986

Asn 11/4

1. MR MURRAY
2. MCU
3. FINANCIAL SECRETARY

cc ~~PS/Chancellor~~
~~PS/CST~~
PS/IR
Mr A Walker IR
PS/C&E
Mr J Bone/C&E

DRAFT REPLY TO SIR ANTHONY KERSHAW MC MP

28

I attach a draft reply to the representation.

D WISEMAN

Sir Anthony Kershaw MC MP
House of Commons
LONDON
SW1A 0AA

11APRIL 1986

Thank you for your letter of 26 February on behalf of Mr D J Wade of Randwick, Stroud, Gloucestershire, about taxation. I am sorry for the delay in replying; I am now able to offer a substantive reply.

The Government recognises the disincentive effects of taxation, and in particular the fact that the level at which people start to pay income tax is still too low. We are committed to reducing taxes further. Since 1979 personal allowances have been increased by 22% in real terms and the basic rate of tax has been reduced from 33 pence to 29 pence; the real take-home pay of a person on average earnings has gone up over 17 per cent over the period.

Following the March Budget measures, a married man earning £200 per week stands to gain £2.45 per week as a result of the change in personal allowances and the reduction in the basic rate of tax. If we can continue to keep public expenditure under control, there should be scope for further tax cuts in the future; in his Budget speech Nigel Lawson reaffirmed our long term objective of reducing the basic rate to no more than 25%.

JOHN MOORE

From: SIR ANTHONY KERSHAW, M.C., M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

26th February, 1986.

Dear John,

I have a letter from a constituent, Mr. D.J. Wade, of Randwick, Stroud, who has sent me a most careful calculation of the taxation he pays.

He has a gross salary of £9,055 a year, on which he pays direct tax of £2,756 and indirect tax, that is to say petrol tax, car tax, telephone and VAT, of £790.24p. // IT+NIC.

This means that out of a gross income of £9,055 he pays £3,546.24p tax, i.e. about £140 a week - almost in the poverty trap. I know that you will do what you can.

435 BR
PROV

- SURY - MCO	
- 4 MAR 1986	
PP	PP
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Yours ever,
Anthony

The Rt. Hon. John Moore, M.P.,
Financial Secretary,
Treasury,
Parliament Street,
LONDON, S.W. 1.