PO-CH/NL/0050

PART A

CONFIDENTIAL

PO -CH /NL/0050

PART A

1986 BUDGET FINANCE BILL

DD's 25 years 27-01-95 NAS.

PO -CH /NL/0050 PART A

STARTS:- 9-10-85
ENDS:- 25-03-86

CLOSED

CONTINUED ON:-

PART B

Finance Budget 1986.

Bill

Sorted

PTA

CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House

1. PM
2. B/f with FST's response

FROM: M F CAYLEY
DATE: 9 October 1985

FINANCIAL SECRETARY

TAX TREATMENT OF PENSIONS PAID TO VICTIMS OF NAZI PERSECUTION: BUDGET STARTER 115

1. You will recall that, following representations by Sir William Clark MP earlier this year, the Chancellor asked that the 1986 Budget Starters should include increasing to 100 per cent the relief available to these special pensions under Section 22(2) of the Finance Act 1974. Copies of the exchanges on this subject are attached for reference.

2. The purpose of this note is to ask whether Ministers definitely wish to proceed with this item. The revenue cost should be no more than £1m, and the length of legislation only a few lines. There is no staff cost.

3. Other pensions with an overseas source currently enjoy a deduction of 10 per cent by virtue of subsections 1 and 3 of Section 22. Consideration was given to withdrawal of that relief

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c Chancellor
Chief Secretary
Economic Secretary
Minister of State
Mr Monger
Miss Sinclair
Mr Cropper
Mr Lord
Mr Graham (Parliamentary Counsel)
Mr Battishill
Mr Taylor Thompson
Mr Cayley
Mr Cook
PS/IR

as a logical concomitant to the removal in the 1984 Finance Act of the 25 per cent deduction for foreign earnings and profits of an overseas trade, but Ministers ultimately decided not to proceed. Increasing the relief for the special pensions may conceivably stimulate pressure for an increase in the deduction available to ordinary overseas pensions, but it should not be too difficult to distinguish the Nazi persecution pensions by reference to their very special nature.

4. I would be grateful to know if you wish us to instruct Parliamentary Counsel to include this provision in the 1986 Finance Bill.

Michael Cayley

M F CAYLEY

CONFIDENTIAL

FROM: P WYNN OWEN
DATE: 10 June 1985

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monger
Miss Sinclair
Mr Pratt
PS/IR
Mr Cayley - IR
Mr W H Mason - IR

TAX TREATMENT OF PENSIONS PAID TO VICTIMS OF NAZI PERSECUTION

The Chancellor has seen Mr Mason's minute of 6 June and sent the suggested draft letter to Sir William Clark MP (copy attached).

2. He would be grateful if the Financial Secretary could make this concession a 1986 Budget Starter.

P WYNN OWEN

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

10 June 1985

Sir William Clark MP

Thank you for your letter of 2 May about the tax treatment of pensions paid to victims of Nazi persecution. I am sorry that it has taken so long to reply.

The pensions I think you have in mind are broadly public service and social security pensions paid under special provisions of German and Austrian law and which have been increased to take account of the fact that the pensioner was deprived of qualifying service or contributions because of persecution or flight from persecution. The German and Austrian Governments deem the recipients to have continued in service or to have made notional social security contributions during the periods when they were actually prevented from doing so. As I understand the position, the purpose behind this legislation is to restore to the recipient the pension he might have expected to receive if he had been able to stay in his country of origin or until he had had time to reintegrate himself in comparative economic conditions in his new country of residence.

The 50 per cent relief in respect of these pensions was introduced in the Finance Act 1974, on compassionate grounds, in recognition of the very special circumstances under which the pensions are payable. In the majority of cases the level of such relief would I believe cover that part of the pension attributable to the deemed contribution. The Government has of course every sympathy with the victims of Nazi persecution and fully supports the decision to introduce the relief. But I consider the present level of relief to be fair and reasonable given the broad philosophy of our tax system that persons resident here are liable to tax on all of their income, including pensions, wherever it arises. To increase the level of relief

would be to further the advantage which recipients of these pensions already enjoy over other United Kingdom resident pensioners who are taxed on the full amount of their retirement pensions. This would be difficult to justify notwithstanding the tax treatment of these pensions in other countries which may in any event reflect fundamental differences between the respective tax systems of these countries and the United Kingdom.

I should mention also that there are some pensions which are wholly exempted from tax under United Kingdom law; Section 377 Income and Corporation Taxes Act 1970 exempts annuities paid by the German Government as compensation for injury, the death of a near relative or the loss of property resulting from Nazi persecution. The amounts of these payments were computed by the German Government on the basis that tax would not be payable either in Germany or elsewhere and, in order not to frustrate the German tax exemption, a parallel relief was introduced in this country in 1961.

NIGEL LAWSON

INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

FROM: W H MASON
DATE: 6 JUNE 1985

1. MR M F CAYLEY
2. PS/CHANCELLOR

TAX TREATMENT OF PENSIONS PAID TO VICTIMS OF NAZI PERSECUTION

1. Your note of 29 May asked what the cost would be of increasing the 50 per cent relief available under Section 22(2) Finance Act 1974, to recipients of these pensions to 100 per cent.

2. No details of the cost of the present relief are available but we believe it to be about £1 million in a full tax year. Total exemption would therefore probably cost in the region of a further £1 million. [The number of pensioners affected is reckoned to be less than 5000]. Although it must be stressed that the costing is nothing more than an educated guess, the Association of Jewish Refugees in Great Britain ~~is~~ making its 1985 Budget Representation on this subject, estimated the amount of tax involved to be less than £1 million.

3. The revised draft reply to Sir William Clark's letter, attached, reflects the line taken in response to the annual representations by the Association and numerous letters from pensioners since the 50 per cent relief was introduced in 1974.

W H MASON

c PS/Financial Secretary
Mr Monger
Mr R I G Allen
Miss Page
Mr Cropper

Mr Mason
PS/IR

6.9

CONFIDENTIAL

FROM: P WYNN OWEN
DATE: 29 May 1985

cc PS/Financial Secretary
Mr Monger
Mr R I G Allen
Miss Page
Mr Cropper

PS/INLAND REVENUE

TAX TREATMENT OF PENSIONS PAID TO VICTIMS OF NAZI PERSECUTION

The Chancellor has declined to sign the attached letter to Sir William Clark MP, responding to Sir William's letter of 2 May. Before he writes he would like to know what the cost of making this concession would be.

P WYNN OWEN

SIR WILLIAM CLARK, M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA

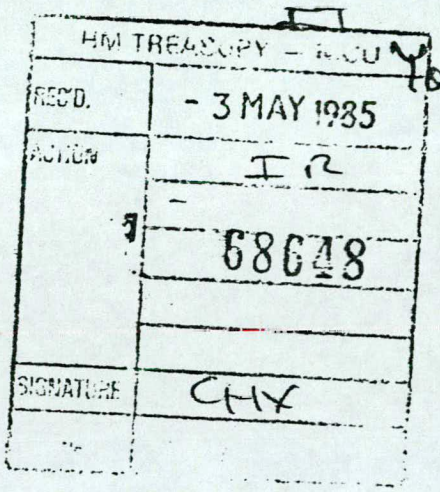
2nd May 1985

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

Dear Nigel.

As you know pensions received by persons who suffered Nazi persecution are relieved from tax on 50% of the pension.

I understand all other EEC countries give tax relief on 100% and I would be grateful if you could agree that this country should follow suit.



Yours ever

William

2150/19

CONFIDENTIAL

1. PMT
2. RJP

FINANCIAL SECRETARY TO THE TREASURY

FROM: N WILLIAMS
DATE: 14 October 1985

M F CAYLEY IR

cc Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Monger
Miss Sinclair
Mr Cropper
Mr Lord
Mr Graham Parliamentary Counsel
PS/IR

TAX TREATMENT OF PENSIONS PAID TO VICTIMS OF NAZI PERSECUTION: BUDGET STARTER 115

1. The Financial Secretary was grateful for your minute of 9 October.

2. The Financial Secretary is content for you to instruct Parliamentary Counsel to include this provision in the 1986 Finance Bill.

N Williams

NIGEL WILLIAMS
(Assistant Private Secretary)

CONFIDENTIAL

19/CX

RWP

NOTE OF A MEETING ON 7 NOVEMBER IN HM TREASURY TO DISCUSS BUDGET STARTERS 109, 118, 119, 135, 102, 108, 133, 134, 101 and 132

Present: Mr Isaac
Mr Blythe
Mr Farmer
Mr Mace
Mr Prescott
Mr Monger
Miss Sinclair
Mr Cropper

1. 109: Taxation of Social Security Benefits

This starter was needed in order to maintain the present tax position for supplementary benefit when this was replaced by income support under Mr Fowler's proposals. The Financial Secretary asked for further consideration to be given to including this point in the Social Security Bill. On the one hand the change was a basic tax change and ought to be in a Finance Bill. On the other hand, including it in the Finance Bill would lead to a debate on the Social security changes in that context.

2. 118: Employee Shares Schemes: Use of Restricted Shares

The Financial Secretary said that this was a definite starter of the need for which everyone was convinced.

Mr Farmer confirmed that the cost in a full year would now probably be up to £5m rather than up to £10m. The possible 3 pages of legislation include all the tidying-up. The Financial Secretary asked officials if they could work at reducing the length of this.

3. 119: Employee Share Schemes: Access for Certain Companies

Mr Farmer was not hopeful that the Revenue's recommendations would be very attractive, though an easing of the 'majority test' would help the NFC.

He said that the Save & Prosper latest proposals still appeared to benefit only that one company.

The Financial Secretary said that many of those companies who had non-employee share schemes prior to 1978

were not benefitting from the tax relief since they had not tailored their schemes to this end. In particular he was keen to do something in this area. He asked officials to investigate the employee share trusts problem (an example of which was CMG which he had visited recently).

4. 135: Employee Share Schemes: Extension of Employees' Rights Under Savings-Related Share Option Schemes

Mr Farmer said that there were two changes here. The first eased the circumstances where a participant company left the group. This would, for example, help Comp Air.

The Financial Secretary commented that 118, 119 and 135 formed a good package, and should be promoted as such in the context of a Finance Bill which would be generally aimed at furthering wider share-ownership.

5. 102: Cars; Car and Fuel Benefit Uprating and Related Breakpoints

Mr Prescott said that there were three linked areas here, namely;

(i) the scale of charges;
(ii) the level of the breakpoints
(iii) separate diesel scales.

A submission would be made before the end of November.

Mr Prescott said that on (i) and (ii) there would be many who would claim to be losers both on basis of the increased tax involved and because the movement of break-points would be seen as costing people money.

A change in the breakpoints as demanded by the SMMT would help Perkins and would succeed in removing the disadvantages that diesel cars currently suffer, and so there would be no need for separate scales.

The Financial Secretary stressed the need to handle this whole area with care and emphasise the positive features.

Mr Isaac mentioned a possible conflict with Starter 101 (Income Tax thresholds and rates) in that this would benefit the higher paid.

Officials agreed to look further at this whole question.

6. 108: Boarding School Allowances and Detached Duty Allowances

The Financial Secretary pointed out that the change would be very politically sensitive and so it could not be hidden away in statutory instruments.

7. 133: Benefits in Kind: Threshold

Mr Isaac said that the arguments for raising the threshold related to two areas; namely staff costs and the burden on businesses.

The Financial Secretary said that he was very concerned on sticking to the basic principle involved and getting others to understand this.

To ease the burden on businesses, Mr Prescott said that it was planned to scrap the P11D(A) and simplify the P11(D). The AIB were to be involved in consultations on this.

Mr Isaac said that form simplification could be very effective in this case and as the Financial Secretary remarked a properly designed form would also be of use to companies internally.

Mr Prescott confirmed that the rate of increase in the number of taxpayers was declining as the vast majority of people were now covered.

8. 134: Relief for Overseas Travel Expenses

Following the meeting held on 2 October, and the subject to the Revenue deciding on the time limit question, a note would be sent to the Chancellor based on the summary of the minutes of 2 October meeting. This issue was nearly settled.

The Financial Secretary asked officials to concentrate on reducing the length of legislation as much as possible.

9. 101: Income Tax: Thresholds and Rates

It was agreed that this could not be discussed in the context of a Starters meeting.

10. 132: Tax Relief for Wages for Domestic Employees and Others

(Full record of this discussion in Vivien Life's minute of 13 November.)

The Financial Secretary asked for further work to be done on this Starter, which he wished to see pursued.

11. **SUMMARY**

Dropped; None

Still under consideration; 109, 102, 108, 133, 132

Serious candidates; 118, 119, 135 (These three taken as a package),

134, 101

NIGEL WILLIAMS

cc Those present
PS/Chancellor
PS/Chief Secretary
PS/Minister of State
PS/Economic Secretary
Sir Peter Middleton
Mr Cassell
Mr Scholar
Mr Lord
Mr Murray
Mr MacKenzie
Mr Isaac IR
Mr Painter IR
Mr Ridley IR
Mr Graham OPC
PS/IR

CONFIDENTIAL

Inland Revenue

From: E McGIVERN
Policy Division
Somerset House

15 November 1985

1. MR TAYLOR THOMPSON
2. FINANCIAL SECRETARY

BUDGET STARTER NO.126: DOUBLE TAXATION RELIEF: COMPANY MERGERS

Point at issue

1. Briefly the point is that where a UK company controls at least 10% of the voting power of an overseas company and receives a dividend from it, double taxation relief in the UK is normally available in respect of foreign tax on the profits out of which the dividend is paid. However, relief is not available where the company which made the profits and paid the tax on them merges with another company and ceases to exist before the dividend is paid up to the UK parent.

2. The reason for this is that Section 506(1) ICTA 1970 requires that for relief to be allowed for this "underlying tax" the foreig tax to be taken into account "shall be so much of the foreign tax borne on the relevant profits by the body corporate paying the dividend .....". Sections 508(2) and (3) extend the relief for underlying tax to take account of foreign tax paid on the profits of other related overseas companies which have paid dividends up to the first foreign company.

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cc Chancellor of the Exchequer
Chief Secretary
Minister of State (Revenue)
Economic Secretary
Mr Monger
Miss Sinclair
Mr Cropper
Mr Lord
Mr Graham (Parliamentary Counsel)
Mr Battishill
Mr Taylor Thompson
Mr Painter
Mr Cayley
Mr McGivern
Mr P Hall (Sol)
Mr J F Hall
Mr Hunter
Mr Critchley
Mr Sharp
PS/IR

3. In other words, the central requirement is that the foreign tax on the relevant profits must have been paid either by the company which paid the dividend to the UK company, or by a related company further down the chain which has paid a dividend up through the group. Thus, this test cannot be satisfied where, following a merger, the dividend is paid out of pre-merger profits by a new company or by an existing company which absorbs the company which paid the tax on the profits out of which the dividend was declared.

4. If the company reorganisation had come about by way of a take-over and the dividends were paid up the line whilst all the companies continued to exist, then full relief for underlying tax would have been given in the normal way.

Representations

5. The point has been raised from time to time with us; and both this year and last Sir William Clark took the matter up with you. A copy of our note of 24 September and your reply to Sir William is attached.

6. The CBI have also included the matter in this year's Budget representations. They make the point that the profits out of which the overseas dividends have been paid will certainly have suffered tax (although not by the company paying the dividend) and that should be sufficient to give credit for the underlying tax on the dividend. We expect the International Chambers of Commerce will also press for relief to be allowed.

Number of cases

7. We have only seen about a dozen or so cases over the last 25 years. However, this might be the tip of the iceberg as companies, knowing the view we take of the legislation, may not in fact be submitting claims or asking for concessions. In

addition, the number of foreign countries which adopt a method of accountancy which permits the payment of dividends out of pre-merger profits is increasing and it is possible therefore that the number of cases may increase over the years.

8. At present we know of two large cases which are still open with us. Unless the legislation were made retrospective, they would not of course benefit.

Cost of relief

9. It is difficult to put a precise figure on the cost but on past experience, it would probably be of the order of £m1 per year.

Other considerations

- Length of legislation

10. Our initial assessment was that the amending legislation would probably take no more than a few lines in the Bill, but as we have done further work on the matter, we have identified important consequential changes which would have to be made and, although we have not discussed this with Mr Graham, we believe they could well take up 2 or 3 pages. These changes would be to last year's legislation on Controlled Foreign Companies. First, the rules governing double taxation relief where dividends are subsequently paid out of profits which have been subjected to the CFC charge (Sch 18) would need to be amended to ensure that "CFC tax" continues to be relieved in the same way as foreign tax. These amendments would be of relatively minor detail but would re-open some of the debates last year. Second - and more difficult - thought would have to be given to what should be done about the rules governing profits available for distribution to satisfy the acceptable distribution test. If the "mergers" changes applied also for Schedule 17, major anomalies would result, sometimes in favour of the taxpayer and sometimes against. One possibility would be not to extend the "mergers"

changes to the Schedule. Whatever were done on this, the result would inevitably be controversial - and again revive opposition to the CFC legislation.

- Other double taxation issues

11. This is just one of a number of difficult problems in a rather messy and unsatisfactory part of the United Kingdom's tax credit provisions relating to relief for underlying tax. Some of these are dealt with by practices which, though unpublished, are well-known to the companies affected; and others (relating eg to the special position of insurance companies) are dealt with by published extra-statutory concession. The merger problem is seen as a candidate for legislation because, unlike the practices referred to, it could not be resolved by a generous interpretation of Section 506 and its potential application goes a good deal wider than the limited areas covered by the concessions. If the opportunity of legislation to deal with mergers were taken to put all these issues on a statutory footing, our judgment is that the legislation could be fairly tricky and would probably run to 2 or 3 pages in addition to those required to deal with mergers.

12. Moreover, any legislation on these relatively minor matters would almost certainly encourage the representative bodies to increase their pressure for a much more major change which they hav ebeen seeking for a number of years now to the system of tax credit relief, ie the introduction of the American "pooling" or averaging arrangements which would significantly increase the cost to the UK Exchequer of giving relief for foreign tax.

13. There are very strong arguments against such a change - particularly if the USA stands firm with its proposals to move to a system which is closer to our own - but legislation on mergers might well be a peg on which to hang amendments or debates on "pooling" during the passage of the Bill.

Recommendation

14. In principle relief should be available in respect of dividends paid out of pre-merger profits whether or not the company paying the dividend also paid the tax on the underlying profits. But the thought of opening up the CFC legislation to debate as a result of the consequential amendments required is unattractive and we feel that the balance of argument is now against legislation in next year's Finance Bill. We are doubtful whether it would be a suitable candidate for a concession (for the reason given in para 11 above), but, if Ministers agree that legislation would be inadvisable but that there is a case for relief on the merits, we shall examine this possibility further.

Harris

for E McGIVERN

Inland Revenue

From: E McGIVERN
Policy Division
Somerset House
24 September 1985

P5/78/84

FINANCIAL SECRETARY

DOUBLE TAXATION RELIEF: UNDERLYING TAX
SIR WILLIAM CLARK'S LETTER OF 27 AUGUST

In his letter to you last year Sir William Clark suggested that we were not applying the rules for giving double taxation relief consistently between the situation where two companies merged and that where one company acquired the other. In your reply you acknowledged that a distinction was made and said that a review was being undertaken to see whether the distinction remained valid. A copy of the papers is attached.

The work on this was held up pending the outcome of the comprehensive review on the Taxation of International Business but has now been completed. There is no doubt that, as the law stands, we cannot give relief in the circumstances in point here, but we believe there is a case for doing so and are therefore including this as a possible Starter for 1986.

The CBI raised the point with us recently and we understand they will be including it, and a related issue, in their technical representations on next year's Finance Bill.

The problem here is only one of several in this area of double taxation relief and we suggest you might not want to commit yourself until you have seen the Starters List.

A draft reply to Sir William is attached.

E McGIVERN

FINANCIAL SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Sir William Clark MP

Ref. 25.

Dear Bill.

Thank you for your letter of 27 August about the availability of double taxation relief for underlying tax on dividends in circumstances where two companies merge.

The Inland Revenue have completed their review and have asked me to apologise that you were not told the outcome earlier. The review has confirmed that the Revenue's application of the provisions of Sections 506 and 508 of the Taxes Act 1970 correctly interprets the law. This means that, as the law now stands, relief cannot be given where the company which paid the foreign tax (on profits out of which a dividend is subsequently paid) merges with another company and ceases to exist before the dividend is paid by the merged company.

I understand that the CBI intend raising this matter in their technical representations on next year's Finance Bill. I shall of course consider very carefully what they have to say and will also bear in mind the points you have raised.

I am sure you will understand that I cannot say more than this at present.

Yours ever,

JOHN MOORE

CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House

From: M J G ELLIOTT
Date: 15 November 1985

1. MR BEIGHTON ✓

2. FINANCIAL SECRETARY

The figures in this note seem to bear out your initial feeling at last week's meeting that there may not be much mileage in this starter.
JHB 15/11

FINANCE BILL: STARTER 150: SCHEDULE A

1. You agreed (Ms Life's note to me of 4 October) to wait for the information promised in my note of 1 October before considering further the proposal that a landlord might be able to claim a fixed deduction against tax, or one based on a percentage of gross rental income, whichever is the greater, to replace the existing itemised deductions for individual items of his allowable expenditure. (He would still be able to claim actual expenses if he wanted). I am sorry, as I said at your starters meeting last week, that we have not been able to produce the necessary figures as quickly as we had hoped.

2. I now attach a table of figures showing the costs, and numbers of taxpayers affected, for three levels of fixed allowance. These levels are the ones you suggested earlier (Ms Life's note to Mr Monger of 25 September) except that we have taken £500 rather than £5,000, because for reasons I explain below the cost would be higher than we previously thought and it seemed preferable to take a lower figure for illustrative purposes.

---

cc. Chancellor
Chief Secretary
Minister of State
Economic Secretary
Mr Monger
Mr Haigh
Mr Stredder
Mr Cropper
Mr Graham (Parliamentary Counsel)
Ms Sinclair

Mr Battishill
Mr Beighton
Mr Cherry
Mr Lawrance
Mr Parker
Mr Dearman
Mr Elliott
PS/IR

3. For each of the three levels of fixed allowance, we have assumed that the alternative fixed proportion deduction is 15 per cent of gross rental income. On the basis of the further survey we have carried out our best estimate of actual average expenses is in fact 30 per cent of gross rents (there is wide fluctuation around that figure). But we have halved that percentage for the purpose of illustration because for the large number of landlords who receive only a small amount of rental income the fixed allowance alone would reduce their net rental income to nil. So to make a fixed proportion deduction of as much as 30 per cent available would simply add to the costs of the proposal (to the benefit of larger landlords) without doing much - if anything - to reduce smaller landlords' compliance burdens.

4. The figures in the table (which relate to both furnished and unfurnished lets) show that, with a fixed allowance of £500 roughly one-third of landlords would have their income from letting reduced to nil; we estimate the cost at £20m. With a fixed allowance of £2,500, some three-quarters of landlords would have their letting income reduced to nil, at an estimated cost of £95m. These figures of cost - which although firmer than those I gave earlier must inevitably still be regarded as fairly tentative - are higher than the earlier figures for three reasons. First, as I have said, we are now working on estimated average expenses of 30 per cent not 50 per cent. Second, we are now allowing in the figuring for the possibility that, except where the actual expenses were greater, a landlord could claim either a flat rate or a proportionate deduction if he wanted to - we assumed last time round that the deduction would be 50 per cent in all cases where the actual expenses were not claimed. Finally, the figures now take Case VI (furnished) income into account as well as Schedule A (unfurnished).

5. The conclusion we draw from these figures is that with a flat rate allowance of £500 (cost £20m) it could not be said that any worthwhile compliance benefit had been secured. To overcome that difficulty, we would need to pitch the allowance at one of the higher levels, and apart from the problems I

discussed in my earlier note that would seem to be very expensive.

6. It seems to us, therefore, that this does not look a very promising Finance Bill candidate. We should be grateful to know whether you would like any further work done on it (for example, we have not yet attempted to assess the staffing impact).

7. One final point: you asked (Ms Life's note to me of 4 October) about the position in respect of bedding and furniture for the landlord with Case VI (furnished letting) income. There is no relief against tax for the initial cost of buying these items, for that is capital expenditure; subsequently we allow either a deduction for the actual cost of renewing these items, or an annual wear and tear allowance calculated at 10 per cent of rent less rates.

M J G ELLIOTT

OPTION		COST OF OPTION £m	NUMBERS AFFECTED BY OPTION (Thousands)				NUMBERS UNAFFECTED BY OPTION	
			NET INCOME FROM LETTINGS REDUCED TO NIL		NET INCOME FROM LETTINGS REDUCED BUT NOT TO NIL			
FIXED AMOUNT	FIXED PROPORTION		TAXPAYERS	NOT TAXPAYERS	TAXPAYERS	NOT TAXPAYERS	TAXPAYERS	NOT TAXPAYERS
£ 500	15%	20	150	15	140	10	150	5
£1,000	15%	40	220	25	135	5	85	*
£2,500	15%	95	350	30	80	*	30	*

*Probably under 2,500

2155/60

CONFIDENTIAL

Ch
What the FST proposes here looks a sensible package. In particular, it seems right to rule out the additional measure in para. 3 on cost grounds — despite the presentational worries in para. 4. FST's proposals on handling (para. 5) also seem right. Content for him to proceed on this basis?

AWK
26/11

Content. Does this mean no X Jour? Just please?

FROM: N WILLIAMS
DATE: 25 NOVEMBER 1985

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Monger
Miss Sinclair
Mr Graham OPC
Mr Lord
Mr Cropper
Mr Blythe IR
Mr Prescott IR
PS/IR

RELIEF FOR OVERSEAS TRAVEL EXPENSES
(FINANCE BILL STARTER 134)

1. The Financial Secretary has now looked exhaustively at this subject with the aim of finding a minimal package of changes and one which would be cheaper than a package incorporating all of the possible relaxations mooted in last January's Consultative Document. Briefly, the Financial Secretary now proposes a package comprising the following main elements.

(a) Britons working abroad (employees)

(i) allow (taxfree in hands of employee) cost of all return journeys to UK by employee - for whatever purpose - paid for by employer. (Broadly, apart from business visits, at present only first and last journeys allowed, and two other visits a year home where absence abroad is for 60 days or more).

(ii) No change as regards visits by family to employee whilst abroad - two return visits a year provided employee aborad for 60 days or more.

(b) Foreigners working in the UK

(i) By concession, travel reliefs here mirror those for Britons working abroad. This to be put on statutory basis, with comparable extension of relief as at (i) above.

also

(ii) Extend these travel reliefs to foreigners working in UK for resident employers, and not just those working for non-resident employers as at present.

BUT

All this subject to a new rule limiting availability of reliefs to a period of 5 years, commencing with the date employee arrives in UK to take up his employment, and provided he has not been resident in UK for preceeding two years.

(c) British self-employed with business wholly abroad

All reliefs for travelling and board and lodgings available to UK employees working abroad to be extended to this self-employeed group.

(d) Seafarers

(i) Foreign-going seafarers to be included in all the new rules for Britons working abroad. This will give them some extra relief to that currently enjoyed through unpublished concession.

(ii) Inshore seafarers to retain the benefit of the existing reliefs for home to UK port travel. (But what is now an unpublished concession will be published.)

COST

2. The cost of this package in a normal year will be £5m. But for the first year - 1986/87 - it will be about £10m because of our undertaking to backdate any improvements to 6 April 1984. (Where we are introducing new restrictions, these will operate from 6 April 1986). Staff costs are estimated to be 10-20 extra units.

ALTERNATIVE PROPOSALS

3. This "minimalist" package means jettisoning the proposals mooted in the Consultative Document for extra board and lodging relief for foreigners working in the UK. This would have brought the total cost up to as much as £20m in a normal year - £40m in the first, catching-up year.

4. While the package the Financial Secretary now proposes will be welcomed by some, therefore, it will also disappoint the lobby representing foreigners in the UK (eg the American Chamber of Commerce) who have been pressing vigorously for action on board and lodging. The fact that we floated proposals on this in the Consultative Document will exacerbate matters. Careful thought will therefore need to be given to presentation, and in particular to highlighting the extra travel reliefs for foreigners working in the UK that will be available in the package we now propose.

LEGISLATION

5. The Financial Secretary sees no need for further consultation eg publication of draft clauses; indeed this might only provoke the overseas lobby to press for more. He proposes therefore, that there should simply be a brief announcement in the Budget of what we propose, with publication in the Finance Bill in the

normal way. The aim will be to keep the legislation as short as possible - though they still need to consult Parliamentary Counsel, the Revenue estimate it will at most require two printed pages, some of which can probably be in a schedule.

NEXT STEPS

6. If the Chancellor is content, the Financial Secretary proposes that the Revenue should now prepare instructions for Parliamentary Counsel.

N Williams

NIGEL WILLIAMS
(Assistant Private Secretary)

CONFIDENTIAL

NOTE OF A MEETING ON THURSDAY 21 NOVEMBER IN HM TREASURY TO DISCUSS BUDGET STARTERS Nos 104, 105, 123, 142, 143, 160, 122, 140, 141

Present: Mr Isaac
Mr Houghton
Mr Battersby
Mr Bryce
Mr Thompson
Miss Sinclair
Mr Cropper
Mr Haigh

1. 104: CAPITAL TRANSFER TAX: THRESHOLD AND RATE BAND CHANGES

The Financial Secretary had read Mr Houghton's minute of 15 November. As recorded in Mr Williams' minute of 19 November he found option 3 the most attractive. This starter looked unlikely, but if it were pursued then it should be on the basis of option 3 in Mr Houghton's paper.

2. 105: CAPITAL GAINS TAX: ANNUAL EXEMPT AMOUNT

The Financial Secretary commented that he was still awaiting advice on the idea of moving to a disposals basis for the CGT exempt amount.

3. 123: CAPITAL GAINS TAX: RELIEF OF VENTURE CAPITAL COMPANIES

Mr Bryce reported that the Revenue were still waiting for the BVCA to come back with further information. It looked as if the BVCA were no longer particularly pressing for this. Mr Cropper was asked to confirm with Mr Cooksey that this was the position. If it were, then this Starter could be dropped. But any such move would require careful handling with DTI etc.

4. 142: CAPITAL GAINS TAX: SHARES EXCHANGED FOR DEBENTURES

Mr Bryce explained that there was a growing practice for short dated redeemable debentures to be offered with a view to making available a tax advantage to shareholders. There were

very good tax arguments for taking steps to prevent this. But equally there were very reasonable commercial arguments for companies to act in this way, so it could not be argued that it was simply a tax avoidance device. A note on this Starter would come forward shortly. But it was clearly a difficult issue.

5. 143: CAPITAL GAINS TAX: FUTURES AND TRADE ADOPTIONS IN GILTS

It had become clear that once gilts and qualifying corporate bonds were exempted from CGT a new asymmetry could arise in futures and traded options in these instruments. As had been decided for gilts and qualifying corporate bonds, the solution here seemed to be to exempt futures and traded options from CGT. LIFFE and the Stock Exchange were both in favour. The Financial Secretary commented that this looked very straightforward, but the Economic Secretary should also be involved.

6. 160: CGT: RELIEF ON DISINCORPORATION

The Financial Secretary had asked for this Starter, which had originally been discarded, to be reinstated because it appeared on the CBI Budget Rep. It was pointed out that items of this sort sometimes appeared on various Budget Reps year after year, long after the bodies concerned had ceased to really think through whether they wanted them.

The Financial Secretary therefore asked officials to establish exactly how much pressure there was for this change.

7. 122: CGT RELIEFS FOR EMPLOYEE OWNERSHIP

Mr Thompson explained that this change was aimed at making it easier for shares in a company to be transferred to an employee trust.

The Financial Secretary said that he found it attractive because it fitted in with the overall wider share ownership slant which he was hoping to achieve in this year's Finance Bill. He said that he would find it very difficult to argue against making such a change. His only slight concern was the length of the proposed legislation.

8. 140: CGT: DUAL RESIDENCE TRUSTS

The Financial Secretary asked why it was necessary to propose legislation in this area: could the situation not be resolved by pushing hard to amend our double taxation agreements? Mr Houghton pointed out that our ultimate weapon, to abrogate, on the Treaty, might not necessarily be to our long-term benefit. This meant that we might wish to be more circumspect in our negotiating position.

The Financial Secretary agreed that it was necessary to prevent this CGT avoidance route. He wondered whether it would be possible to act sooner than the Finance Bill. It might otherwise prove difficult to explain in Committee why the abuse had been allowed to go on for so long, with its consequent loss of revenue. He awaited further advice.

9. 141: CGT AND MAINTENANCE FUNDS

The Financial Secretary asked whether this might be a useful heritage lollipop. Mr Isaac said that he was not attracted to the proposal. There was no reason to link the value of an asset in a fund to the length of a person's life. Mr Cropper said that he also saw no logic in it.

The Financial Secretary said that he still felt that this was a strong runner. He would await further advice from officials however before suggesting it to the Chancellor.

10. **GENERAL POINTS**

The Financial Secretary said that cost would be a particular constraint in the capital taxes area since this would not be a capital taxes oriented Budget.

11. **SUMMARY**

Starters dropped: None

Starters likely to be dropped: 104, 123, 160

Still under consideration: 105, 142

Likely runners: 143, 122, 140, 141.

VIVIEN LIFE

cc Those present
PS/Chancellor
PS/CST
PS/MST
PS/EST
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Lord
Mr Murray
Mr MacKenzie
Mr Isaac IR
Mr Painter IR
Mr Ridley IR
Mr Graham OPC
PS/IR

CONFIDENTIAL

NOTES OF A MEETING ON 26 NOVEMBER IN HM TREASURY TO DISCUSS BUDGET STARTERS 118, 119 and 135

Present: Mr Farmer
Miss Green
Mr Peel
Mr Monger
Miss Sinclair
Mr Cropper

This meeting discussed the three submissions dated 18 November on these Starters.

118: EMPLOYEE SHARE SCHEMES: USE OF RESTRICTED SHARES

1. The Financial Secretary asked how the problem in paragraph 16 of Mr Farmer's submission (that the employee could be faced with an income tax charge on a percentage of his sale proceeds) could be overcome. Mr Farmer said that the best option was to put this in the form of a statute to protect the employee's rights. Mr Monger wondered if the recommendations were not running contrary to the wider share-ownership line.

2. The Financial Secretary pointed out that there was widespread support for these measures but agreed that presentation was very important.

3. The Financial Secretary asked (para 24) what the mechanism would be for requiring the sale price to be the open market value at the time and Mr Farmer said the Revenue would report back on this.

4. Mr Farmer said that two of the loopholes that the Revenue proposed to close related to Section 79 FA 1972. The Financial Secretary asked Mr Cropper to take a look at these and said that he hoped they could be put in a different section of the Bill so that they did not detract from the positive nature of the wider share ownership parts.

119: EMPLOYEE SHARE SCHEMES: ACCESS FOR CERTAIN COMPANIES

5. Discussion centred around the Save & Prosper proposals. The length of the required legislation and the fact that the proposals still only encompassed Save & Prosper militated against proceeding.

6. Only unquoted subsidiaries of unquoted companies were left as a problem but Save & Prosper was only 60% owned by its parent company.

7. The Financial Secretary concluded that it was difficult to go ahead although he was very sympathetic to Save & Prosper, but he said he would like to send a note to the Chancellor explaining the basic reasons for not proceeding. The Revenue agreed to provide a list of the companies affected to include in this.

135: EMPLOYEE SHARE SCHEMES: EXTENSION OF EMPLOYEES' RIGHTS UNDER SAVINGS-RELATED SHARE OPTION SCHEMES

8. Mr Farmer said that the £100 ceiling on monthly contributions (paragraph 21 of Miss Green's submission) would be retained but individuals could participate in more than one scheme. He said that there had been little pressure in the area of takeovers.

GENERAL

Mr Farmer commented that most of the interest being shown on these issues was on pre-emption and all the interest was positive.

N Williams

NIGEL WILLIAMS

cc. Those present
PS/Chancellor
PS/CST
PS/MST
PS/EST
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Lord
Mr Murray
Mr Isaac IR
Mr Blythe IR
Mr Painter IR
Mr Ridley IR
Mr Graham OPC
PS/IR

2153/54

CONFIDENTIAL

FROM: N WILLIAMS
DATE: 29 November 1985

MR PRESCOTT IR

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Mr Cassell
Mr Monger
Miss Sinclair
Mr Graham OPC
Mr Lord
Mr Cropper
Mr Blythe IR
PS/IR

RELIEF FOR OVERSEAS TRAVEL EXPENSES

1. Mr Kuczys' minute of 27 November confirms that the Chancellor is content for the Revenue to prepare instructions for Parliamentary Counsel on the basis of the proposals contained in my minute of 25 November.

2. I would be grateful if you could forward a note dealing with the Chancellor's query in the second paragraph of Mr Kuczys' minute.

N Williams

NIGEL WILLIAMS
(Assistant Private Secretary)

CONFIDENTIAL

2155/43

CONFIDENTIAL

FROM: VIVIEN LIFE
DATE: 3 December 1985

MRS HUBBARD IR

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Cassell
Mr Robson
Miss Sinclair
Ms Leahy
Mr Cropper
Mr Wilson
Mr Graham OPC
Mr Pitts IR
PS/IR

BUDGET STARTER 154: DISPOSAL RECEIPTS IN EXEMPT GAS FIELDS

1. The Financial Secretary has read your minute of 21 November. In his view, the arguments for this starter still seem to be very thin. His inclination is therefore not to agree, even on a provisional basis, the introduction of legislation in 1986 Finance Bill.

2. If it were possible to delay any decision until it is clear what other oil starters are being pursued he would be prepared to do so. He would be grateful to know if such delay is possible.

VIVIEN LIFE

CONFIDENTIAL

Inland Revenue

CONFIDENTIAL

Policy Division
Somerset House

FROM MRS HUBBARD
DATE 3 DECEMBER 1985

FINANCIAL SECRETARY

BS 155: SECTION 111(7) FA 1981 "IN PURSUANCE OF A CONTRACT"

1. This note seeks your authority to remove this Budget Starter from the list, in the light of a favourable High Court judgement delivered on 29 November.

Background

2. As a contingency measure we included in our list of Budget Starters the possibility of having to amend Section 111(7), Finance Act 1981, which cut off uplift after payback, but protected expenditure up to the end of 1982 if it was incurred "in pursuance of" a pre-1/1/81 contract. The scope of this contract protection was the subject of an adverse decision by the Special Commissioners, and was under appeal in the High Court.

3. The High Court hearing was held in February this year, but the judgement was only delivered on 29 November. The Judge found in the Revenue's favour on all three arguments which were advanced. In layman's terms these were as follows:

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cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Cassell
Mr Robson
Miss Sinclair
Ms Leahy
Mr Cropper
Mr Wilson
Mr Graham -
Parliamentary Counsel
Mr Battishill
Mr Pollard
Mr Painter
Mr Pitts
Mr Elliss - OTO
Mr Gribbon - OTO
Mr Jasper - OTO
Mrs Hubbard
Miss Hill
Mr Cleave
Mr Pang
PS/IR

a) The licence or the development programme agreed by the Department of Energy could not be construed to be the "contract" envisaged by this provision. Otherwise that would make the provision almost meaningless in that virtually all expenditure could arguably be "in pursuance of a contract".

b) "In pursuance of" did not have a different and wider meaning than "under" a contract in this context.

c) The contract in pursuance of which the expenditure was incurred had to be the proximate cause of the expenditure and/or the contract under which the amount of the expenditure was ascertained and/or the contract under which the asset was brought into being. An earlier, more general, umbrella contract was not sufficient to afford the protection of S.111(7), Finance Act 1981.

4. The taxpayer (Mobil North Sea) have asked the Judge to certify that this was a case in which there should be an appeal direct to the House of Lords on the grounds that the issue is one of general public importance which was fully argued in the High Court and fully considered in the judgement, and which relates wholly or mainly to the construction of an enactment. Our Counsel consented to this application, and the Judge granted the certificate to Mobil who now have to apply to the House of Lords for leave.

5. We will probably know fairly soon whether they are successful in getting it accepted for a hearing in the House of Lords, but the hearing itself will almost certainly not take place before the middle of next year. We would of course hope that the High Court decision will be upheld, but, in any event, it is unlikely that this issue will be determined in time for it to be a possible starter for the 1986 Finance Bill.

6. We are therefore recommending that this item now be taken off the 1986 Budget Starters list.

C Hubbard

MRS C B HUBBARD

EXTRACT FROM FINANCIAL TIMES DATED 30 NOVEMBER 1985

Revenue wins appeal against oil tax ruling

F.T. 30/11/85

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

EXPENDITURE incurred by Mobil North Sea in its operations in the Beryl Field did not qualify under a provision reducing liability to petroleum revenue tax, the High Court held yesterday.

In a judgment that will affect other companies operating in the North Sea, Mr Justice Harman said the expenditure had not been incurred under a contract entered into before January 1, 1981, the cut-off date for tax-reducing supplements introduced by the 1981 Finance Act.

The judge allowed the Inland Revenue's appeal against a finding by tax commissioners in Mobil's favour.

It was agreed that, as a result, Mobil was liable to pay petrol revenue tax on £32.8m instead of £28.2m.

Recognising the importance of the case, the judge certified it fit to leapfrog the Court of Appeal and go on appeal direct to the House of Lords.

The judge said PRT was levied on oilfield receipts, calculated as the net cash flow to the field owners after deduction from the gross cash flow of the costs of establishing the field, plus a margin over the actual costs.

The supplement—in effect, a percentage increase on the costs incurred—had been introduced by the 1975 Oil Taxation Act to be added to the costs before a net cash flow was achieved.

The 1979 Finance (No 2) Act reduced the percentage from 75 per cent to 35 per cent; the 1981 Finance Act removed the supplement but provided in section 111(7) that "expenditure . . . which is incurred before January 1 1983 in pursuance of a contract entered into before January 1 1981" should not be disqualified from supplement.

The issue was whether about £45m paid by Mobil for "topside modules" was incurred "in pursuance of" a July 1979 contract under which Betchel Great Britain agreed to design and procure a drilling platform for Mobil; or in pursuance of contracts made by Betchel, as Mobil's agent, with three other companies in April, May and June 1981 for the modules; or under the licence granted to Mobil in 1972 to operate in the Beryl Field.

CONFIDENTIAL

Inland Revenue

Nigel

Policy Division
Somerset House

FROM: M PRESCOTT

3 December 1985

Thanks. (I don't want to see comments down to @ all).

1. MR BLYTHE

B 3/12

2. PS/CHANCELLOR OF THE EXCHEQUER

RELIEF FOR OVERSEAS TRAVEL EXPENSES
(FINANCE BILL STARTER 134)

1. The Chancellor asked to be reminded why proposals for extra board and lodging relief for foreigners working in the UK had been floated in the Consultative Document in the first place. (Your minute to PS/FST of 27 November). In short, the reason is mainly that this was seen as a possible way of deflecting pressure from the "overseas lobby", and in particular the American Chamber of Commerce (AMCHAM), who were upset about phasing out of the foreign emoluments deduction and wanted something in its place.

2. There were two consultative documents on overseas travel expenses. The first of these, published in March 1984, was mainly about the possibility of extending the travel reliefs for Britons working abroad. But it also suggested that the "mirror image" travel reliefs for foreigners working in the UK - at present on an extra statutory basis - should be given statutory force, and it went on to say that the Government would welcome views on whether the new (travel) rule should apply to this group as well. The second consultative

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cc. PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Monger
Ms Sinclair
Mr Graham, Parliamentary Counsel
Mr Lord
Mr Cropper
Mr Isaac
Mr Taylor Thompson
Mr Painter
Mr Cayley
Mr Easton
Mr Lawrance
Mr Northend
Mr J F Hall
Mr O'Brien
Mr Sisk
Mr Prescott
Mr Blythe
PS/IR

document, published in January 1985, floated various additional proposals and, as regards board and lodging, said

> "The Government now suggest that the cost of certain board and lodging expenses borne or reimbursed by a non-resident employer of an overseas employee working in the UK will not be taxed, provided that they are restricted to the reasonable additional expenses of the employee in question (but not of his spouse or children). These expenses would be allowable for one year from the date of arrival in the UK..."

3. In one or two of the responses to the first consultative document, including that from AMCHAM, it was suggested that in addition to action on the travel reliefs the existing board and lodging reliefs for UK residents going to work abroad should also be "mirrored" in the new statutory rules for foreigners coming to work in the UK.

4. At the same time, however, AMCHAM were also pressing on Treasury Ministers more radical proposals to compensate for withdrawal of the foreign emoluments deduction. These were their proposals on "cost equalisation", including a scheme to limit the impact - for expatriate employees seconded here by multinational companies - of "grossing-up" on tax equalisation payments made by employers in respect of certain reimbursed expenses. The Financial Secretary wrote to AMCHAM in August 1984 to say that this proposal was not acceptable to Ministers. He went on to say that the Government would, however, be coming forward in due course with further proposals on foreign travel relief (as had been announced in a recent PQ); and that the Government would also be looking closely at the tax treatment of board and lodging expenses of certain overseas employees working in the UK insofar as those expenses were borne by employers.

5. The second consultative document was duly published a few months later, and included the suggestion on board and lodging mentioned above.

M. Prescott

2155/56

CONFIDENTIAL

FROM: VIVIEN LIFE
DATE: 4 December 1985

MRS HUBBARD IR

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Cassell
Mr Robson
Miss Sinclair
Ms Leahy
Mr Cropper
Mr Wilson
Mr Graham OPC
PS/IR

BUDGET STARTER 155: SECTION 111(7) FA 1981
"IN PURSUANCE OF A CONTRACT"

1. The Financial Secretary has read your minute of 3 December. He agrees that this starter can be dropped from the 1986 Budget Starters list.

VIVIEN LIFE

CONFIDENTIAL

2384/031

Confidential

RSP

FROM: M NEILSON
DATE: 4 December 1985

PS/FINANCIAL SECRETARY

cc: PS/Chancellor
Mr Monger
Ms Sinclair
Mr Cropper
Mr Graham - PC

Mr Bryce - IR
Mr Houghton IR
PS/IR

CAPITAL GAINS TAX : SHARES EXCHANGED FOR DEBENTURES

The Economic Secretary has seen Mr Bryce's minute of 25 November on this subject. He has commented that this seems to miss the point about shareholders' attitude to take-overs, which are unlike normal disposals, in that the timing is not at their discretion. The shareholder who does not want to make a disposal for CGT reasons may be very reluctant to accept the bid, but forced to do so if 90% agreed or (in practice) if the bidder gets 50%, and so control. In such cases loan stock can provide the answer, avoiding the need to accept the bidder's shares or to make an involuntary disposal by accepting cash. The Economic Secretary has known cases where transactions desired by all parties could not have taken place without some large family shareholders being able to receive loan stock.

MNW

M NEILSON

2153/05

CONFIDENTIAL

FROM: VIVIEN LIFE
DATE: December 1985

MR McKENZIE

cc PS/Chancellor
PS/Chief Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Monger
Miss Sinclair
Mr Murray
Mr Lord
Mr Cropper
Mr Isaac IR
Mr Battishill IR
Mr Painter IR
Mr Ridley IR
PS/IR
PS/C&E
Mr Wilmott C&E
Mr Bone C&E
Mr Graham OPC

1986 BUDGET STARTERS

1. The Financial Secretary has read your minute of 5 December. He found the summary of the state of play very useful and clear.

VIVIEN LIFE

CONFIDENTIAL

CONFIDENTIAL

FROM MISS VIVIEN LIFE
DATE 9 December 1985

MRS HUBBARD

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Cassell
Mr Robson
Miss Sinclair
Ms Leahy
Mr Cropper
Mr Wilson
Mr Graham - Parliamentary Counsel
PS/IR

BUDGET STARTER 153: OTA 1983: FIELDS IN COMMON OWNERSHIP

The Financial Secretary has read your minute of 5 December. He is content to give his approval to the proposed amendment and gives you authority to instruct Parliamentary Counsel accordingly. He is also content not to have an early announcement of this proposed legislation.

VIVIEN LIFE

CONFIDENTIAL

Inland Revenue

b/f with FST's response (or 14/1) pl

Policy Division
Somerset House

1. TL or
2. Chmp

Ch/I shd just read the covers-note, not the main papers
dwk

FROM: L J H BEIGHTON
19 December 1985

FINANCIAL SECRETARY

THE CITY REVOLUTION AND ITS IMPLICATIONS FOR THE TAX SYSTEM: FINANCE BILL STARTERS 114A, B AND C.

1. The two minutes by Mr Spence and the minute by Mr Bolton attached cover the ground originally indicated by one Starter, No. 114. But at your request we have separated them since, although there are links between them, each covers a different topic.

2. You will be aware from a number of minutes on stamp duty by Mr Draper of some of the difficulties which we are facing in adjusting to the City revolution. We have similar problems in the income tax and corporation tax systems. In so doing we have two broad aims: to ensure that the markets can operate as efficiently as possible with the minimum of hassle from the tax system and at the same time to ensure that we can secure a proper tax charge.

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cc Chancellor of the Exchequer
Chief Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Cassell
Mr Peretz
Mr Monger
Mr Hall
Mr Walsh
Mr Haigh
Mr Cropper
Mr Davies
Sir Lawrence Airey
Mr Battishill
Mr Corlett
Mr Beighton
Mr Lawrance
Mr Skinner
Mr Spence
Mr Draper
Mr Bryce
Mr Battersby
Mr Munro
Mrs Ayling
Mr Templeman
Mr Bolton
Mr S W Jones
PS/IR

3. If the shape of the new markets were at all certain, then the consequential tax changes would be reasonably clear even if the detailed way of achieving them might not be straightforward in every case. However, given that the detailed way in which the new markets will operate is far from clear cut, it is not easy in every respect even to see what is needed. Yet the new tax rules must be in place by next autumn if the operators are to work against a certain tax background and the Revenue is to be secure. The answer will almost certainly require the use of secondary legislation in order to provide the necessary flexibility.

4. This time last year we had thought that the answer would be relatively straightforward, although Ministers decided not to take action until nearer the time when the new markets would emerge. Instead - since the matter had arisen in parallel - it was then decided to tackle bond-washing by the radical route of taxing (and relieving) accrued income as income rather than capital. The accrued income scheme comes into effect in February (at present only a transitional provision is running) and we and the markets have to take it on board at the same time as the preparation for the market changes is going on. At some - mainly technical - levels the interaction needs a little repair.

5. In greater detail

- paper 114A deals with a matter deliberatcly left over earlier this year - the interaction between the accrued income scheme and the old bond-washing rules. What we actually did this year was to ensure that when a charge under the scheme arose there could not be a bond-washing charge also. We now think however that we should go further and disapply the bond-washing provisions from all securities covered by the scheme ie from

everything except preference shares and equities. The minute also picks up the recent announcement by the Economic Secretary that sale and repurchase transactions in eurobonds and US Treasury stocks will be treated as never having been subject to the bond washing provisions.

- Paper 114B deals with the treatment of market makers in the new world and discusses the adaptations which will be necessary to ensure that both the markets and the tax system work smoothly.

- Paper 114C picks up a number of defects which have emerged in the accrued income scheme. For the most part they are peripheral although, as Mr Bolton explains, they cannot be tackled except by legislation. But the problem of unit trusts - which has arisen only recently following a change in legal advice - will be very troublesome for large numbers of people if we fail to find an answer.

I am sorry to deluge you with all this so late in the year.

LJHB

L J H BEIGHTON

Inland Revenue

Policy Division
Somerset House

FROM: I R SPENCE
19 December 1985

FINANCIAL SECRETARY

STARTER 114A - ACCRUED INCOME SCHEME: CONSEQUENTIAL AMENDMENT OF OTHER ANTI-BONDWASHING PROVISIONS (SECTIONS 469 AND 471 TO 475 ICTA)

Summary

1. The point at issue here is whether these anti-bondwashing provisions should be revised now that the accrued income scheme has been introduced. We recommend that their scope should be limited in future to equities and preference shares - ie that these "old" anti-bondwashing provisions should cease to apply to securities within the accrued income scheme.

The effect of the anti-bondwashing provisions

2. Section 469 was introduced in 1937 to stop one of the more obvious forms of bondwashing: the sale of a security with an agreement to repurchase after interest has been paid. The provision counters this by saying that the sale and repurchase should be disregarded, so that the original owner of the stock remains liable to tax on the interest.

3. There are no special concessions for market makers: Ministers have already announced (13 December) a limited relaxation of the rules for certain sale and repurchase agreements ("repos") between dealers - para 10 below.

4. Sections 471 to 475 were introduced in 1959. Their purpose was to counter bondwashing through the sales of interest by striking at those - financial institutions in particular - who were facilitating bondwashing by purchasing the dividends. It imposes charges on transactions where

stocks are bought cum-dividend and subsequently sold ex-dividend within a one month or 6 month period, though there is a let out where the interval between sale and purchase is more than one month provided it is shown that the contracts were at current market price and without prior agreement. There are exemptions for:

a. jobbers and discount houses, who are exempted from Section 472 (which covers dealers) - the future of these exemptions is dealt with in Starter 114B.

b. eurobonds which were taken out of Section 472 in 1982. They did not, of course, exist when the Section was introduced, and provide no real scope for bond-washing because the difference between cum and ex-dividend price reflects virtually the full value of the interest;

c. non-dealers, who are exempted from Section 474 where the securities are within the accrued income scheme - and the substantial question in this submission, of course, is whether that limited exception for accrued income scheme securities should be extended.

CRITICISMS

5. The criticisms (mainly from the UK and American Banks) are:-

a. the anti-bondwashing provisions are no longer necessary and can be repealed now that the accrued income scheme is in place;

b. the provisions catch commercial transactions with no tax avoidance motive;

c. sections 471 to 475 attack the wrong target. They penalise bondwashing by closing the laundry - ie by

penalising the dealer, instead of the parties but making a profit from the transaction;

d. the "penal" effect of the provisions is impeding growth in the London market.

6. In addition, the American Investment Banks criticise the effect of the Section 472 exemptions for jobbers and discount houses. They say this gives the jobbers and discount houses a privileged position compared with other market operators (a privilege which they have exploited to provide a laundry for bondwashing on a large scale). The future of these particular exemptions is dealt with in the separate note on Starter 114B.

7. Previous Ministerial Consideration

When the decision to introduce the accrued income scheme was taken it was recognised there was a case for a corresponding reduction in the scope of Sections 469 and 471 - 5. It was decided, however, that no action should be taken until the final shape of the accrued income scheme was clear except for a very limited change which removed the Section 474 charge on non-financial traders for securities within the accrued income scheme (Schedule 23, FA 1985, paragraph 42). The case for this change was considered to be clear-cut, and risk-free as far as the possibility of future bondwashing was concerned. The decision on the other areas of overlap between these sections and the accrued income scheme was left over for the 1986 Finance Bill, because there was not enough time to think through the implications, though the case for action in principle was already clear enough.

OPTIONS

I. Confine the Sections to securities outside the accrued income scheme (ie equities and preference shares)

8. There seems a strong case for this. It would mean that the anti-bondwashing provisions would apply only to equities and preference shares. We are now clear that the accrued income scheme has removed the need for anti-bondwashing provisions for other securities, which are within the accrued income scheme by removing the incentive to sell dividends (and, correspondingly, reducing the market for buying them). There are some relatively minor exemptions from the accrued income scheme charge (eg for non residents and individuals holding small amounts) which leave residual scope for bondwashing. But the laundry in this respect is likely to be confined to jobbers, and the limited bondwashing which might occur is therefore inescapable up unless (see Starter 114B) the market makers exemption from Section 472 was removed entirely.

9. We therefore conclude there is no tax reason for maintaining the tax penalties in these sections for accrued income scheme securities. On this basis, their continuance is difficult to justify. There is no doubt that the provisions catch transactions which have no tax avoidance motive and that their imposition produces tax treatment which is out of line with economic reality. It also has to be conceded that the provisions as they stand put some inhibition on the buoyancy of the London financial market, though we find it difficult to believe that the present rules are more than a minor irritation, or that their removal could be more than a minor stimulus.

10. The only reservation about confining all these sections to securities outside the accrued income scheme comes from the Bank of England. They agree there is no tax justification for leaving matters as they stand. But they

would prefer Section 469 to continue to apply to gilts, because the present tax treatment - however anomalous - is, they feel, a safeguard against the development of an unregulated repos market in gilts, which might carry with it the sort of mischiefs which have occurred in the US repos market. There is a similar concern about "bulldogs" - overseas Government stocks denominated in sterling. It was for these reasons that the Government's recent (13 December - copy attached) announcement that repos would be excluded from Section 469 for the past, as well as the future, was confined to eurobonds and US Treasury stock. The Bank would - on their present view - prefer that Section 469 should continue to apply to repos in gilts until they can be sure they have adequate regulatory machinery to control the repos market.

11. With due respect to the Bank's prudential concerns, our present view is that it would not be justifiable for Section 469 to continue to apply to transactions in gilts (and bulldogs). If the distinction were to be made, it would have to be on the basis that the Bank's prudential concerns justified the retention of a taxation anomaly. We doubt whether the potential damage from repos is big enough to justify the tax anomaly. However we also doubt the effectiveness of the present tax rules inhibiting repos. We will discuss this further with the Bank and report back.

II. Abolish the Sections entirely

12. If the Sections were abolished entirely, there would be no anti-bondwashing protection on transactions in equities and preference shares (which are not covered by the accrued income scheme). It is, therefore, a much more radical option than Option 1. The case put forward for doing so (by the BBA and the American Banks) is that:

i. there is not much practical risk of bondwashing occurring in equities - though they admit the risk is

greater in the case of preference shares;

ii. the provisions are penal, and wrongly structured (because they penalise dealers instead of those making the profits from bondwashing);

iii. the provisions therefore inhibit commercial transactions in equities and preference shares, and the economic damage from this outweighs the risks to the Exchequer from removing the protection against bondwashing.

13. The first question is whether there would be a significant tax loss if there were no defence against bondwashing in preference shares and equities. Our conclusion is that there would.

a. Preference Shares Here we see an obvious risk of tax loss from dismantling the existing defences, and the banks seem to recognise this. There are, indeed, indications that operators may be moving into the use of short-redeemable fixed preference shares for bondwashing and if they do so we may have to consider strengthening the existing defences.

b. Equities There would, as we see it, also be considerable scope for bondwashing in equities:

i. Sale and repurchase transactions (Section 469) could be profitable - at the Exchequer's expense - where the purchaser the equities was not within the UK tax charge (eg was an exempt institution or non-resident).

ii. Dividend buying (Sections 471-475). The American Banks maintain that the scope for bondwashing is very limited, because as far as equities are concerned the dealers' margins are large in

relation to the potential yield from avoiding income tax [or suffering CGT instead of Income Tax] on the dividend. There is undoubtedly something in this as matters stand, though the tax at risk could still - we think - be significant. But the profitability of bondwashing could well increase significantly as a result of the reduction in jobbers spreads which is likely to come from the big bang. And the more competitive environment (and the struggle to increase profitability) is likely to make the players in the market active in pursuing any tax avoidance devices they can take advantage of.

14. The critics have a fair point in saying that the anti-bondwashing defences - particularly in Sections 471-5 - are crude (because they attack the laundry, instead of the bondwashers) and produce a result of over-kill. But the answer to this is not to remove the defences entirely, but to produce an improved and more logical scheme which would remove the incentive to bondwashing in equities and preference shares (as we have already done for other securities through the accrued income scheme). This may be worth considering but it would be a complex project, and any action should, we think, be deferred for the longer term, when the effects of the City revolution have worked through, unless we are provoked to consider strengthening the defences by a major upsurge in bondwashing in preference shares.

15. We do not consider that maintaining the anti-bondwashing defences on equities and preference shares will have any real adverse effect on the development of the market, provided that the present jobbers exemptions in Section 472 are extended to approved market makers. This angle is dealt with in our separate submission on Starter 114B.

CONCLUSION

16. Ministers are already committed to legislate on some repos transactions within Section 469. This would give an exemption for some of the securities (eurobonds and US Treasury Stocks) which are within the accrued income scheme provided both parties to the transaction are dealers (and will be deemed always to have had effect).

17. Our general recommendation is that the anti-bondwashing provisions (Section 469 and Sections 471-5) should be revised so that they no longer apply to any securities within the accrued income scheme. This would have negligible cost and staff effects and the legislation should be brief (probably less than half a page). The changes (apart from those on repos) could take effect either from 28 February 1986 (the start-date for the accrued income scheme) or from Budget Day. The date does not make any practical difference. However Mr Bolton is suggesting in his parallel minute (starter 114C) that changes to the Accrued Income Scheme should be made with effect from, and announced before 28 February 1986 and, if you agree with his recommendation there would be a case for following suit here also.

18. We do not consider the relaxations should go further, and apply to securities outside the accrued income scheme (ie equities and preference shares). This could have a large (but unquantifiable) cost.

19. This recommendation is subject to any further points that may emerge from:

a. further discussion with the Bank of England about their prudential concerns on sale and repurchase transactions in gilts (para 11 above).

b. representations from the BBA, American Banks and others on the case for extending the relaxation to equities

(on which we will consult the Bank of England and HF Division and report).

There is also the possibility of an interaction with the market maker exceptions from Section 472, though at this stage such an interaction seems unlikely.

20. If Ministers are content with this approach, we will instruct Parliamentary Counsel. We estimate that the total length including the repos will be less than a page.

I R SPENCE

INLAND REVENUE

Press Release

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[3x]

13 December 1985

TRANSACTIONS IN SECURITIES : SECTION 469 ICTA 1970 SALE AND REPURCHASE AGREEMENTS (REPOS)

1. The Economic Secretary to the Treasury, Mr Ian Stewart MP, announced today in a Parliamentary Question and Answer a change in the tax treatment of certain sale and repurchase agreements between dealers. Legislation is to be introduced in next year's Finance Bill which will ensure that Section 469 ICTA 1970 does not apply and never will have applied to these transactions.

2. The text of the Parliamentary Question and Answer is reproduced below:

> "To ask Mr Chancellor of the Exchequer if he will make a statement about the tax treatment of sale and repurchase agreements in securities",

The Economic Secretary today gave the following written answer:

> "Proposals will be brought forward in next year's Finance Bill to provide that Section 469 of the Income and Corporation Taxes Act 1970 will be treated as never having applied to sale and repurchase transactions involving overseas Government stocks denominated in foreign currency or Eurobonds provided that both parties to the transaction are dealers in securities."

NOTES FOR EDITORS

Where a security is sold with a repurchase agreement and interest is paid between sale and repurchase, the transaction can be caught by Section 469 ICTA 1970, originally enacted to counter the avoidance of tax by "selling interest". The Section operates by effectively disregarding the transactions for tax purposes, so that the interest is treated as the original owner's income.

Sale and repurchase agreements ("repos") have become a feature of the markets in Eurobonds and US Treasury stocks in the last two years. A bank buys securities from a dealer and agrees to sell them back at a fixed price or the prevailing market value. The dealer thus obtains short term finance against securities he has on hand.

The Government recognises that there is no need for Section 469 to apply to these particular "repos" and it will therefore propose the amendment described by the Economic Secretary.

Inland Revenue

Policy Division
Somerset House

FROM: I R SPENCE
DATE: 19 December 1985

FINANCIAL SECRETARY

CITY RESTRUCTURING: INCOME TAX (AND CGT) TREATMENT OF MARKET MAKERS (STARTER 114B)

INTRODUCTION

1. This Starter is concerned with the future of the various income tax reliefs and other pieces of special treatment for market makers in the City. At present this special treatment is geared to "jobbers" on the Stock Exchange. It is clear that the legislative references to jobbers will have to be changed because, as a matter of nomenclature, jobbers will cease to exist with the introduction of dual capacity in October 1986. The general question is what special treatment should be given in the future to:

a. Market makers on the Stock Exchange;

b. Market makers in other recognised investment exchanges;

c. Dealers who are not market makers.

2. It is not possible to make firm recommendations on these issues at this stage, because the shape of the new market is uncertain and the regulatory framework is embryonic. The problem is, in essence, the same as the one we face on the Stamp Duty package (Starters 103, 121, 137 and 138), of constructing "market-maker" reliefs against a moving target. The changes in the Stock Exchange should be firm enough for legislation to be included in the 1986 Finance Bill for market makers on the Stock Exchange. But this is a probability, not a certainty. However, on present information, it seems unlikely that we will have enough detail about the operation of other new markets to be able

to legislate in the 1986 Finance Bill. So it seems probable that on these issues (as on Stamp Duty) it will be necessary to have:

a. Finance Bill legislation which, at a minimum, will re-define the jobbers exemption for market makers on the Stock Exchange - to be effective from October 1986.

plus

b. an enabling power to make regulations to deal with the points that cannot be covered in the Finance Bill 1986.

3. We do not think it would be desirable to hold over until the 1987 Finance Bill the changes that cannot be fitted into the 1986 Bill. The present plans for the Financial Services Bill are, we understand, that it should get Royal Assent in the Autumn and to take effect from January. The new tax regime should be in place by then. And the new markets may well be up and running before the Financial Services Bill is passed, so the sooner the regulations can be introduced, the better.

General Approach to Special Relief for Market Makers

4. The present special treatment for jobbers in the Stock Exchange exist because market makers could not perform their function effectively if they were subjected to the normal taxation rules on dealing in securities. When we raised this issue in October 1984 you took the view that the existing jobber exemption should apply to the new market makers (Miss Goodman's minute of 29 October 1984). On this basis, the Government agreed the references in the Bank's April 1985 paper on the future structure of the gilt-edge market, viz: "Subject to the agreement of the Government, it is envisaged that the tax arrangements currently available to gilt-edge jobbers will in substance be made available to gilt-edged market making entities" for the

purposes of the stock lending concession, the jobber exemption from the anti-bondwashing provisions of Section 472 and the bull and bear dividend arrangements.

5. The Stock Exchange have consistently taken the line that new-style market makers on the Stock Exchange should get the same treatment for other securities, as well as gilts. In principle, the case for market maker exemptions for the Stock Exchange seems clear-cut. There is also a strong case for giving similar treatment to market-makers on other markets, provided they are subject to similar "fair weather and foul" obligations and provided the regulatory regime is equivalent to the present Stock Exchange rules. This last point is important because the existing jobber exemptions are to a large extent geared to the Stock Exchange rules, and the way the market operates and there is a major unanswered question on the extent to which these rules will be matched in the new markets.

6. The rest of this paper deals with the detailed points at issue, viz:

a. the jobber exemption from the anti-bondwashing provisions of Section 472 ICTA (paras 7-14)

b. the stock lending concession. (paras 15-17)

c. the jobber exemptions from the Section 477 ICTA provisions against the manufacture of dividends, and the BBDA (bull and bear dividend arrangement) (paras 17-29).

d. other - basically consequential - legislative changes in income tax, CGT and CTT provisions relating to jobbers and references to the Stock Exchange (paras 30-33).

ANTI-BONDWASHING PROVISIONS - SECTIONS 472 ICTA

7. We are recommending in our separate minute on Starter 114A that the scope of the anti-bondwashing provisions of Sections 471-5 should be cut down so that they only apply to equities and preference shares - the securities which are outside the accrued income scheme. If the Sections are retained at all something will have to be done about the exemption for "jobbers" in Section 472.

8. Section 472 imposes a penalty on dealers in securities who purchase stock and re-sell it within one month. The effect of the penalty is to deny the dealer a deduction from his trading profit for the part of the purchase price of the stock which is attributable to the interest element. This makes it unprofitable for the dealer to be an intermediary in a bondwashing transaction between the seller and eventual purchaser of the stock.

9. The present exemption from this provision is for members of the Stock Exchange who are recognised as carrying on the business of a jobber. This exemption recognises that it is part of the normal course of a jobber's business to buy and sell stock across a dividend payment date, and that the tax penalty would be unreasonable and impair the liquidity of the market.

10. Stock Exchange market makers The first requirement is to transfer the existing jobber exemption to those who are recognised as market makers by the Stock Exchange in its new capacity as a Registered Investment Exchange (RIE). The details will need to be discussed further with the Stock Exchange and SIB, in particular. This will, inter alia, have to cover the treatment of those who are market-makers in a limited range of securities and the distinction between the "market maker" and other activities of Stock Exchange members.

11. Market makers recognised by other RIEs In principle there seems a good case for this, and any attempt to deny it will provoke objections that the liquidity of the markets is being damaged and that they are being denied a level playing field by comparison with the players on the Stock Exchange. Whether it proves sensible to go this far will depend on the nature of the market maker commitment imposed by the other RIEs and the nature of the regulatory regime.

12. Other market makers The new City regime could have dealers who are recognised as market-makers by SROs, but not recognised as such by RIEs. There could also be dealers who are not recognised as market-makers by either RIEs or SROs, but who are approved as market makers by the SIB. There will be pressure for the market maker exemption to apply to them. It will be impossible to make a judgment on this until there is a much clearer picture of who will be approved as market makers, what securities they were dealing, and how. Potentially, there seems considerable scope for bond-washing to be done through dealers who are not members of RIEs, and it may well prove sensible to exclude them from the exemption, for the time being at least.

13. Dealers who are not market makers Our present view is that it would materially increase the scope for bondwashing if the present jobbers exemption were extended to broker-dealers acting as principals, and other dealers in securities. However if it is not extended, there may well be pressure for exemption on arguments of equity, level playing field competition and damage to market liquidity. There may also be pressure for extension of the present limited exemption for dealers in overseas securities (Section 472(4)) to cover all overseas securities. The American banks are already on to this point -see the 12 November Arthur Andersen letter to the Economic Secretary - and we will report further on this in the light of further discussion with the Bank (who are already considering the

points made by the American Banks in the 12 November letter).

14. Discount Houses If these anti-bondwashing provisions are confined to equities and preference shares, and no longer apply to securities within the accrued income scheme (our recommendation on Starter 114A) there is no apparent need for the retention of the discount houses exemption from S472, and the indications are that the discount houses will be content to see it removed. Subject to further discussion with the Bank, we consider that this exemption should be abolished.

THE STOCK LENDING CONCESSION

15. This is a long standing extra-statutory concession. Its broad effect is to negative the tax charges that would otherwise arise for both the borrower (the jobber) and the lender (eg an insurance company) when the jobber is short of stock to meet delivery on a bear sale. The concession broadly parallels the statutory Stamp Duty exemption for stock borrowing. Its primary purpose is to facilitate market liquidity. It also avoids the administrative problems of following through the tax consequences of the chain of transactions. Moreover, it produces a result which reflects, more closely than the strict application of the law, the economic substance of the transaction.

16. The concession clearly needs to be revised to apply to Stock Exchange market makers. We will be considering the practicability of adapting the concession to market-makers in other markets. In principle this seems desirable but the way the stock lending concession works is closely related to the operation of the Stock Exchange - particularly the money-brokers function - and the Stock Exchange rules. So this is another area where we will need more detail about the operation and regulatory structure of the new markets before decisions can be taken.

17. The immediate question, in the context of Budget Starters, is whether the concession should be given statutory force. There may well be pressure for this in the future (though there has been none hitherto) and - given the importance of the concession - there is a good case in principle for giving it statutory force. However it would be premature to legislate on the concession until we are clear on how it could be applied to other RIEs. This may well be a suitable subject for regulation (with an enabling power in the 1986 Finance Bill, if it is clear by then that regulations before the 1987 Budget are both practicable and desirable).

18. On a separate point we are recommending a change in the Accrued Income Scheme to remedy the present mis-fit with the stock lending arrangements (see section IV of the note on Starter 114C.

SECTION 477 ICTA-MANUFACTURE OF DIVIDENDS AND BBDA

19. The problem Section 477 is designed to deal with The purpose of the Section is to prevent loss of tax as a result of the manufacture of dividends. Manufacture of dividends or interest occurs when the financial operator has contracted to sell stock-cum-dividend but has acquired stock to meet that contract ex-dividend and pays a sum by way of "interest" to satisfy the purchaser. This "interest - the manufacture dividend - is a cash sum equal to the interest less income tax at the basic rate. The operator makes a profit because the difference between "cum" and the "ex" dividend price is greater than the amount of the cash interest he has to pay after deduction of tax. Until Section 477 was introduced, no tax was actually paid to the Revenue except when the dividend was manufactured by a jobber to whom the special BBDA arrangements referred to in 19 below applied. But the manufacture of the interest led to the purchaser being deemed to have received income which had borne basic rate tax when it had not. In some cases (eg

where the purchaser was non resident) this meant the Revenue repaid tax to the purchaser though it had received no tax from the seller. Section 477 counters this tax loss by treating the manufacture dividend in the seller's hands as an annual payment, so that he is required to account to the Revenue for basic rate tax, and cannot set it off against other taxable income.

20. The jobber exemption and the bull & bear dividend arrangement (BBDA) Jobbers are exempted from S477 and subject to a long standing special arrangement (the BBDA) under which all their dividends are aggregated and netted off to produce a net bull or bear dividend or interest. The jobber then accounts to the Revenue for tax on net bear interest and dividends, and gets a set-off or repayment for net bull dividends or interest. This special regime has considerable attractions for both jobbers and the Revenue. The main attraction for jobbers is that it is administratively much more convenient than having to separate out "real" dividends and manufactured dividends. There are also some financial benefits, but these are probably secondary. The attraction for the Revenue is that it provides an effective policing mechanism for manufactured dividends, and produces a fair approximation to the "right" amount of tax and low administrative costs.

21. There is also a special rule for brokers - the broker is responsible for accounting for tax on manufactured dividends to the Revenue where a non-resident has effected the sale through a broker.

Changes that will or may be necessary to Section 477:

i. market makers exemption
ii. new problems with the legislation

22. Market makers It will clearly be necessary to translate the references in Section 477 to jobbers and

brokers to Stock Exchange market makers and broker/dealers respectively.

23. Beyond this, however, there seem to be considerable attractions for both the Revenue and the City in extending the exemption from Section 477 to market makers in other markets and to broker dealers and other operators in all RIEs. This would mean that they would be subject to the BBDA, instead of the standard rules in Section 477. The operators in the City may well regard the BBDA rules as an attractive alternative to the basic rules on dividend manufacture in Section 477. In theory, this would reduce the Revenue's tax take. But the real balance would probably go the other way. In practice, the existing rules for non-jobbers are difficult to police effectively, and administration would be more effective if dealers were brought within the BBDA.

24. The problem here is that the effectiveness of the BBDA rests on existing Stock Exchange rules. It may well be difficult to persuade other RIEs to adopt similar rules. This is an issue we have already raised with the SIB, and which we will pursue further. If it is not possible to produce such rules (and bring all operators on RIEs with the BBDA) it may well prove necessary to revise Section 477 itself, to remedy the problems set out in the following paragraphs.

25. New Problem with S477 The short point here is that there are potential weaknesses in the defences against dividend manufacture provided by Section 477 previously have been backed up by the Stock Exchange rules, with the BBDA, provide a non-statutory defence against dividend manufacture. But unless the new markets reproduce the Stock Exchange defences, which seems unlikely, there could be major tax losses through dividend manufacture.

26. The loophole which has now arisen in Section 477 is that it provides no defence against what we have christened "backward dividend manufacture". If an operator buys a security ex-dividend and sells cum-dividend during the special ex-dividend period, he will be required to pay the amount of the dividend less tax to the purchaser provided the transfer was not registered by the ex-dividend date. The purchaser will be entitled to set the tax deducted against his own liability. The actual dividend will go to the original owner who sold ex-dividend. In the straight forward case, Section 477 will operate to recover the tax manufactured by the operator. The problem occurs because of the possibility that the purchaser will register the transfer in time to receive the dividend. In this case the original seller will look to the operator for a net dividend. Section 477 will not cover this, because it does not apply when the operator pays a net dividend to the person who sold to him ex-dividend - it only applies where the operator pays a net dividend to the purchaser.

27. The Stock Exchange rules prevent exploitation of this defect in three ways:

i. for gilts the Stock Exchange forbids the delivery of a transfer document where the purchase was "special ex-dividend" unless the sale is also ex-dividend. In other words one can sell cum but one cannot register the transfer before the ex-dividend date. (This applies to amounts over £50,000 nominal);

ii. the gilts vouching rules provide a further constraint against dividend manufacture using gilts. If an operator sells a security cum-dividend which he does not possess, he will need to account to the purchaser for the net dividend. At present the gilts vouching rules require the seller to pay the dividend gross unless he can produce the voucher to the jobber, to show that he has himself received the dividend under

deduction of tax. This effectively removes the commercial benefit from dividend manufacture in gilts.

iii. for equities the SE Account system, the talisman settlement system and the delays in registration effectively prevent use of the device.

28. The case for amending Section 477 Ideally we would hope to negotiate similar rules to those in paragraph 26 above with all recognised investment exchanges. But if this is not forthcoming (and it may well be very difficult to achieve) there is a strong case for blocking the loophole by legislative action, and for doing this in the 1986 Finance Bill. If this is not done and "backward dividend manufacture" is indulged in in a large scale the tax loss could be very substantial. There were major tax losses from dividend manufacture in the 1950s and 1960s, which reached "scandal" proportions, and it was these which prompted the introduction of the Stock Exchange rules prohibiting special bargains in shorts and the gilts vouching rules.

29. The tax collection machinery on dividend manufacture The BBDA, in combination with the gilts vouching rules, provides an efficient method of tax collection on dividend manufacture. But if dealers are not within the BBDA there would, in the absence of any gilts vouching rules, be considerable difficulties in collecting tax on dividend manufacture, which would involve significant staff costs. If the RIEs are not prepared to introduce gilts vouching rules, and do not come within the BBDA, it may therefore be necessary to consider taking legislative powers to impose vouching rules. If this proved necessary it could be done by regulation (under the cover of the general enabling powers suggested in paragraph 2 above) rather than by primary legislation.

OTHER LEGISLATIVE CHANGES

Jobbers and Brokers

30. Income Tax & CGT There are two provisions in the Taxes Management Act which will need revision. Section 21 gives information powers in relation to the jobbers exception from Section 477. We will need parallel changes to those on Section 477 for the Section 21 references to jobbers and brokers. We will also need amendments to Section 25, TMA. This gives the Revenue power, for CGT purposes, to require returns about transactions engaged in by members of a Stock Exchange, apart from jobbers, and from those outside the Stock Exchange acting as agents or brokers in transactions in shares or securities. The minimum change here will be to revise the wording of the exemption for jobbers. It may also prove desirable to adapt the provisions to cover those who operate in new markets outside the Stock Exchange. There is also an exemption from the accrued income scheme information provisions for jobbers (FA 1975, Schedule 23, para 44) which will need similar adaptation.

31. Capital Transfer Tax - Jobbers get business relief, and may pay CTT in interest-free instalments (Sections 105 and 234 Capital Transfer Tax Act 1984). For CTT, "jobber" is defined by reference to the Section 477 income tax definition. So an appropriate course would be for the new CTT definition to follow the revision of Section 477.

32. References to the Stock Exchange The jobber and broker reliefs for Stock Exchange members will, of course, have to be redefined if the reliefs are extended to market makers in markets outside the Stock Exchange. Beyond this, however, there are a number of pieces of legislation (mostly relieving) which are geared to securities that are quoted or traded in the Stock Exchange. We will be monitoring these, against the need for possible changes in the light of

developments in the new markets and will report back if anything significant emerges.

Costs

33. There should be no significant cost in translating the existing jobber reliefs into reliefs for market makers on the Stock Exchange. If we stopped there, there should be a revenue yield from denying reliefs to market-makers outside the Stock Exchange. But the price for this could, of course, be a reduction in the economic benefits of the City revolution as well as complaints that the tax regime was denying a level playing field to players outside the Stock Exchange. There could also be a staff cost in confining market-maker reliefs to the Stock Exchange, rather than going wider. On Section 477 there could be considerable revenue costs from leaving the existing defect unremedied (para 27) if the dealing rules in new markets do not provide the same protection as the Stock Exchange rules. Avoiding increased staff costs is also an important element in the argument for trying to get market makers generally within the bull and bear dividend arrangement on the basis of market rules similar to the present Stock Exchange rules.

CONCLUSION

34. It will not be possible to make final decisions on the shape and extent of special treatment for market makers until the plans for the re-structuring of the new markets are a lot clearer than they are now. We will need to monitor developments, and discuss the position further in the coming weeks with the Stock Exchange and SIB together with the Bank, Treasury and DTI. Because of the clear read-across with the Stamp Duty market makers issues we will of course keep in close touch with our Stamp Duty colleagues. It may well be that the target will still be shifting at the time of the Finance Bill, and that it will be necessary to have a limited package in the Finance Bill,

together with enabling powers to allow the remaining matters to be dealt with by regulation.

35. We suggest that the general approach should be that existing market maker reliefs should definitely be extended to market makers where recognised as such by the stock exchange, that the objective should be to extend these reliefs to market makers in other RIEs, provided this can be sensibly fitted into the structure of the new markets, the functions of market makers on them, and the rules which govern their operation. It would be helpful, for the purposes of further work and discussion, if we could have confirmation that Ministers agree with this general approach.

36. On the particular issues, we suggest we work on the following basis.

a. Statutory market maker reliefs for Stock Exchange members (Section 472, Section 477, plus the IT, CTT and CGT consequentials - paras 29 & 30).

   i. at the minimum, these should be applied to Stock Exchange market makers. We will work through the details and instruct Parliamentary Counsel;

   ii. extension to other market makers - probably for regulation in late 1986, covered by Finance Bill enabling powers. We will report on progress.

b. Stock lending concession - should apply to Stock Exchange market makers; extension to other market makers for consideration; statutory cover not a priority issue, but for consideration;

c. Section 477

   i. Existing jobber exemption should be applied to SE market makers (see a. above).

ii. Extension of BBDA beyond SE market makers for consideration in the light of regulatory regime for new markets;

iii. Legislative action to remedy the defect in Section 477 will be necessary if the dealing rules in new markets do not match the current SE rules. A final decision cannot be made till nearer the Budget. But we will instruct Parliamentary Counsel on a contingency basis.

d. Discount Houses Exemption from Section 472 should be removed - subject to clearance with the Bank.

37. On a more general point we will be monitoring new developments in the City both in the areas where the current tax regime is felt to be inhibiting desirable developments (on which others will no doubt come to us) and on areas where the new markets, players and instruments may outflank the existing protections against tax avoidance.

38. Quite apart from the specific issues dealt with in this minute, the City revolution may well generate the need for tax changes, either because it is inhibiting desirable developments, or because the existing defences against tax avoidance prove inadequate to deal with new markets, new operators and new instruments. We are monitoring this and will report on any significant developments. But any legislative action is likely to be for the 1987 Finance Bill, or later, rather than for the 1986 Bill.

39. Length of Legislation It might take around half a page to legislate market-maker reliefs for the Stock Exchange only. Extending the reliefs to other RIEs might be very short and simple, but it is too early to say. If legislation is necessary on the Section 477 loophole, this might take half a page in the Finance Bill.

I R SPENCE

Inland Revenue

FROM: A J BOLTON
Policy Division
Somerset House

19 December 1985

FINANCIAL SECRETARY

STARTER 114C: ACCRUED INCOME SCHEME - TECHNICAL POINTS

I INTRODUCTION

1. We have detected a number of mainly technical flaws in the Accrued Income Scheme. This note explains the points and seeks Ministers' authority to deal with these matters in the Finance Bill.

2. In Mr Spence's parallel note on Sections 469 and 471-475 of the Taxes Act (Starter 114A), he draws attention to the possible need in a future Bill to widen the Scheme so that it covers preference shares and, possibly, equities also. This note is not, however, concerned with these possible - but much wider-issues.

II UNIT TRUSTS

What is the problem?

3. Schedule 23 to the Finance Act 1985 contains rules designed to enable the Accrued Income Scheme to cope with special circumstances. Paragraph 6 of the schedule applies to securities held on trust for a beneficiary who is absolutely entitled to direct how they are to be dealt with. Any transfers of such securities are treated as being made by or to the beneficiary himself rather than by or to the trustees.

4. We had thought that unit trusts would not be affected by this rule. However, we have just received legal advice that it does apply to unit trusts which are liable to income tax rather than corporation tax (including the specialist trusts

which invest wholly in gilts and similar securities). This means that each individual unit holder will have to be assessed on his share of accrued income charges arising from purchases and sales of securities undertaken by the trustees. The position for unit trusts liable to corporation tax is less clear but we are advised that the result may be the same. Bearing in mind that units are themselves being continually bought and sold, the Revenue, the trustees and the unit holders will be faced with an all but impossible administrative problem. Neither can the position be justified: unit holders might face tax charges even though they themselves had done nothing but hold their units and some could even be forced to sell units in order to pay the tax.

5. There are further difficulties of a more technical nature. If a unit holder owns securities in a personal capacity which are of a kind also held by the Unit Trust, the Scheme will require transactions involving both holdings to be combined. (We legislated to avoid this very problem for Lloyds underwriters). The £5,000 small holdings exemption, which will be available to many unit holders, also becomes absurdly difficult to apply.

What is the answer?

6. In principle the answer would be to ensure that the trustees rather than the unit holders are charged under the Accrued Income Scheme in respect of transactions in securities held by the Trust. It is apparent from the legal advice we have just received that there may be considerable problems in achieving this solution. In the short time we have had to study it, we have not yet seen a way through these problems. We are considering this as a matter of urgency, and will report as soon as possible in the new year so that Ministers can take a decision on the legislative options.

III FUNDS IN COURT

Background

7. Money controlled by the Court for the benefit of suitors and persons under legal disability (eg infants and the mentally defective) is invested in the shares of "common investment funds" established under the Administration of Justice Act 1982. These funds are controlled and managed (by the Public Trustee) in much the same way as unit trusts although the specific problems with Unit Trusts described in Part III are not relevant here. The value of the shares reflects the worth of the underlying assets and dividends are paid twice a year.

The Gross Income Fund

8. There are three funds, only one of which, the "Gross Income Fund" (GIF), concerns us here. It is available only for monies invested on behalf of UK residents whose income falls below the tax threshold.

9. Without special tax rules, the Public Trustee would be taxed on the income of the GIF and would also be obliged to deduct tax when paying dividends on the shares. The dividends would cover his own liability and, since the beneficiaries are not liable, tax would have to be repaid to them. In short, all those concerned (beneficiaries, Public Trustee and Revenue) would be put through a cumbersome administrative exercise to no effect. Section 413 ICTA 1970 therefore allows dividends to be paid gross and relieves the Public Trustee of any liability on the income of the GIF so far as it is passed on as dividends.

The impact of the Accrued Income Scheme

10. Paragraph 8 of Schedule 23 to the Finance Act 1985 provides that income charged on trustees under the Accrued

Income Scheme is to bear tax at a rate equal to the sum of the basic rate and the additional rate (30% + 15% = 45% at current rates).

11. The 45% charge is made so as to render trusts less attractive as vehicles for tax avoidance. Were trustees to be taxed only at 30% under the Scheme, individuals who themselves faced, say, 60% income tax, would find great benefit in lodging securities with a trust instead of holding them personally. The proceeds from the sale of securities (ie the real money which represents accrued income charges) would come out of the trust to the individual as capital. In applying the 45% rate, scheme charges are dealt with in exactly the same way as the income of discretionary and accumulation trusts.

12. As things stand, the 45% charge will apply to the Gross Income Fund just like any other trust. Furthermore, such a charge will not be "income" for the purposes of Section 413 ICTA 1970 and the purpose of that Section will, therefore, be frustrated.

13. We therefore recommend that:

a. the trustee of the Gross Income Fund should be excluded from the additional rate charge under paragraph 8, Schedule 23; and

b. accrued income charges arising to the trustee should be treated as "income" for the purposes of Section 413.

IV STOCK LENDING

Background

14. Stock lending has developed in order to facilitate market liquidity. In the absence of arrangements to borrow stock, a jobber who has sold some stock could effect delivery only by purchasing stock of the appropriate kind. This he may be

unable to do. Instead, the jobber (and, in future, the market makers) borrow stock from institutions such as pension funds, insurance companies, banks and discount houses.

15. When stock is lent in this way, the lender parts with the legal title to the securities but retains the right to interest. This would normally give rise to tax charges as the disposal would either be taken into account in calculating the lender's trading profits or would give rise to a capital gain. Because the imposition of a tax charge would deter potential lenders, the Revenue's Extra Statutory Concession B15 allows the disposals involved in stock lending to be disregarded.

What is the problem with the Accrued Income Scheme?

16. The Scheme is based on transfers of the legal title to securities. It follows that unless specific provision is made the Accrued Income Scheme will apply to stock lending transactions. For exactly the same reasons which prompted the introduction of the Extra Statutory Concession for income tax and capital gains tax, we think that, in principle, stock lending should not be treated as involving transfers by the lender for the purposes of the Accrued Income Scheme.

17. The yield from the Accrued Income Scheme will be very little affected by disregarding stock lending transactions. All stock borrowers (ie jobbers) and a substantial proportion of stock lenders (banks and other securities traders) are outside the scheme anyway. It is only lenders within the scheme who will be affected. If the stock lending arrangements are not disregarded for the purposes of the Scheme, Accrued Income charges may arise when stock is lent and Accrued Income deductions may be due when the stock is repaid. Since the lender will also be entitled to any interest arising while the stock is out, the result will be capricious.

18. Why legislate? It can fairly be asked why our recommendation could not be implemented by extending the existing Extra Statutory Concession for stock lending. The advice we gave Ministers during the Summer (Mr McConnachie's minute to Financial Secretary dated 20 June 1985) was to the effect that, in the short term, the desired result would be regarded as following from the concession but that the question should be considered when reviewing the Concession in the light of the City Revolution (see the parallel minute on starter 114B, paragraphs 17 and 18). On reflection, we think that legislation is necessary. After all, we are seeking to deny stock lenders Accrued Income Scheme reliefs to which they are, under present law, entitled. Furthermore, the benefit to many lenders under the existing concession - relief from CGT on the disposal of stock - will be largely valueless once gilts have become fully exempt from CGT after 2 July 1986. Put simply, stock lenders might well turn to us and say that they no longer want our "concession" but they do want their Accrued Income Scheme reliefs.

19. We therefore recommend that the legislation should be amended so that stock lending transactions will not be regarded as transfers for the purposes of the Accrued Income Scheme.

V DEFERRED COUPON BONDS

What is the problem?

20. We have recently been asked to comment on a number of proposed new securities which have been designed to enable Lloyd's underwriters to obtain a significant proportion of the return in capital form. (As a class, Lloyd's underwriters, were heavily engaged in bondwashing prior to the Accrued Income Scheme.) One of these proposals, a Deferred Coupon Bond, largely circumvents the Scheme.

21. The proposed bond would have a life of four years, be issued at par and pay interest of, say, 0.5% for each of the

first two years and 19.5% for each of the last two. The aim is for the underwriter to sell the bond, perhaps to an exempt pension fund, towards the end of the second year. The purchaser will pay for the sizeable interest he will later receive but the Accrued Income Scheme will charge the vendor only in respect of interest which has accrued up to the date of sale at 0.5% per annum. This device could be exploited on a wide scale and lead to substantial loss of tax.

What is the solution?

22. We recommend that this serious breach in the Schemes be repaired by legislation which would enable us to smooth the rate of interest over the entire life of a bond which carries a pre-ordained variable rate of return.

VI UNREALISED INTEREST

General

23. Paragraph 15 of Schedule 23 enables the Accrued Income Scheme to cope with bearer bonds which are transferred with unpresented coupons already due for payment ("unrealised interest"). Without paragraph 15, the scheme would not tax the vendor on the accumulated interest and bearer bonds could, therefore, still be used for bondwashing. Paragraph 15 directs that the unrealised interest is to be treated as the vendor's income and it relieves the purchaser of liability when he subsequently presents the coupons and collects the interest.

24. We have detected three difficulties:

a. bearer bonds purchased by dealers;

b. bearer bonds purchased by non-dealers; and

c. bonds in default.

a. Bearer bonds purchased by dealers

25. The general rule is that dealers in securities are outside the Scheme. When a dealer sells stock there is no need to deem accrued interest to be his income because the sale price, which will include consideration for that interest, will be a taxable receipt to be included in computing his trading profits liable to income tax. In other words, there is no point in a dealer trying to bondwash; a sale merely turns one class of taxable income (interest) into another (trading profits). By the same token, a dealer who purchases securities does not get an Accrued Income Scheme allowance for interest which has accrued before he bought the stock. The purchase price will include payment for that interest and will be deductible in calculating his trading profits.

26. As outlined earlier, paragraph 15 applies the Accrued Income Scheme to the special circumstances of a bond transferred with interest due but as yet unpaid ("unrealised interest"). Where the transferor is a dealer, paragraph 15 is, quite rightly, suppressed so that he is not taxed on the "unrealised interest" (remembering that he will, instead, pay tax on the trading profits arising from the sale). Unfortunately, because of a drafting defect a dealer who acquires stock with unrealised interest will not be taxed on that interest when he receives it. He will be able to deduct the purchase price in computing his trading profits in the normal way but will, also, be relieved of tax on the unrealised interest which he subsequently receives.

27. The problem can be seen most graphically if one considers a transaction between, say, two banks. The vendor bank is not charged on the unrealised interest but the purchaser bank is still relieved of tax on the interest which it will receive. In short, the Revenue stands to lose tax on a coupon if the bond is sold, say, one day after the coupon becomes available for payment.

28. We consider that paragraph 15 needs to be amended so as to deny an Accrued Income Scheme deduction to any purchaser of securities who is a dealer in securities.

b. Bearer bonds purchased by non-dealers

29. There is a corresponding problem which affects the CGT treatment of people who are not trading as dealers in securities. Except in so far as the Scheme imposes a charge in respect of accrued interest, such a person does not pay income tax on the gains he makes from buying and selling stocks. Instead, he pays CGT.

30. A non-trader who sells a bearer bond with "unrealised interest" will be charged income tax on the interest under Paragraph 15 of Schedule 23. The paragraph then quite properly goes on to exclude the amount which has been charged to income tax from the CGT computation. In other words, it ensures that the "unrealised interest" is not charged twice, first to income tax under the Scheme and then again to CGT as part of a gain made on the sale.

31. Unfortunately, there is no equivalent rule denying a CGT deduction to a person who acquires bonds with unrealised interest. He will not have to pay income tax or corporation tax on the interest subsequently received. He will also enjoy a CGT deduction for the money he laid out to purchase that interest, a deduction which will, of course, reduce the CGT charge arising if he later sells the bond. In short, the purchaser enjoys a double relief.

32. We recommend that paragraph 15 should be amended so as to deny a CGT deduction in so far as an Accrued Income allowance arises on the purchase.

c. Bonds in default

33. As it stand, paragraph 15, applies to any bond, whether bearer or not, which happens to be in default. Consequently,

a vendor will be taxed on all the interest due but as yet unpaid, the rights to which he sells with the bond. This produces an absurd result where, for instance, the bond is many years in arrear and there is no prospect of payment. In these circumstances, the bond is probably being bought and sold for the pretty certificate (the so-called "scripophily market"). There are also some overseas Government stocks currently in arrear but for which there is a prospect of payment.

34. The British Insurance Association has raised the point with us and, although we have yet to hear from them, there is apparently in existence a body which represents the holders of bonds in default. We have, at this stage, little idea of the extent of the problem but the result in any individual case would be clearly anomalous.

35. While the case for action is in principle, unanswerable, we see considerable technical difficulties in devising a solution. Before embarking on legislation, we need to check out whether the scale of the problem is sufficient to make it necessary. We therefore seek Ministers' authority to consult The Stock Exchange, the Association of British Insurers and the body representing holders of these bonds in order to work out some answers. We will then report back to Ministers with recommendations.

VII BUILDING SOCIETY BONDS

What is the problem?

36. The interest paid on building society bonds is subject to the composite rate scheme. This means that it is not paid under deduction of tax as such but, nonetheless, is regarded as being equivalent to gross income upon which basic rate income tax has already been paid. The Accrued Income Scheme, however, recognises only the interest which is actually payable on the building society bonds (ie the "net" amount) and so produces the wrong measure of income both for vendors

and purchasers of bonds. In short, the composite rate arrangements blur the measurement of interest which is fundamental to the Accrued Income Scheme. The two Schemes are incompatible.

How can we deal with this?

37. The alternatives are to amend the Accrued Income Scheme or to take these bonds out of the Composite Rate by regulation. Legislating on the Accrued Income Scheme could involve major technical problems. We had hoped that it would be possible to deal with the issue fairly simply in the forthcoming building society regulations. Unfortunately we have just run into difficulties on this. We are working on these, and still hope that Accrued Income Scheme legislation will prove unnecessary. We will report further on this as soon as possible.

VIII COST

38. Potentially there is a considerable - but unquantifiable tax cost from deferred coupon bonds (Part V) and bearer bonds purchased (Part VI a. and b.). There would also be some loss if no action was taken on stock lending (Part IV). None of the other proposals would produce significant cost or yield.

IX STAFFING AND COMPLIANCE

39. There would be substantial staff costs and compliance difficulties were these problems, especially on units trusts (Part II) not to be remedied.

X FUTURE DEFECTS : LEGISLATIVE HANDLING

40. We cannot be certain that further deficiencies in the Scheme will not appear when it gets going after 28 February 1986. It demands quite wide-ranging procedural changes and, given the speed of change in the City, we cannot be sure that new points will not emerge. The nature of the

scheme is such that even the most niggling little problem is likely to demand legislation if it is to be dealt with at all. This is because the scheme operates by giving an allowance to one person and charging someone else. An allowance can, of course, always be granted by concession in special circumstances but we cannot secure the corresponding charge without legislation.

Secondary regulation rather than primary legislation?

41. We do not think the package of changes set out in this note could be dealt with by secondary legislation. There are at present no enabling powers to deal with Accrued Income Scheme changes by regulation. Some of the proposals would involve major increases in liabilities for individuals. The changes need to be effective from the start date for the Accrued Income Scheme - 28 February 1986 - to ensure that the "wrong" people do not get charged, and to avoid the large-scale unscrambling that would have to occur. We do not think retrospective changes on this scale could sensibly be applied by regulation, particularly when the enabling power itself does not exist.

42. Ministers may wish to consider taking an enabling power in the 1986 Bill to enable future changes to be made by regulation. As we see it, however, there could be serious difficulties in making any substantial change in anti-avoidance legislation, involving increases in tax liability for large numbers of people, without primary legislation. It is a matter for Ministers political judgement how serious these problems would be. If it is concluded that the major problems would still have to be dealt with by primary legislation, there would seem limited value in having enabling powers for regulation at all, particularly as it would be difficult to publicly justify the distinction between significant (primary legislation) and minor (regulatory) changes.

X1 SUMMARY - RECOMMENDATIONS AND OPEN POINTS

43. We seek Ministers agreement to prepare amendments to the Accrued Income Scheme so that:

a. any Scheme charges on the trustee of the Gross Income Fund are levied at the basic rate only and count as "income" for the purposes of Section 413 ICTA 1970 (paragraph 13);

b. it does not apply to stock lending transactions (paragraph 19);

c. deferred coupon bonds are treated as paying a uniform rate of interest over their lives (paragraph 22);

d. Scheme allowances under paragraph 15 of Schedule 23 are denied to dealers in securities who acquire bearer bonds (paragraph 28); and

e. other purchases of bearer bonds get no CGT deductions for interest bought (paragraph 32).

We recommend that these amendments should take effect from 28 February 1986 (the date on which the Accrued Income Scheme starts). They should occupy about 2 pages of Finance Bill space. If you are content, we will be grateful for authority to instruct Parliamentary Counsel accordingly.

44. There are, in addition, three open questions:

a. how to solve the unit trusts problem (paragraph 9);

b. how to tackle bonds in default (paragraph 38); and

c. whether the Accrued Income Scheme will need amendment to cope with building society bonds (paragraph 40).

We seek Ministers authority to consult on point b. and we will report back on all three issues early in the new year.

A J BOLTON

831/057

CONFIDENTIAL

FROM: A B MURRAY
DATE: 16 JANUARY 1986

1. MISS SINCLAIR

2. FINANCIAL SECRETARY

cc PS/Chancellor
PS/CST
PS/MST
PS/EST
PS/Sir P Middleton
Mr Cassell
Mr Monger
Mr Scholar
Mr Dyer
Mr Haigh
Mr McKenzie
Mr Graham, OPC
Mr Johns, IR
Mr Wilmott, C&E

Ch/Just to see

FINANCE BILL TIMETABLE

I gather you wanted to know where we stand on this.

2. Mr Pratt's submission of 10 September on the date of the Budget set out possible Finance Bill timetables. The timetable outlined for an 18 March Budget was as follows:

18 March: Budget
27 March - 6 April: Easter Recess
10 April: Bill to House
17 April: Bill published
28 April: 2nd Reading
12-15 May: Committee of Whole House
20 May - 3 July: Standing Committee
23-24 July: Report and 3rd Reading
30 July: House of Lords Stages

3. It should be emphasised that Mr Pratt's timetables were meant to illustrate the relative 'tightness' of the various Budget dates, once the conventional intervals between stages were allowed for. It turned out that the 18 March option allowed a relatively generous 'window' for handling Committee Stage - but this was not of course intended to imply that all this time would be required in practice. Depending on the length and contentiousness of the Bill, there could be potential for compressing this timetable, particularly within the window allowed for Committee.

4. At this stage we cannot be sure how long the 1986 Finance Bill will be; final decisions have still to be taken on many of the starters, and there is still plenty of time for new candidates to emerge. Our present estimate is that the Bill could be about 170 pages, though past experience suggests that it may well get longer as the Budget approaches, and that in any case length of contents is not always proportional to length of debate. Since 1980, by comparison, the Bills have varied in length from 142 to 223 pages on introduction.

5. So, subject to these fairly major caveats, it looks as if we might well need slightly less time for the 1986 Bill than provided for in the outline timetable. For instance, last year's Bill started out at 185 pages (though the final Act grew to 242 pages), and only spent 9 days in Standing Committee, compared to the 12 days allowed for in the above outline.

6. But, as I have already emphasised, there is still too much uncertainty to start taking firm decisions on this year's timetable. We hope to let you have a full submission a few weeks before the Budget, when we have a reasonable idea of the final shape of the Bill, and of likely progress with its preparation.

Andrew Murray

A B MURRAY

CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House

FROM: L J H BEIGHTON
DATE: 20 January 1986

1. MR BATTISHILL

2. FINANCIAL SECRETARY

EMPLOYEES' BENEFITS: DISALLOWANCE TO EMPLOYER

1. We spoke before Christmas about your proposal to disallow for tax purposes the costs to employers of providing benefits in kind for their employees. I undertook to let you have a paper about this when we had had an opportunity to consider the implications a little more fully.

---

c. Chancellor of the Exchequer
Chief Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Butler
Mr Cassell
Mr Monck
Mr Burgner
Mr Monger
Mr Scholar
Mr Shaw
Miss Sinclair
Mr. Cropper
Mr. Davies

Chairman
Mr Battishill
Mr Isaac
Mr Beighton
Mr Calder
Mr Lawrance
Mr Lewis
Mr Painter
Mr Northend
Mr Pattison
Mr Pearson
Mr Bush
Mr Eason
Mr Elliott
Mr Prescott
Mr Yard
Mr Sutcliffe
PS/IR

Purpose of the disallowance

2. As we understand it, there are two strands of thought behind this proposal. The first is concern about the problem of high earnings, especially in the financial sector. The second is your own feeling that "perks" are undesirable; that remuneration should be paid entirely in the form of salary, leaving employees free to decide how it should be spent. On the face of it there is some conflict between these objectives, since - if any new provision worked effectively to discourage the provision of "perks" - employers would be likely to be pressed to increase the amount of cash salaries they offered in order to compensate, and the higher salaries might be more visible. It also needs to be kept in mind that, while there is a distinction between a payment of cash salary and a payment of a benefit in kind, the distinction can become a little blurred in some circumstances, e.g. where an employer pays increased remuneration but insists that the increase should actually be spent on a particular benefit. I return to that later in this note. But certainly, if higher salaries did result from a measure on these lines the employers would be liable to NIC on the increased salaries; there would no longer be any argument (as there is at present in the case of cars) that some employees were benefitting from undertaxed benefits; and the employees would bear the full weight of income tax on their salaries.

Shape of a possible scheme

(i) Phasing in

3. As a preliminary point, we understand that you contemplate that the disallowance would be phased in over a period of years to ease the transition. For example, 25 per cent of the cost of benefits might be disallowed initially, rising to 50 per cent, 75 per cent and perhaps finally to 100 per cent. The length of the run in

period and the scale of the tapered reduction would be very much a matter for political decision.

ii) Coverage

4. The natural starting point for any scheme would be to disallow the cost of those "perk items" (i.e. expenses payments and benefits) which are at present taxable in employees' hands under the Schedule E provisions. Those provisions would provide ground rules which are already familiar both to tax offices and to employers. On that basis, the coverage would be:-

i) items falling within the special provisions relating to all directors and "higher paid" employees (i.e. those earning at a rate of £8,500 per annum or more);

ii) items which are taxable in the hands of all employees whatever their earnings, e.g. vouchers and season tickets.

(In what follows I refer to all these items as benefits).

5. If you wished to move away from these rules the main option would be to disallow the cost of all benefits provided for all employees and directors. An alternative - but one which would presumably be less presentationally attractive - would be to target the disallowance on benefits provided for top salary earners, e.g. those with earnings above the old UEL for employers' Class 1 NICs, where the NIC avoidance problem is potentially more serious. But while there is no very logical reason in the context of this exercise for retaining the £8,500 limit, to abandon it would add to the administrative burdens on employers, at least to the extent of complicating the kinds of record they needed to

keep, since the "population" for this purpose would then be different from that for Schedule E purposes.

6. So far as the coverage of employers is concerned, a disallowance would clearly not bite on tax exhausted businesses - but given the recent structural business tax changes and continuing better profit levels the number of such businesses should diminish over the next few years. More significantly, the disallowance would not extend to employers in the public sector (including local authorities and charities); and while generally speaking perks are not given in that sector there could be grounds here for complaints of unfair discrimination.

Self-employed

7. The disallowance would presumably apply both to incorporated and unincorporated employers. But we do not see that the self-employed without employees could be brought within its scope. Certainly self-employed people obtain benefits from the private use of business assets such as cars. But for tax purposes costs are apportioned between business and private use, and only expenditure referable to business use is allowable in computing profits. As the proprietor of his own business, the self-employed person is also free to take his own decisions about the nature of the assets he acquires, e.g. the type of car.

(iii) Extent of disallowance

8. As you know, the general principle is that benefits are taxable in full in the hands of the employee, except to the extent that an offsetting allowance is due to him under the Schedule E expenses rules. (In relation to the provision of cars, we cut through this in practice by a system of scale charges). So the result, in general terms, is that the employee ends up paying tax only on that part of what he receives which represents a private

benefit to him. We assume that both on general principles and to achieve symmetry with the Schedule E rules we should similarly disallow in the employer's hands only that part of any benefit which could not be offset in the hands of the employee by an expenses deduction. One may note in passing that proceeding in that way would fit conceptually with the existing disallowance of entertainment expenses. This is a blanket disallowance provision, but the expenses to which it relates are disallowed because they are regarded largely as personal expenses for participants in the entertainment and it is difficult for the genuine business element if any to be distinguished.

9. In some cases there would be no particular problem in arriving at the amount of the benefit to be disallowed. This is most obviously the case for those benefits for which no expenses deduction is allowable anyway; the measure of the benefit would then simply be the cost to the employer of providing it.

10. In other cases, however, the proper measure of taxable benefit could only be determined once any expenses deduction due to the employee had been established and this would inevitably take time. One way to overcome this difficulty would be to leave the employer and employee to agree an appropriate amount of private use to be disallowed in the computation, but for two reasons that would hardly be an appropriate way of determining a constituent of the employer's tax liability. First, the employee would have no incentive to provide the information (which would be confidential to him): while employers would object on deregulation grounds to the extra work involved for them. Second - looking at it from the Revenue's point of view - we would in practice be obliged to accept the figures agreed between employer and employee. We could not contemplate any substantial checking of employers' computations against employees' returns, and would have to limit our checking

to a minority of cases in which abuse was suspected, because, quite apart from the sheer volume of work involved, the computation and return might cover different periods, come in at different times and be sent to different offices. And even where the employers' figures were accepted for disallowance purposes, the normal rules would still have to run for Schedule E purposes, with the result that we might end up with two different measures of the same benefit.

11. Against that background, we now consider each of the main benefits.

(i) Cars

12. In the case of cars we at first considered the possibility of operating a disallowance based on the car benefit scale charges used under the Schedule E legislation as a ready made framework. But a major difficulty about using these scales would be that for employees the scale charge is halved in cases where the employee can show that he travelled on business at least 18,000 miles in the year in question, while the scale charge is increased for those who do less than 2,500 business miles. These adjustments could only be taken into account if the employee gave information to the employer, (it is unnecessary for him to do so under the present procedure) and that would get us straight back into the difficulty discussed in paragraph 10.

13. This difficulty means that - so far as the provision of the car, as distinct from the provision of fuel, was concerned - we might need to rely on a standard scale unrelated to the degree of private use. The same scale would apply both to company owned and leased cars available for private use. The only exception would be pool cars, and cars which could not be and were not used privately, the cost of which would continue to be allowed in full.

14. This new scale could be pitched at the same level as the existing Schedule E scale for those doing between 2,500 and 18,000 miles, but there would be a case for pitching it at a higher level and it could be weighted against the provision of more expensive models. The case would be that since, unlike the charges on most benefits, the car scales are too low, it would be right for disallowance purposes to operate on a more realistic basis. However the introduction of a scale pitched at a level different from the Schedule E scale would throw doubt on the validity of that scale.

15. An entirely different (and no simpler) approach might be to withdraw (in stages) capital allowances for all cars except pool cars and those used exclusively for business purposes. For example, over a period of, say, 4 years from the start date, cars would attract annual allowances at progressively reducing rates instead of the present 25 per cent. The treatment of leased cars would require careful consideration but it would probably be necessary to phase out deductions for lease rents in the lessee's tax computations otherwise companies would switch from purchase to leasing. All this would require complex legislation and would impose additional compliance burdens on businesses.

16. So far as the benefit arising from the provision of fuel is concerned, we think that the scale introduced in 1981 could reasonably be used as the appropriate measure for disallowance purposes - on the grounds that these charges reflect a realistic measure of the benefit.

(ii) <u>Payments for medical treatment and Private Health Insurance</u>

17. This is the other main employer - provided benefit (cars and private health insurance taken together amount to 85 per cent of all benefits in terms of the revenue yield from taxing them). Some employers might argue

that there is an element of advantage to them in ensuring that their employees are able to receive prompt medical attention. But we do not think that argument is strong enough to justify any special arrangement, and would propose simply to disallow the cost to the employer. We are helped here by the fact that no expenses deduction to the employee would be possible under the Schedule E rules either.

(iii) Beneficial Loans

18. In principle, the measure of the benefit here should be the same as for Schedule E. But there are some complications. First, there are two alternative methods provided by the legislation for calculating the benefit in respect of such a loan and the employer would not know which method was to be applied in any particular case. Second, even where the calculation produces a taxable benefit, tax is only charged if and to the extent that the employee would not otherwise have been eligible for interest relief. Finally, where beneficial loans are made by close companies there is already potential for a double charge under the Schedule E provisions and the close company provisions (Section 286 ICTA 1970) and disallowance would add a further layer of complexity. We are already looking at Section 286 in the context of the Keith Report and there seem good grounds for leaving this problem to be tackled along with the Keith legislation.

Education, School Fees etc

19. In principle, school fees including boarding school allowances paid by an employer should be covered by the scheme, and disallowed. There is, however, a potentially awkward link here with the proposal to exempt from tax boarding school allowances paid to Crown servants serving in the UK on return from a posting overseas. As you know, this proposed exemption will be difficult presentationally, and open to the criticism of

apparent discrimination against private sector employees. If in addition the employer himself was not allowed a deduction, that might be seen as doubly unfair. But if (c.f.paragraph 2 above) the employer simply paid a higher salary, and no doubt that is what employers would do, there would be no disallowance.

Accommodation

20. If we followed the Schedule E precedent the amount to be disallowed would be the greater of the rateable value or the rent, if any, paid by the employer. But rateable values (1973 valuations for England and Wales, 1976 for Northern Ireland and, ignoring the last revaluation, 1978 for Scotland) bear little relation to the real value of the benefits and their disallowance would accentuate the disparity in treatment between properties situated in different parts of the country. If the disallowance were to bite on these perks a more realistic measure of cost of providing the benefit would have to be found which imposed a broadly similar charge on property whether it was owned or leased by the employer and in whichever part of the United Kingdom it was situated. Given the current sensitivities about domestic rating, this could be presentationally unattractive. There would also be some cases where it would be argued that there was a business purpose in providing the accommodation distinguishable from the benefit of private use. These arguments would equally apply in the case of other accommodation charges, e.g. rates, heating and lighting. There would also be an argument for disallowing capital allowances on any items which would qualify as plant - e.g. a central heating system.

Vouchers and Credit Cards etc

21. The cost of goods or services acquired by the use of vouchers, tokens or credit cards might be disallowed, but

to the extent that an expenses deduction was available to the employee, we would be back to all the difficulties outlined in paragraph 10.

Scholarships

22. The amount to be disallowed in the case of scholarships awarded to students by reason of their parents' employment could be simply the amount paid by the employer.

Expenses payments

23. It is in relation to expenses payments that the practical difficulties of arriving at the amount of benefit to be disallowed come most sharply into focus. No employer is likely to make an expenses payment at all unless he has very good reason to suppose that the expenses it is intended to cover are actually going to be incurred. Indeed we understand that some 92 per cent of expenses payments are subsequently franked by expenses claims. But where there is an expenses payment rather than a benefit in kind, it is simply not possible, before the employee's expenses claim comes in, to make any arbitrary assumption about the extent of any private benefit. For this reason we see no alternative to excluding expenses payments altogether from the scope of any disallowance provision.

24. There are however two reasons why it would not be very satisfactory to proceed in this way. First, although it would mean that we would not be making a disallowance, where on principle we should be making one, in some 8 per cent of cases, that low percentage conceals a high cost in revenue terms. Second - and this goes back again to the point I made in paragraph 2 of this note - if expenses payments generally are not to be disallowed employers will simply ensure that, instead of paying a disallowable benefit, they will instead give the

employee an additional (and allowable) expenses allowance with which he is to provide himself with the particular benefit. That sort of payment, just as much as payment of an actual benefit, would seem to offend against your view that employees should have freedom of choice. We should therefore have to devise some rules for disallowing any cash payment by an employer which was earmarked for the acquisition, by the employee, of an item which would have been disallowed if the employer had given it to him direct. In practice, of course, it would be far from easy to apply a motive test of this kind.

OTHER ISSUES

Staff Cost

25. On the basis of the work we have done at present, we estimate that the extra staff costs to us would be some 20 - 35 units. Since the additional staff would not in practice be available this increase would inevitably be at the expense of investigation work.

Yield

26. Assuming a phasing in, year by year, at the rate of 25 per cent, 50 per cent, 75 per cent and 100 per cent we calculate the corporation tax yield of what is proposed, on an accruals basis, as follows - (figures in £m).

	1987/88	1988/89	1989/90	1990/91
If £8,500 threshold applied	100	220	370	550
If no threshold	120	250	410	600

See note (ii) over

Notes:

(i) Receipts would be slower to build up; in practice there would be little coming in in 1987/88.

(ii) These figures assume no behavioural change; but the purpose of disallowance would precisely be to induce a behavioural change, and, if it was successful in that, the yield would obviously be reduced and the receipts would build up correspondingly more slowly.

(iii) These figures do not cover the alternative option to phase out capital allowances (paragraph 15 above) which has not been costed.

Start date

27. It would not be possible to introduce a scheme which would start operating this year. The scheme would have to be legislated for this year to start operating next year.

Concessionary measure

28. You also asked us to consider a sweetener which could be introduced at the same time as the withdrawal of relief for benefits. Given that Ministers have decided not to increase the £8,500 limit for the charge on most benefits, the only candidate we can offer is the abolition of the £8,000 limit for capital allowances on cars. This is already on the starters list in its own right (No 148) and Mr Elmer sent you a note about the possibilities on 17 December.

29. The effect would be to increase the annual allowances on those cars which would offset the scale disallowance in the company's tax computation (paragraph

13). The extent of the offset would depend on the size of the disallowance and the cost of the car. Equally if you were to decide to phase out capital allowances on cars (paragraph 15), abolition of the ceiling would have the effect of boosting the amount of capital allowances on expensive cars that would otherwise be relieved during the transitional period. Presentationally this would appear as more of a sweetener if an arbitrary fixed disallowance were adopted for cars rather than the phased withdrawal of capital allowances. Either way however abolishing the ceiling is unlikely to be regarded as much compensation by either businesses or the motor industry, who have argued strongly for several years on the merits of the case for the £8,000 limit to be either revalorised significantly or abolished.

Summary and conclusions

30. We think we have here the bare bones of a possible scheme, though it will be apparent from what I have said that it would be a decidedly rough and ready one, not least because it would simply not be practicable to extend coverage to all types of benefit (though the two main ones would be included).

31. Apart from that, the main difficulty with the scheme as I see it is this. One of the reasons why payment in kind has become more widely used in the United Kingdom is because of the tax and NIC advantages, particularly in respect of cars. There is a very good case in logic for removing those tax advantages in the hands of employees, but for political, industrial and practical reasons the Government has felt able to make only limited progress in this direction. But to attempt to redress the balance by disallowing the expense in the employer's hands would deny you the argument of logic. You would still face the political and industrial arguments, which are likely to be fierce, especially from the motor industry, who would fear that demand would be reduced or in any event

go down market; but in addition you would no longer have the better of the argument of principle, because in principle, all expenses properly incurred in earning profits ought to be allowed. Furthermore, it would undoubtedly be said that the scheme imposed double taxation (i.e. in the employer's hands and again in the employee's). The measure would therefore, I fear, attract a very wide measure of criticism, not least from the Secretaries of State for Industry and Employment, and the extent of the rough edges which we have had to suggest would provide the critics with plenty of ammunition. We suspect that it might be better to look for a more direct attack on the targets you have in mind.

LJHB

L J H BEIGHTON

With more time, it may be possible to smooth some of the remaining rough edges in Mr Beighton's scheme. But it would never be easy to present and there would be room for endless argument about the detailed rules and for invidious comparisons with the public sector. But, as I see it, the most difficult charge to answer is that benefits were being taxed twice over - once as profits in the hands of the employer and the second time as the employee's remuneration. And not just on company cars where the scale charge is still too small, but on a whole range of benefits where the employee gets away with little or nothing under the present rules.

The representative bodies already complain that the tax system denies them relief on some legitimate business expenses (so-called "nothings"). I can see an outcry if employee benefits were disallowed.

AMWB

A M W BATTISHILL

2155/03

CONFIDENTIAL

FROM: VIVIEN LIFE
DATE: 21 January 1986

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Mr F E R Butler
Mr Cassell
Mr Monck
Mr Burgner
Mr Monger
Mr Scholar
Mr Shaw
Miss Sinclair
Mr Cropper
Mr Davies
Mr Beighton IR
Mr Battishill IR
Mr Bush IR
Mr Elmer IR
PS/IR

Ch/ Content to drop both these?
dwk
21/1

I agree.

EMPLOYEES' BENEFITS: DISALLOWANCE TO EMPLOYER
CAPITAL ALLOWANCES FOR BUSINESS CARS (FINANCE BILL STARTER 148)

1. The Financial Secretary has read Mr Beighton's minute of 20 January. He is most grateful for the work that has been put into putting together the outlines of a possible scheme.

2. However, it is clear to him that in many respects the scheme would be very rough and ready indeed, however much further work was put into it. As well as these practical issues, he is also convinced by the argument that we would be taxing benefits twice over, and so the change would be wrong in principle.

3. Therefore, if the Chancellor agrees, he proposes that this idea should not be pursued further.

4. The Financial Secretary had been leaving on one side the question of capital allowances for business cars (Starter 148) to reconsider in the light of the Revenue's recommendations on

CONFIDENTIAL

mentioned at the overview meeting

employee benefits in general. Considered in isolation, he could see no justification for making the change, given the very high cost involved (£80 million in 1988/89 for total abolition, three quarters of that cost for increasing the limit to £12,000). Given that the Financial Secretary is recommending dropping the proposal on employees' benefits in general, the idea of using this change as a possible sweetner also falls. If the Chancellor agrees, therefore, he recommends that this Starter should be dropped.

VIVIEN LIFE

/047

BUDGET CONFIDENTIAL

FROM: G McKENZIE
DATE: 22 JANUARY 1986

1. **MISS SINCLAIR**

2. **FINANCIAL SECRETARY**

cc Chancellor
Chief Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Monger
Mr Lord
Mr Cropper
Mr Isaac - IR
Mr Battishill - IR
Mr Painter - IR
Mr Ridley - IR

PS/C&E
Mr Knox
Mr Wilmott C&E
Mr Bone C&E
Mr Graham OPC

1986 FINANCE BILL: STARTERS

Following my note of 17 October attaching the first starters list and my summary of 5 December, I now attach the second edition of the starters list.

NUMBER OF STARTERS

2. Of the original 89 starters, and the 15 subsequent additions there are now 80 remaining starters. Of which:

	INCLUDED/ SERIOUS CANDIDATE	STILL UNDER CONSIDERATION	UNLIKELY	TOTAL
I/R	25	23	6	54
C&E	14	6	-	20
DEPT TRANSPORT/TSY	-	6	-	6
TOTAL	39	35	6	80

A list summarising the position of these remaining starters and their associated costs (over £5m), is attached at Annex 1.

433

Spurious accuracy at this stage. On previous years' experience this means 150-175 pages dwk

LENGTH OF FINANCE BILL

3. The latest estimate (where a range of values has been given the middle value has been used) for length of Finance Bill legislation stands at 153 pages.

	INCLUDED/ SERIOUS CANDIDATE	STILL UNDER CONSIDERATION	UNLIKELY	TOTAL
I/R Starters	84	35	4	123
C&E	19*	5	0	24
DEPT TRANSPORT/TSY	6	-	-	6
TOTAL	109	40	4	153

* Includes 12 pages of schedule

The total length of legislation is still considerably lower than it was this time last year (200 pages) and the eventual length (242). The latest estimate of length of legislation now takes account of the number of pages attributable to 'CTT: abolition of life time charge' starter (30-40 pages). It is still too early to say how much of the present estimate for length of legislation will relate to schedules/clauses.

NEXT STEPS

4. Given that the present estimate for length of legislation will probably increase in the coming months, you and the other Ministers may now wish to consider dropping the unlikely starters referred to in paragraph 2 above (numbers 104, 123, 124A, 127, 130, and 157).

G McKENZIE

CUSTOMS

ANNEX 1

	STARTER	COMMENTS	Revenue cost(-)/ yield(+) £m
1	Excise duties: rates	Included	+ 805
2	VAT:registration limits	Included	
3	VAT: legal and professional privilege	Still under consideration	
5	Hydrocarbon oils relief	Still under consideration	- 5
6	Pool betting duty	Still under consideration	
C			
7	VAT: motoring expenses	Still under consideration	+ 50
8	VAT: avoidance by disaggregation	Included	+ 15
9	VAT: directors' liability	Still under consideration	
10	VAT: value of used goods	Included	
11	VAT: direct exports	Included	
14	VAT: transfer of import relief	Included	
15	VAT: Long-term lettings of accommodation	Included	
16	Beer drawback	Included	
17	Spoilt beer relief	Included	
18	Excise licences	Included	
19	Betting and gaming: (Northern Ireland)	Included	
20	Excise duties and VAT: legal evidence by certificate	Included	
21	VAT: Provision to apply Penalties for breaches of requirements of Treasury Orders	Included	
22	VAT reliefs for the disabled: extension to Emergency Alarm Systems & Lifts	Included	
23	VAT: Entry of Premises for distress (New starter: no form yet)	Still under consideration	

STARTER	COMMENTS	Revenue cost(-)/ yield(+) £m (full year)
101 Income tax: thresholds & rates	Included	depends on decisions
102 Cars: car & fuel benefit uprating and related breakpoints	Included	+ 50
103 Stamp duty: rates & thresholds	Serious candidate	- 180
103A Stamp duty: American Depository Receipts	Still under consideration	+ 36
103B Stamp duty: non stampable transaction	Still under consideration	+ 40
103C Stamp duty: Takeovers etc	Still under consideration	+ 40
104 CTT: threshold and rate band changes	Likely to be dropped	depends on decisions
105 CGT: Annual exempt amount	Serious candidate	- 10
106 ACT rate for financial year 1986	Serious candidate	+ 12
107 Mortgage interest relief limit for 1986-87	Included	- 120-150m (MIR to £35,000)
B1		
108 Boarding school allowances & detached duty allowances	To be introduced as new clause during Cttee	- 26
110 Removal of restrictions on disclosure of information (between IR & Charity Comm)	Still under consideration	
113 Agricultural buildings allowance: restructuring	Still under consideration	
114(a) Accrued Income Scheme - anti bond washing (b) City restructuring - market (c) Accrued Income Scheme - technical points	) Still under consideration	
115 Extension of relief under Section 22(2)FA 1974 (pensions paid to Nazi victims)	Included	
116 Mines and wells allowances (MOWA)	Included	- 45
118 Employee share scheme: use of restricted shares	Included	- 10
119 Employee share schemes: access for certain companies currently excluded	Included	- 5

120 Removal of limit on charitable donations and deductible for higher rate purposes	Still under consideration	
121 Stamp duty: stock exchange reliefs	Serious candidate	
122 CTT: reliefs for employee ownership	Serious candidate	
123 CGT: relief for venture capital companies	Likely to be dropped	
124 Business Expension Scheme	Serious candidate	
124A BES: Tax relief for secondments	Likely to be dropped	
125 Tax treatment of enterprise allowance	Still under consideration	- 25
127 New Brunswick (treatment of intangible costs of oil development drilling	Likely to be dropped	+ 35
129 PRT relief for onshore E&A	Serious candidate	
130 Wider tax consequences of BGC privatisation	Likely to be dropped	
131 Deposit interest: payment gross outside composite rate scheme	Still under consideration	- 10
C		
133 Benefits in kind: threshold	Still under consideration	
134 Relief for overseas travel expenses	Included	+5 - 20
135 Employee share schemes extension of employees' rights under savings-related SOS's	Included	
136 Pensions: refund of surpluses	Still under consideration	+ 150
137 Stamp duty: capital duty and unit trust duty	Still under consideration	- 165
138 Stamp duty: loan stock	Still under consideration	+ 20
139 Treatment of VAT penalties etc for direct tax purposes (IT&CT)	Included	
140 CGT: dual resident trusts	Serious candidate	
141 CGT and maintenance funds	Serious candidate	
143 CGT: futures and traded options in gilts	Serious candidate	

144	Amendment to s 58 FA 1969: disclosure of data supplied from employers' index	Still under consideration	
146	Section 252 ICTA: use of tax losses (xfer of trade-coys in common ownership)	Included	+ 50
147	Capital allowances: technical amendments consequent on abolition of FYA's	Included	
148	Capital allowances: expensive cars abolition of ceiling amounts of allowance	Still under consideration	- 60
149	Further tax measures to encourage R&D: treating R&D as trade for tax purposes	Still under consideration	
151	Gross payment of foreign dividends etc to recognised clearing systems	Included	
153	Section 8(3) OTA 1983: fields in common ownership: third party use of assets	Serious candidate	+ 10
154	OTA 1983; disposal receipts in exempt gas fields	Still unde consideration	
157	PRT valuation of light gases	Likely to be dropped	
161	CTT: Abolition of life time charge	Still under consideration	+ 40
162	Tax relief for savings	Still under consideration	
163	Industrial co-operatives	Still under consideration	
164	Small companies CT (New Starter: no form yet)	Still under consideration	

BUDGET CONFIDENTIAL

DEPARTMENT OF TRANSPORT/TREASURY

STARTER		COMMENTS
402	Amendment of 1981 Broadcasting Act	Still under consideration
403	VED: exemption for visiting forces vehicles	Still under consideration
405	Remove the requirement for £2 fee on application for duplicate vehicle registration document	Still under consideration
406	Changes to clarify and simplify trade licensing arrangements	Still under consideration
407	Date to end of month first licensing	Still under consideration
410	Increased penalties for VED evasion	Still under consideration

ITEM: EXCISE DUTIES: RATES

STARTERS NUMBER: 1

CLASSIFICATION: A

DEPARTMENT: CUSTOMS AND EXCISE

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
+£760m in 1986-87 +£805m in a full year	Nil	Yes. Up to 8 separate resolutions	2 pages and 12 pages of schedule

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
Chancellor				

BACKGROUND AND COMMENTS

This assumes revalorisation of all specific excise duties by 5 per cent, the inflation rate assumed for the 12 months to December 1985.

The estimate of revenue yield includes Vehicle Excise Duty for which the official Treasury (FP) has the policy responsibility.

Of the estimated length of legislation, all but about 1 page plus 1 page of schedule is attributable to VED.

A submission on the excise duty rates will be made in the normal way nearer the time of the Budget.

Official in lead:	P G WILMOTT	2913-5023
Official in support:	J P BONE	2913-5028
FP contact:	K ROMANSKI	233 5237

ITEM: VAT: REVALORISATION OF REGISTRATION AND DEREGISTRATION LIMITS

STARTERS NUMBER: 2 **CLASSIFICATION:** B2

DEPARTMENT: CUSTOMS AND EXCISE

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Negligible cost	Nil	No	SI (assuming no increase in real terms)

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
Chancellor/MST				

BACKGROUND AND COMMENTS

The VAT registration thresholds are intended to relieve the smallest businesses from the obligation to register and account for VAT. The VAT Act 1983, Schedule 1, paragraph 12, provides that increases in the VAT registration and deregistration thresholds can be made by Treasury Order. If such an Order were made at the time of the 1986 Budget in line with forecast inflation we estimate that the threshold could be raised from £19,500 to about £20,500.

This would do no more than maintain the real value of the limit at its 1973 level. Our right to do even this is, however, disputed by the European Commission which claims that indexation should be from the day on which the EC Sixth VAT Directive was implemented (1 January 1978); it is calculated on that basis that our 1986 registration limit should not exceed £15,120. The Commission is currently considering whether to issue a Reasoned Opinion against the UK.

The White Paper "Lifting the Burden" explained the Government's view that EC Member States should have more flexibility to raise their VAT threshold if they wish. This goal is being pursued via the UK deregulation initiative in the EC.

The interdepartmental working group, set up to discuss the optimum level of the VAT registration limit in the UK, submitted its final report to the Chancellor of the Exchequer on 11 November 1985.

Official in lead:	P TREVETT	2019 6285
Official in support:	R A STOREY	2019 7127
FP contact:	K ROMANSKI	233 5237

ITEM: VAT: LEGAL AND PROFESSIONAL PRIVILEGE

STARTERS NUMBER: 3 **CLASSIFICATION:** B2

DEPARTMENT: CUSTOMS AND EXCISE

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Nil	Nil	No	Up to 2 pages

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	13/8/85	4.9.85		

BACKGROUND AND COMMENTS

Implementation of Keith recommendation 5 in paragraph 3 of Schedule 7 to FA 1985 removed the limitation on the information which previously had to be provided in respect of supplies of services, and consequently overrode the defence of professional privilege. A Ministerial assurance was, however, given in Standing Committee that until the Government reached a decision on the remaining privilege recommendations of the Keith Committee and any necessary legislation had been enacted, Customs would respect any reasonable claim to legal professional privilege.

It is now proposed to implement recommendation 6 of the Keith Report to the effect that VAT information powers in respect of the supply of goods and services should be subject to a general saving in favour of "legal professional privilege", with provision limiting the privilege where necessary in the interest of the ascertainment of facts relevant to VAT liability.

A meeting is to be held on 23 January to examine the current position. A further submission to the MST will follow.

Official in lead:	P TREVETT	2019 6285
Official in support:	M L CHAPMAN	2019 7129
FP contact:	K ROMANSKI	233 5237

PAGE NO:

ITEM: **EXCISE DUTIES: HYDROCARBON OILS (RELIEF FOR RESEARCH AND DEVELOPMENT OF ENGINES)**

STARTERS NUMBER: 5 **CLASSIFICATION:** B2

DEPARTMENT: CUSTOMS AND EXCISE

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
-£5m in a full year	Negligible addition	No	½ page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST				

BACKGROUND AND COMMENTS

The Society of Motor Manufacturers and Traders has for some years been seeking relief from excise duty on oils used as fuel during research, development and manufacture of internal combustion engines. In response to a back-bench amendment at the Report Stage of this year's Finance Bill, the Minister of State undertook to have further consultations on the subject. Initial discussions have taken place with industry representatives. They have provided some further evidence which has now been evaluated. Some small extra staff requirements may be necessary.

Official in lead:	W F McGUIGAN	2913 5101
Official in support:	N J PRITCHARD-WOOLLETT	2913 5107
FP contact:	K ROMANSKI	233 5237

ITEM: EXCISE DUTIES: BETTING AND GAMING (POOL BETTING DUTY)

STARTERS NUMBER: 6 **CLASSIFICATION:** B2

DEPARTMENT: CUSTOMS AND EXCISE

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
(See below)	Nil		½ page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	19.12.85			

BACKGROUND AND COMMENTS

There are two separate reasons for considering restructure of pool betting duty:

(a) At present all pool promoters regardless of size pay duty at a single rate (42.5 per cent). Representations have been made that this favours the two giant pools promoters and that a banded structure with varying rates would be fairer. This proposal was not adopted in the 1985 Budget but an assurance was given by the former MST that it would be reconsidered this year.

(b) A handful of what are strictly lotteries, promoted for the support of charity or spot under the Pool Competitions Act 1971, are treated as if pool betting and enjoy a preferential duty rate (33.3 per cent). It has been announced that the Act (which is subject to annual renewal) will be allowed to lapse after the life of this Government, and the competitions will then have to be modified in form and bear the normal rate of duty. The promoters have indicated that they see no alternative to conversion of their competitions into pool betting, but argue that retention of the present preferential rate is essential if charity and sport are to continue to benefit. The former MST promised (through Home Office Ministers) that this plea would be carefully considered.

Specific proposals have still to be formulated in the light of discussions to which the 1971 Act promoters have been invited. Specific revenue effects cannot therefore yet be given.

Official in lead:	T M JENKINS	2913 5050
Official in support:	E J S HERON	2913 5063
FP contact:	K ROMANSKI	233 5237

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: VAT: MOTORING EXPENSES

STARTERS NUMBER: 7 **CLASSIFICATION:** C

DEPARTMENT: CUSTOMS AND EXCISE

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
+ £25m in 1986-87 +£50m in a full year	Nil	No	One page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	5.09.85 8.10.85			

BACKGROUND AND COMMENTS

In January 1985 the Department attempted to introduce changes in the way in which the private motoring element of business cars is treated for VAT purposes. As a result of representatives these changes were withdrawn and Ministers stated that consultations would take place before any further change. As a result of these consultations, Customs and Excise have concluded that the best way in which to obtain more revenue from private use of business cars would be to employ a simplified scale of the kind used by Inland Revenue in taxing the benefit of cars and free petrol. This would have the advantage that no mileage records would need to be kept and would lead to greater equity of treatment. The MST approved the issue of a consultation document on 10 October and it was discussed on 18 October. The agreement of the EC Commission will need to be obtained and a submission was made to UK Rep on 15 October and is now lodged with the Commission. Representations arising from the consultations have now been examined. A meeting with the EC Commission has been arranged for 22 January. A further submission to the MST will be made shortly after that meeting.

Official in lead:	E N TAYLOR	2913 5295
Official in support:	G J ELANDER	2913 5313
FP contact:	K ROMANSKI	233 5237

ITEM: VAT: AVOIDANCE BY DISAGGREGATION

STARTERS NUMBER: 8 **CLASSIFICATION:** C

DEPARTMENT: CUSTOMS ANDD EXCISE

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
+15-20 (see below)	Nil	No	½ page OR 3 lines plus regulations

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	25.9.85	1.10.85	19.12.85	

BACKGROUND AND COMMENTS

The VAT registration threshold, which is intended to relieve the smallest businesses from the obligation to register and account for VAT, is being manipulated by artificially dividing what would normally be considered to be a single business into a number of parts, each of which trades at a level below the registration threshold.

There is no question of preventing the bona fide registration of genuinely separate businesses. However, following examination of the growing problem by an internal Customs working party, we seek authority for legal provision to enable us to stop such cases as a company which found it worthwhile to split itself into 40 separate firms each trading for one or two weeks a year, and the artificial disaggregation of a club's gaming machine and/or bar activities from the other activities of the club. Advice on such schemes is currently being advertised for sale.

The revenue loss at present is impossible to gauge accurately but the £15-20 million is the nearest estimate we are able to make.

Official in lead: P TREVETT 2019 6285

Official in support: D C HEWETT 2019 7135

FP contact: K ROMANSKI 233 5237

PAGE NO:

ITEM: VAT: DIRECTORS' LIABILITY

STARTERS NUMBER: 9 **CLASSIFICATION:** C

DEPARTMENT: CUSTOMS AND EXCISE

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Negligible	Negligible	No	Short clause (less than 10 lines)

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST				

BACKGROUND AND COMMENTS

Under Section 171(4) of the Customs and Excise Management Act 1979, a director may be made liable for a criminal offence committed by a corporate body where that offence is proved to have been committed with the consent or connivance of that director. Keith Committee VAT recommedation 35(d) proposed that this section of the law should also apply to liability for civil penalties. The Government accepted the view that the time was not appropriate for legislating for this recommendation in the 1985 Finance Act, in the light of the Insolvency Bill discussions taking place on penalising a director, on liquidation of a company, for wrongful trading. As a result the penalty provision in s. 13 FA 1985 for the civil treatment of VAT evasion is less effective because it cannot apply against the director of a company responsible for the evasion.

The Insolvency Bill was given Royal assent on 30 October 1985 and we doubt whether previous sensitivities about making directors answerable for the activities of their companies will apply in 1986. (We are seeking confirmation that officials in other interested departments share this view.) By making directors responsible for their company's VAT evasions this proposal seeks to apply a more limited version of recommendation 35(d). Directors would become liable to the civil penalty for VAT evasion in s. 13FA 1985 although not to the other penalties contained in sections 14-17 FA 1985 which deal with other civil infractions. (Section 13 concerns evasion where a person's conduct involves dishonesty; the others are absolute offences.)

Official in lead:	P HOGG	2238 245
Official in support:	G TAYLOR	2238 423
FP contact:	K ROMANSKI	233 5237

PAGE NO:

ITEM: VAT: VALUE OF USED GOODS

STARTERS NUMBER: 10 **CLASSIFICATION:** C

DEPARTMENT: CUSTOMS ANDD EXCISE

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Nil	Nil	No	6-7 lines

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	03.12.85	10.1.86		

BACKGROUND AND COMMENTS

When a business is deregistered or transferred, VAT is due on goods and equipment used for the purposes of the business. Under the VAT Act, the value to be taken into account is the cost of the goods to the person making the supply. This can be inequitable where items have depreciated, and since 1978 we have allowed VAT to be charged, extra-statutorily, on the current used value of the goods instead. We now propose to incorporate this provision in the law.

Official in lead:	B J COCKERELL	2913 5319
Official in support:	G R BURGESS	2913 5346
FP contact:	K ROMANSKI	233 5237

BUDGET
CONFIDENTIAL

ITEM: VAT: DIRECT EXPORTS BY SUPPLIER

STARTERS NUMBER: 11 **CLASSIFICATION:** C

DEPARTMENT: Customs and Excise

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Nil	Nil	No	7-8 lines

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	03.12.85	10.1.86		

BACKGROUND AND COMMENTS

A provision is required to allow the Commissioners to make Regulations prescribing the conditions attaching to goods exported directly by the supplier. Article 15(1) of the VAT Sixth Directive requires Member States to exempt the supply of goods exported direct by the supplier under conditions which Member States "shall lay down for the purpose of ensuring the correct and straightforward application of such exemptions and of preventing any evasion, avoidance or abuse". In the UK VAT relief in such circumstances is governed by Section 16(6) of the VAT Act 1983, but the Section does not lay down conditions nor does it allow subordinate legislation to be made laying down conditions. Our legal advice is that implementation of the Directive by administrative menas (we lay down conditions in our Public Notice) is insufficient; European Court judgements indicate that Directives must generally be implemented by binding means. Amendment of the VAT Act is required to provide the Commissioners with powers to impose conditions with statutory force.

Official in lead:	B J COCKERELL	2913 5319
Official in support:	R A FLAVILL	2913 5327
FP contact:	K ROMANSKI	233 5237

BUDGET
CONFIDENTIAL

ITEM: VAT: TRANSFER OF IMPORT RELIEF AND OF ASSOCIATED OBLIGATIONS

STARTERS NUMBER: 14 **CLASSIFICATION:** C

DEPARTMENT: Customs and Excise

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Nil	Nil	No	5 lines

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	03.12.85	10.1.86		

BACKGROUND AND COMMENTS

A provision is required to allow the transfer of VAT import relief and of its obligations to a person other than the original importer. This requirement stems from "transfer of relief" provisions in Directives 83/181 (VAT relief on certain final importations) and 85/362 (VAT temporary importation relief). Explanatory Memoranda on both Directives have referred to the need for primary legislation. (A Treasury order was laid on 8 November 1985 which came into effect on 1 January 1986, requiring fulfilment of our obligations.) No consultative document has been issued, but forthcoming Public Notices will mention the availability of this transfer facility.

Official in lead:	B J COCKERELL	2913 5319
Official in support:	M C GREEN	2913 5320
FP contact:	K ROMANSKI	233 5237

PAGE NO:

BUDGET
CONFIDENTIAL

ITEM: VAT: LONG-TERM LETTINGS OF ACCOMMODATION

STARTERS NUMBER: 15 **CLASSIFICATION:** C

DEPARTMENT: Customs and Excise

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
+ £10m	No actual saving of staff but this measure would lead to a reduction in time spent in dealing with the complexities which arise from the present legislation	No	5-6 lines

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	8.10.85	10.1.86		

BACKGROUND AND COMMENTS

A reduced tax value provision operates from the 29th day for occupations of hotel or similar bedroom accommodation in excess of 28 days. There is no relief for the boarding element of the overall charge but the value for VAT of the balance of the total charge, ie for accommodation and other facilities, is reduced by up to 80 per cent. The intention behind this relief was to allow long-term residents in hotels and similar accommodation (eg pensioners living in hotels and boarding houses; low paid workers living in hostels) a relief roughly equivalent to the exemption available for ordinary residential rents. However, contrary to these intentions the lack of precision in the legislation has required the relief to be extended to any long term supplies of accommodation in hotels, including block lettings to tour operators.

In practice, apart from unregistered individuals, the main beneficiaries have been overseas holiday companies and their clients, who should be required to pay VAT on the same basis as UK citizens or foreign individuals arranging their own hotel accommodation. It is difficult to justify such a relief on grounds of equity or logic in either EC or domestic contexts. The law needs to be amended in such a way as to implement the original intention to afford relief only to individuals, and not to corporate bodies or in respect of non-bedroom accommodation.

Official in lead: B J COCKERELL 2913 5319

Official in support: G R BURGESS 2913 5346

FP contact: K ROMANSKI 233 5237

PAGE NO:

BUDGET
CONFIDENTIAL

ITEM: EXCISE DUTIES: BEER DRAWBACK

STARTERS NUMBER: 16 **CLASSIFICATION:** C

DEPARTMENT: Customs and Excise

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Nil	Negligible	No	10 lines

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	9.8.85	11.9.85	12.12.86	

BACKGROUND AND COMMENTS

Amendment of the law would enable traders to off-set beer drawback against duty payable. This would speed up payment of drawback and reduce the administrative cost to Customs and Excise the saving of official time spent in checking, in the abolition of forms, and in reduction in accounting.

Official in lead:	W D WHITMORE	2913 5072
Official in support:	R J CAIN	2913 5082
FP contact:	K ROMANSKI	233 5237

PAGE NO:

BUDGET
CONFIDENTIAL

ITEM: EXCISE DUTIES: SPOILT BEER RELIEF

STARTERS NUMBER: 17 **CLASSIFICATION:** C

DEPARTMENT: Customs and Excise

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Negligible cost	-5 to -10 man hours (see below)	No	5 lines

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	9.8.85	11.9.85	12.12.85	

BACKGROUND AND COMMENTS

The amendment would remove the condition in Section 46(2) of the Alcoholic Liquor Duties Act 1979 that beer must have become accidentally spoilt to be eligible for relief. The relief amounts to only about 0.5 per cent of the total revenue for beer but because of the difficulty of differentiating between eligible spoilt and ineligible waste beer it accounts for about 17 per cent of the manpower used on control of beer duty. In return for making the relief unconditional the trade have suggested that the repayment gravity be reduced by 1°; on this basis Customs and Excise have calculated that the change would not cost more than £1 million. The proposals would allow radical simplification of documentation and control, with a consequent increase in efficiency and better use of official resources.

The reduced workload on Customs & Excise staff would be taken into account, in future scheming of Excise work in the outfield. It would contribute to savings of whole posts over time.

Official in lead:	W D WHITMORE	2913 5072
Official in support:	R J CAIN	2913 5082
FP contact:	K ROMANSKI	233 5237

PAGE NO:

BUDGET
CONFIDENTIAL

ITEM: EXCISE DUTIES: LICENCES

STARTERS NUMBER: 18 **CLASSIFICATION:** C

DEPARTMENT: Customs and Excise

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Nil	Nil	No	1½ page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	8.11.85	12.11.85	17.1.85	

BACKGROUND AND COMMENTS

The amendment would abolish certain licences in the alcoholic drinks legislation and make the remaining licences free and not required to be renewed annually. This would reduce the cost of administering these licences by removing the need to account for small sums of money and to chase up and deal with annual renewals.

Official in lead:	W D WHITMORE	2913 5072
Official in support:	J R TULLBERG	2913 5085
FP contact:	K ROMANSKI	233 5237

BUDGET
CONFIDENTIAL

ITEM: EXCISE DUTIES: BETTING AND GAMING (NORTHERN IRELAND)

STARTERS NUMBER: 19 **CLASSIFICATION:** C

DEPARTMENT: Customs and Excise

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Negligible gain	Negligible addition	No	1/3 page clause + up to 2 pages schedule

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	25.11.85	28.11.85	30.12.85	

BACKGROUND AND COMMENTS

A certain amount of bingo is already promoted commercially in Northern Ireland despite the lack of legal sanction. This is untaxed since the NI revenue law - the Miscellaneous Transferred Excise Duties Act (Northern Ireland) 1972 (MTEDA) - naturally contains no provision for bingo duty. As a result of the Betting, Gaming, Lotteries and Amusements (Northern Ireland) Order 1985, commercial bingo in Northern Ireland can be expected to increase rapidly and there is no good reason why it should not be charged with bingo duty in the same way as bingo promoted in Great Britain. It is therefore proposed to extend the relevant provisions of the Betting and Gaming Duties Act 1981 (BGDA) to Northern Ireland so that the same revenue law will apply throughout the United Kingdom.

It seems sensible at the same time to complete the unification of the legal provisions (begun this year in respect of gaming machine licence duty) by revoking the provisions of MTEDA relating to the betting duties and applying the corresponding provisions of BGDA to Northern Ireland, with no significant practical implications. There would then be a single Act applying throughout the United Kingdom. (This additional proposal should not substantially increase the length of the schedule needed in any case for bingo duty, and will reduce the space required in future Finance Bills for changes in betting and gaming duties.)

Staffing implications are difficult to quantify, but the extra work involved could result in some small additional staffing requirements.

Official in lead: T M JENKINS 2913 5050

Official in support: R F J ATKINS 2913 5248

FP contact: K ROMANSKI 233 5237

PAGE NO:

BUDGET
CONFIDENTIAL

ITEM: EXCISE DUTIES: LEGAL EVIDENCE BY CERTIFICATE

STARTERS NUMBER: 20 **CLASSIFICATION:** C

DEPARTMENT: Customs and Excise

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Negligible	Negligible saving	No	1/2 pages

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	10/12/85 and 20/12/85	10.1.86		

BACKGROUND AND COMMENTS

The provision of evidence in enforcement cases before a court of law or VAT tribunal can be onerous where the collecion of the duty or tax has been centralised. Instead of being shared by offcers round the country with personal knowledge of the facts attending local hearings, the burden falls on a small number of central staff.

Provision exists under VAT and car tax law for the Commissioners to furnish certain factual evidence by certificate, which is sufficient in law unless the contrary can be proved. It is proposed to apply a provision on these lines to betting and gaming and to extend the VAT provisions. This will poduce a modest saving of staff time and is likely to be welcomed equally by the courts.

Two of the betting and gaming duties - including the main areas of enforcement action - have been centralised and payment in arrears extended to all bookmakers. More effective enforcement action is now possible, and the need to present evidence is correspondingly greater. Without a provision for certification on the lines of that in the VAT Act the burden on central units threatens to become intolerable.

Under the default surcharge provisions of the 1985 Finance Act a trader can seek to avoid liability by claiming that the return or tax was posted to reach Customs withi the appropriate time limit. Factual evidence of the postmark date (which Customs will record) will be needed to refute such claims, but the existing VAT provision (VAT Act 1983, Schedule 7 para 11) does not cover such evidence being given by certificate. Without the certification procedure this could be given only by the attedance of witnesses from the Central Unit in Southend.

Official in lead:	T M JENKINS	2913 5050	VAT	P A Blomfield	2019 7107
Official in support:	E J S HERON	2913 5063		J A Evans	2019 7124
FP contact:	K ROMANSKI	233 5237		K Romanski	233 5237

BUDGET
CONFIDENTIAL

ITEM: VAT: PROVISION TO APPLY PENALTIES FOR BREACHES OF REQUIREMENTS OF TREASURY ORDERS

STARTERS NUMBER: 21 **CLASSIFICATION:** C

DEPARTMENT: CUSTOMS AND EXCISE

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Nil	Nil	No	1/2 lines

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	03.12.85	10.1.86		

BACKGROUND AND COMMENTS

A provision is required to apply penalties for breaches of requirements of Treasury Orders.

At present the civil penalties provided for in the Finance Act 1985 for breaches of regulatory provisions cannot be applied in respect of breaches of requirements imposed by Treasury Order.

It is proposed to remedy this deficiency since it is expected that Treasury Orders will be used (rather than Commissioners' Regulations) to implement the requirements of forthcoming European legislation which is not directly applicable per se, eg the Value Added Tax (Temporarily Imported Goods) Relief 1985 and Council 1985 and Council Directive 85/362/EEC (17th VAT Directive).

This amendment will result in improved trader compliance and the collection of limited amounts as penalties but otherwise has no effect on revenue yield or staffing.

Official in lead:	B J COCKERELL	2913 5319
Official in support:	M C GREEN	2913 5320
FP contact:	K ROMANSKI	233 5237

BUDGET
CONFIDENTIAL

ITEM: **VAT RELIEFS FOR THE DISABLED: EXTENSION TO EMERGENCY ALARM SYSTEMS AND LFITS**

STARTERS NUMBER: 22 **CLASSIFICATION:** B2

DEPARTMENT: CUSTOMS AND EXCISE

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
-£3 million	Nil	No	SI

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST	20.09.85 12.11.85	10.1.85		

BACKGROUND AND COMMENTS

Group 14 of Schedule 5 of the VAT Act 1983 zero-rates the supply of certain goods to the handicapped for domestic or personal use, or to a charity or making available to the handicapped. Ministers have agreed that the relief should be extended to cover also the supply of emergency alarm call systems and the service of installation of lifts, for the benefit of handicapped persons.

It was originally intended to introduce these reliefs by Order to come into effect on 1 January 1986, but Ministers have decided that they should be kept as Budget 'lollipops'. A negative resolution SI will be required.

Official in lead:	P S JENKINS	2913-5387
Official in support:	A H HAMPSON	2913 5390
FP contact:	K M ROMANSKI	233 5237

BUDGET
CONFIDENTIAL

ITEM: INCOME TAX: THRESHOLDS AND RATES

STARTERS NUMBER: 101 **CLASSIFICATION:** A

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Depends on decisions		Yes	0.7 pages

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
Chancellor	19.12.85			

BACKGROUND AND COMMENTS

This topic includes:

thresholds - basic personal allowances
- age allowances
- higher rate thresholds

rates - basic rate and higher rates

Cost of approximately 5½ per cent prices indexation of the thresholds (£1,300 million) is included in the forecast. Generally, at least earnings indexation required to ensure that Revenue staff requirement does not rise next year compared with 1985-86. (For example, had there been no increase in thresholds and allowances in 1985-86, Revenue staff requirement would have risen by 330 in a full year). Options for further reductions in income tax will depend, inter alia, on availability of resources and outcome of current consideration of appropriate strategy for the period up to the changeover to transferable allowances in 1990. Other items for consideration include restructuring of the higher rates.

Official in lead:	B A MACE	2541 6546
Official in support:	A P HUDSON	2541 7349
FP contact:	M D R HAIGH	233 5757

BUDGET
CONFIDENTIAL

ITEM: CARS: CAR & FUEL BENEFIT UPRATING & RELATED BREAKPOINTS

STARTERS NUMBER: 102 **CLASSIFICATION:** A

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
1986-87 Nil *	+45 to 75**	No	N/A
1987-88 +35*	NIL		
Full Year +50*	NIL		

* Yield from 10 per cent increase in scale charges

** Once for all transitional cost if breakpoints changed.

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	22.11.85	2.1.86	N/A (secondary legislation to be used)	N/A

BACKGROUND AND COMMENTS

The Chancellor will wish to announce, as usual, the 1987-88 car and car fuel scale charges in his 1986 Budget Speech. The scale charges are invariably increased by way of Treasury Order (subject to negative resolution). Pressure from the industry is mounting to realign the cc breakpoints between benefit charging bands to match the new EEC exhaust emission regulations.

Official in lead:	M PRESCOTT	2541 6303
Official in support:	P SAVAGE	2541 7764
FP contact:	M HAIGH	233 5757

BUDGET
CONFIDENTIAL

ITEM: STAMP DUTY: RATES AND THRESHOLDS

STARTERS NUMBER: 103 **CLASSIFICATION:** A

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
- £m80 (86/7) - £m180 (87/8)	Negligible	No	0.5

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
EST	4.12.85 (20.12.85)			

BACKGROUND AND COMMENTS

Ministers in favour of a rate reduction for shares only to take effect from Big Bang (27 October 1986) coupled with a broadening of the base (see starters 103A-C and starter 138) to produce a broadly revenue neutral package in 1986-7.

Ministers propose no change to stamp duty on houses.

Official in lead:	D G DRAPER	2541-6646
Official in support:	MISS A M RHODES	2541-6605
FP contact:	M HAIGH	233-5757

BUDGET
CONFIDENTIAL

ITEM: STAMP DUTY: AMERICAN DEPOSITARY RECEIPTS (ADRs)

STARTERS NUMBER: 103A **CLASSIFICATION:** A

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
+ £m16 to + £m36	Negligible	Yes	2

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
EST				

BACKGROUND AND COMMENTS

Ministers have decided in principle that stamp duty at a higher rate (2½ per cent-5 per cent) should be charged on conversion of shares into ADRs.

Official in lead:

Official in support: (see above)

FP contact:

PAGE NO:

BUDGET
CONFIDENTIAL

ITEM: STAMP DUTY: NON STAMPABLE TRANSACTION

STARTERS NUMBER: 103B **CLASSIFICATION:** A

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
+ £m9 /24 1986-7 + £m20/40 1987-8	Negligible	No	3

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
EST	20.12.85			

BACKGROUND AND COMMENTS

		1986-7	1987-8
Ministers are considering the following options for broadening the base of the duty on shares to include:			
(i)	intra-account transactions	+ £m2/+7	+£m5/+15
(ii)	transactions in renouncable documents	+ £m5/+7	+£m10/5
(iii)	foreign shares	+ £m2/+10	+£m5/10

This would take the form of a change on share transactions which do not result in the production of a stamped transfer. These changes cannot easily take effect before Big Bang.

Official in lead:

Official in support: (see above)

FP contact:

PAGE NO:

BUDGET
CONFIDENTIAL

ITEM: STAMP DUTY: TAKEOVERS ETC

STARTERS NUMBER: 103C **CLASSIFICATION:** A

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
£m+20/40	Not yet determined	Yes	2

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
EST	20.12.85			

BACKGROUND AND COMMENTS

Minsiters are considering as part of the stamp duty package on shares proposals involving the withdrawal of the relief for takeovers, the partial withdrawal of the relief for "schemes of reconstruction and amalgamation" and possibly the relief for demergers.

Official in lead:

Official in support: (see above)

FP contact:

BUDGET
CONFIDENTIAL

ITEM: CAPITAL TRANSFER TAX: THRESHOLD AND RATE BAND CHANGES

STARTERS NUMBER: 104 **CLASSIFICATION:** A

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
depends on decisions	depends on decisions	No	1 page at most

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	15.11.85			

BACKGROUND AND COMMENTS

In the absence of a clause, threshold and bands will be automatically indexed, at a cost of £50m (already assumed in the forecast).

Official in lead:	B T HOUGHTON	2541-7290
Official in support:	J P BATTERSBY	2541-6459
FP contact:	M HAIGH	233-5757

PAGE NO:

BUDGET
CONFIDENTIAL

ITEM: CAPITAL GAINS TAX: ANNUAL EXEMPT AMOUNT

STARTERS NUMBER: 105 **CLASSIFICATION:** A

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
1986/87: nil Full year: - £m10	depends on decisions	No	N/A

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	29.11.85	12.1.86	N/A	N/A

BACKGROUND AND COMMENTS

In the absence of a specific measure, the annual exempt amounts (£5,900 for individuals and £2,950 for most trusts) will increase automatically under the statutory indexation formula. On present projections, the cost of this wil be £m10, which will be taken into account in the forecasts.

Official in lead: J P B BRYCE 2541-7427
Official in support: P A MICHAEL 2541-7571
FP contact: M HAIGH 233-5757

BUDGET
CONFIDENTIAL

ITEM: **ACT RATE FOR FINANCIAL YEAR 1986**

STARTERS NUMBER: 106 **CLASSIFICATION:** A

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million			Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Yield/cost of 1 per cent change -		£m	Nil	Yes	2 lines (a ¼ to ½ page if IOT suggestion below adopted)
1986-87	±	120			
1987-88	±	55			
Full Year	±	12			

Minister in lead (but see below)	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST				

BACKGROUND AND COMMENTS

Budgetary matter determined by basic rate of income tax; costings of changes in the IT rate usually take in the effects on the CT yield.

It has also been suggested (by the Institute of Taxation) that the ACT rate could be permanently linked to the basic rate of income tax, thus avoiding need for legislation to fix the ACT rate each year. Last year the Financial Secretary thought this a good idea in principle, but decided to leave it over for reconsideration for 1986.

Official in lead:	I R SPENCER	2541-6252
Official in support:	A J BOLTON	2541-7517
FP contact:	M HAIGH	233-5757

PAGE NO:

BUDGET
CONFIDENTIAL

ITEM: MORTGAGE INTEREST RELIEF LIMIT FOR 1986-87

STARTERS NUMBER: 107 **CLASSIFICATION:** A

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)		PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Increase to £35,000	£30,000	£35,000	Yes	Few lines (whether or not limit is increased)
1986-87: £m-75-100-	Apr 87 + 55	+15		
1987-88 £m-100-150-	Apr 88 NIL	-60		
Eventual cost* at 86/87 income levels £m200-300-	Compared with 85/86 staffing levels			

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST				

BACKGROUND AND COMMENTS

Limit needs to be fixed annually in Finance Bill. 1985-86 limit £30,000; last increased in 1983.

If the limit remains at £30,000 additional staff will be required, as shown above, because the number of mortgages above £30,000 is increasing. Most loans above the limit are at present outside MIRAS, so that relief has to be given through PAYE or tax assessments, and this requires more staff to handle. In the longer run the manpower increase will be held down by the requirement in FA 1985 on lenders to bring into MIRAS new loans above the limit from April 1987 onwards.

Staffing estimates above for later years assume that the limit fixed for 1986-87 will then remain unchanged.

* The cost would build up over about 5 years, and include the effect of additional borrowing.

Official in lead:	B O'CONNOR	2541-6218
Official in support:	A C GRAY	2541-6785
FP contact:	M HAIGH	233-5757

BUDGET
CONFIDENTIAL

ITEM: BOARDING SCHOOL ALLOWANCES & DETACHED DUTY ALLOWANCES

STARTERS NUMBER: 108 **CLASSIFICATION:** B1

DEPARTMENT: Inland Revenue

	Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
1.	BSA -26	Nil in Revenue Saving Negligible in Paying Departments	No	1 (but not in FB as published)
2.	DDA Nil	Nil		

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	6.12.85	16.12.85		

BACKGROUND AND COMMENTS

Tax on Boarding School Allowances to Crown Servants working in the UK is accounted for by departments by "grossing up". This increases the reckonable income of individuals for various purposes, notably the level of student grants. Ministers have decided to legislate to exempt BSA from tax from April 1986.

Detached Duty Allowances are taxable when paid for more than 12 months. By an unpublished ESC these are not taxed on Crown Servants at present. Ministers have also decided to legislate to exempt these allowances from tax from April 1986.

For both BSA and DDA it may be possible to relegate detailed definitions of allowances to be exempted to regulations by Statutory Instrument, particularly as definitions do change from time to time.

Official in lead: M PRESCOTT 2541 6303
Official in support: S S WILCOX 2541 7211
FP contact: M HAIGH 233 5757

BUDGET CONFIDENTIAL

ITEM: REMOVAL OF RESTRICTIONS ON DISCLOSURE OF INFORMATION BETWEEN THE INLAND REVENUE AND THE CHARITY COMMISSION

STARTERS NUMBER: 110 **CLASSIFICATION:** B1

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Negligible	Nil	No	A few lines

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST (or EST)	22.3.85			

BACKGROUND AND COMMENTS

An official working party on the supervision of charities recommended the removal of restrictions on disclosure of information between the Inland Revenue and the Charity Commission. At present such exchange of information is allowed only in connection with objections to registration or applications for deregistration. Such a provision would considerably assist in tackling a number of tax avoidance schemes in the charity field. The FST was content with the recommendation (28/3/85) with a view to the Finance Bill 1986. There is no public commitment to action.

Official in lead: C STEWART 2541-7414

Official in support: MRS E FLETCHER 2541-7784

FP contact: M D R HAIGH 233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: AGRICULTURAL BUILDINGS ALLOWANCE: RESTRUCTURING

STARTERS NUMBER: 113 **CLASSIFICATION:** B1

DEPARTMENT: Inland Revenue

	Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Balance adjustments:	NEG	(+30 by mid 1990s) NEG	No	1.5 pages for balancing adjustments (any more depends on extent of further restructuring)
Exclusion of Farm houses/ cottages	86/7) 87/8) Neg (+£m2-3 by 1990)			

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	13.12.85			

BACKGROUND AND COMMENTS

Ministers announced at Report Stage FB 1985 that a detailed review of the agricultural buildings allowance was being undertaken to consider ways in which the code might be restructured and that proposals to include the introduction of balancing adjustments on disposal would be introduced in the 1986 Bill with a starting date of 1 April 1986.

As part of the review Ministers may want to consider the present treatment of farm houses and farm cottages as well as the possibility of bringing IBA and ABA more closely into line with each other.

Official in lead:	G H BUSH	2541-6287
Official in support:	G A A ELMER	2541-7507
FP contact:	M HAIGH	233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: **ACCRUED INCOME SCHEME: CONSEQUENTIAL AMENDMENT OF OTHER ANTI-BONDWASHING LEGLISATION**

STARTERS NUMBER: 114A **CLASSIFICATION:** B1

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
NIL	NIL	NO	0.3 pages

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	19.12.85	24.12.85		

BACKGROUND AND COMMENTS

Enacted in Finance Act 1985, the Accrued Income Scheme commences on 28 February 1986. It prevents "bondwashing" (conversion of income into capital by "selling interest"), charging tax on the interest which accrued during a person's ownership of a security even if he sells it before interest becomes payable.

Except for equities and preference shares (which are not covered by the Accrued Income Scheme), old anti-bondwashing rules in Section 469 and 471-75 ICTA 1970 may no longer be necessary. Ministers have already announced that Section 469 will be revised in FB to let-out certain sale & repurchase transactions (Repos.)

Official in lead: I R SPENCE 2541-6252

Official in support: A J BOLTON 2541-7517

FP contact: M HAIGH 233-5757

BUDGET CONFIDENTIAL

ITEM: **CITY RESTRUCTURING: INCOME TAX AND CGT RELIEFS FOR MARKET MAKERS**

STARTERS NUMBER: 114B **CLASSIFICATION:** B1

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
NIL	NIL	NO	0.5 to 1.5 page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	19.12.85	24.12.85		

BACKGROUND AND COMMENTS

It is essential to amend statutory reference to "jobbers", a term which will disappear with the "Big Bang". Other terms (eg "brokers") also appear and need to be reviewed. The minimum change necessary would be to translate these reliefs to market-makers and jobbers on the Stock Exchange. But the extension of special treatment to cover market makers and dealers in new markets outside the Stock Exchange needs to be reviewed.

Official in lead: I R SPENCE 2541-6252

Official in support: A J BOLTON 2541-7517

FP contact: M HAIGH 233-5757

BUDGET CONFIDENTIAL

ITEM: ACCRUED INCOME SCHEME: TECHNICAL POINTS

STARTERS NUMBER: 114C **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
NIL	NIL	NO	1½2 pages

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	19.12.85	24.12.85		

BACKGROUND AND COMMENTS

Some technical defects have become apparent in the 1985 Accrued Income Scheme legislation, which takes effect on 28 February 1986. These are niggling points but could result in unjustified tax charges on some, and unjustifiable reliefs for others.

Official in lead: I R SPENCE 2541-6252

Official in support: A J BOLTON 2541-7517

FP contact: M HAIGH 233-5757

BUDGET CONFIDENTIAL

ITEM: EXTENSION OF RELIEF UNDER SECTION 22(2) FA 1974 FOR PENSIONS PAID TO VICTIMS OF NATIONAL-SOCIALIST PERSECUTION

STARTERS NUMBER: 115 **CLASSIFICATION:** B1

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
1986-87 - 1 1987-88 - 1	Nil	No	0.3 page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	9.10.85	14.10.85	7.11.85	27.11.85

BACKGROUND AND COMMENTS

The purpose of the change is to increase to 100 per cent the deduction (currently 50 per cent) afforded by Section 22(2) FA 1974 to certain pensions payable to victims of Nazi persecution under special provisions of German and Austrian Law.

The Chancellor asked the Financial Secretary to make this concession a 1986 Budget Starter following representations last year from Sir William Clark MP. In reply to Sir William the Chancellor maintained the previously held view that relief of 50 per cent is fair and reasonable and that any increase would be difficult to justify. There is not therefore any public commitment to action.

In the absence of any reliable information the above costing is only an educated guess. It does however tally with the Association of Jewish Refuges' own estimate.

No staff saving is envisaged because most of the work turns around establishing entitlement to relief, and that will continue to be necessary.

Official in lead: M F CAYLEY 2541-6372

Official in support: G F E COOK 2541-6654

FP contact: M HAIGH 233-5757

BUDGET CONFIDENTIAL

ITEM: MINES AND OIL WELLS ALLOWANCES (MOWA)

STARTERS NUMBER: 116 **CLASSIFICATION:** B1

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
1986/87 neg 1987/88 - 45 1988/89 - 40 1989/90 - 35 1990/91 - 30 declining thereafter	Nil	Yes	10 or so pages

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	19.12.85	24.12.85		

BACKGROUND AND COMMENTS

Following a review of the MOWA code, announced in 1983, a consultative document containing the Government's proposals was published on 16 July 1985. The FST at that time announced (by PQ) that legislation on these proposals would be introduced in the 1986 Finance Bill.

The main effect of the proposals is to bring the MOWA allowances more closely into line with the general system of capital allowances following the changes in 1984 and 1985 Finance Acts. In particular they include the change to straight forward percentage based writing down allowances, on a reducing balance and an incurred basis. It is also proposed for example to repeal certain provisions which have outlived their usefulness, and to take the opportunity to bring secondhand costs of licence interests onshore into line with the regime offshore.

Official in lead:	MRS C HUBBARD	2541-6576
Official in support:	Y S PANG	2541-6250
FP contact:	M HAIGH	233-5757

BUDGET CONFIDENTIAL

ITEM: EMPLOYEE SHARE SCHEMES: ACCESS FOR CERTAIN COMPANIES CURRENTLY EXCLUDED

STARTERS NUMBER: 119 **CLASSIFICATION:** B2

DEPARTMENT: Inland Revenue

	Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
1986-87:	Nil	Nil	No	1 page
Full Year:	Up to-£m5			

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	18.11.85	3.12.85		

BACKGROUND AND COMMENTS

Shares used in employee share schemes approved under the Finance Acts 1978, 1980 and 1984 must satisfy certain conditions. One has the effect of preventing the adoption of schemes where compnies have more than one class of ordinary shares, and the class which the company wishes to use does not meet the 'majority test' (the majority of such shares must be held by outsiders, not employees or the company's parent). The effect of this on employee-controlled companies was debated by the 1985 Finance Bill Committee, when the Financial Secretary promised further consideration. Other conditions on scheme shares prevent the use of shares of an unquoted subsidiary of an unquoted parent. A relaxation in the Finance Act 1985 on lines suggested by Save & Prosper was refused, but the Financial Secretary promised the company in July 1985 to consider an amendment if one could be drafted to help more companies. These and similar problems faced by other companies could usefully be considered together.

(See also starters 118 and 135).

Official in lead:	J D FARMER	2541 7652
Official in support:	MISS D M GREEN	2541 6457
FP contact:	M HAIGH	233 5757

BUDGET CONFIDENTIAL

ITEM: **REMOVAL OF LIMIT ON CHARITABLE DONATIONS DEDUCTIBLE FOR HIGHER RATE TAX PURPOSES**

STARTERS NUMBER: 120 **CLASSIFICATION:** B2

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
- 2 or 3	+ 5 to 10	No	Uncertain. Likely to be 3 pages minimum, but possibly considerably more depending on extent of safeguards.

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	13.12.85			

BACKGROUND AND COMMENTS

This starter (known to Ministers as the "John Green option") arose out of recent correspondence with Sir Emmanuel Kaye. When a close company makes charitable donations, such donations are apportioned among the members (usually shareholders) of the company, and then taxed if over the (£10,000) limit for charitable donations.

The Chancellor resisted Kaye on the grounds that such apportionment ensures parity of treatment for tax purposes with donors who are not members of a close company. However, he thought that it would be worth considering removing the limit completely. There would however need to be strict rules to ensure that money convenanted reached genuine public charities or was clearly spent on charitable objects.

Official in lead:	C STEWART	2541-7414
Official in support:	MRS E FLETCHER	2541-7784
FP contact:	M D R HAIGH	233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: STAMP DUTY: STOCK EXCHANGE RELIEFS

STARTERS NUMBER: 121 **CLASSIFICATION:** B2

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
NIL	NEG	No	2½ pages

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
EST	4.12.85		20.12.85	

BACKGROUND AND COMMENTS

Reliefs for market-makers need to be redrawn before the Stock Exchange reforms take effect in the autumn of 1986. (Also see starters 114 and 143.) An announcement is needed this autumn to enable the Stock Exchange to plan for the Big Bang (computer systems need to be redesigned). Issues are:

(i) whether relief should be given to broker/dealers when dealing as market-makers;

(ii) whether relief should not be given to broker/dealers in respect of other transactions;

(iii) If not, whether the relief for sub-sales which is exploited by off-market dealers should be withdrawn; and

(iv) treatment of off-market dealers generally.

Official in lead: D G DRAPER 2541-6646

Official in support: MISS A M RHODES 2541-6605

FP contact: M HAIGH 233-5757

BUDGET CONFIDENTIAL

ITEM: CTT RELIEFS FOR EMPLOYEE OWNERSHIP

STARTERS NUMBER: 122 **CLASSIFICATION:** B2

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Cost very difficult to quantify, but probably negligible	NIL	No	2 pages

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	29.11.85			

BACKGROUND AND COMMENTS

Proposal - pressed by Job Ownership Limited - to extend the existing exemption from CTT for transfers of shares in a company to an employee trust so as to make it apply in any case where the transfer results in the employee trust gaining control of the company, even though the trust does not take the shares directly. FST undertook at Committee Stage last year to hold discussions with officials, with a view to legislation to 1986, but without commitment.

Official in lead:	H B THOMPSON	2541-6334
Official in support:	B K LAKHANPAUL	2541-6567
FP contact:	M HAIGH	233-5757

BUDGET CONFIDENTIAL

ITEM: CAPITAL GAINS TAX: RELIEF FOR VENTURE CAPITAL COMPANIES

STARTERS NUMBER: 123 **CLASSIFICATION:** B2

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
NEG	NIL	NO	8 to 10*

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	17.12.84			

BACKGROUND AND COMMENTS

Ministers have agreed to consider providing CGT exemption for companies providing venture capital. This has been pressed by DTI Ministers and FST has discussed with the British Venture Capital Association. Further information is awaited from them to enable submission to be made to Ministers.

Present stumbling blocks are (possible) length of legislation, scale of managers' remuneration (sought primarily in capital form) and precise definition of qualifying investments (BVCA wish to invest part overseas).

* Possibility of this being shortened by regulations to be considered.

Official in lead:	J P B BRYCE	2541-6247
Official in support:	V J BAKER	2541-6739
FP contact:	M HAIGH	233-5757

BUDGET CONFIDENTIAL

ITEM: BUSINESS EXPANSION SCHEME

STARTERS NUMBER: 124 **CLASSIFICATION:** B2

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Cost/saving, length of legisation, etc depend on the nature and extent of any changes made.			Present legislation runs to about 10 pages.

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	19.11.85	16.12.85		

BACKGROUND AND COMMENTS

Longer term future of Scheme (which presently runs until April 1987) has been reviewed, taking account of results from a study by Peat Marwick into additionality. Chancellor has indicated Scheme will continue in some form, but this leaves wide range of options concerning possible changes to its main structure. Numerous other more technical modifications also possible and for consideration.

As yet, no public commitment to action in 1986. It is assumed Chancellor will want to announce plans for Scheme's future in 1986 Budget, but still for decision whether any legislative changes that are needed should be introduced in the 1986 or the 1987 Finance Bill.

Official in lead:	J H REED	2541-6442
Official in support:	D A CARR	2541-6390
FP contact:	M HAIGH	233-5757

PAGE NO:

41/

BUDGET CONFIDENTIAL

ITEM: TAX RELIEF FOR SECONDMENTS TO LOCAL ENTERPRISE AGENCIES

STARTERS NUMBER: 124A **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Probably negligible	No effect	No	Perhaps ¼ of a page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	19 November	16 December		

BACKGROUND AND COMMENTS

Chancellor agreed on 16 December 1985 that this proposal, put forward in Mr Beighton's note of 19 November on the BES review, should go forward for 1986 Finance Bill.

The I/R are putting forward a further submission on this.

Official in lead:	M J G ELLIOTT	2541-6412
Official in support:	MISS R DYALL	2541-6304
FP contact:	M HAIGH	233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: TAX TREATMENT OF ENTERPRISE ALLOWANCE

STARTERS NUMBER: 125 **CLASSIFICATION:** B2

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
First year: -£5m Full year: -£25m	No effect	No	A few lines (but longer if transitional provisions needed to cater for those already receiving allowance).

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	15.7.85			

BACKGROUND AND COMMENTS

The Chancellor has asked us to consider exemption of this allowance as a Budget starter and possible lollipop.

Exemption would be a useful benefit for the unincorporated sector.

DTI and DoE Ministers have pressed for the allowance to be taxed under Case VI rather than Case I.

Official in lead:	M J G ELLIOTT	2541-6412
Official in support:	MISS R DYALL	2541-6304
FP contact:	M HAIGH	233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: NEW BRUNSWICK (TREATMENT OF INTANGIBLE COSTS OF OIL DEVELOPMENT DRILLING)

STARTERS NUMBER: 127 **CLASSIFICATION:** B2

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
1986-87	Nil	None	No Not known
1987-88	+£30		
full year	+35		

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	14.1.86			

BACKGROUND AND COMMENTS

Following a 1920s decision of the Special Commissioners, the intangible costs of oil development drilling have been accorded revenue treatment, but the way in which the Courts more recently have distinguished between capital and revenue suggests that they should more properly be treated as capital costs. The Chancellor decided 1984, however, not to change the existing practice at a time when there was no action on incrementals, but undertook to reconsider the matter in the context of the MOWA review. In the event, Ministers have decided not to propose any change in the MOWA condoc, but UKOOA have been warned that in the event of a relief for incrementals being introduced, the New Brunswick treatment would be reconsidered at the same time.

If therefore a suitable relief for incrementals (see Starter No 128) were to be included in the 1986 Budget, the New Brunswick decision should be reviewed at the same time.

Official in lead: MRS C B HUBBARD 2541-6576

Official in support: Y S PANG 2541-6250

FP contact: M HAIGH 233-5757

BUDGET CONFIDENTIAL

ITEM: PRT RELIEF FOR ONSHORE E&A

STARTERS NUMBER: 129 **CLASSIFICATION:** B2

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
See below	Nil	No	½ page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	15.1.86			

BACKGROUND AND COMMENTS

1985 Finance Act included a provision (Section 90(2)) withdrawing immediate PRT relief for onshore E&A. The smaller companies, led to BRINDEX, continue to press hard for this relief to be reinstated generally, and at a June 1985 lunch the FST agreed to consider any new evidence that onshore E&A activity would be damaged by the Section 90 change.

Some companies have also made the particular point that the change will bite especially hard in areas like the Minches which, though in deep water, are classified as "onshore" for this purpose. Prima facie this case commands some sympathy, and it should be possible - if Ministers so desired - to revise the definition of "onshore" to meet this point. The revenue cost of such a limited amendment is likely to be small.

Department of Energy, who acquiesced in last year's change only with reluctance, are now reviewing the economics of onshore fields in the light of this change. Though they have not yet declared their hand generally, Energy have already expressed some sympathy with the particular "Minches" problem. As with the industry itself, Energy are likely to be looking for any amendment to the Section 90 measure in the 1986 Finance Bill.

Official in lead:	M A HILL	2541-6018
Official in support:	M HAY	2541-7437
FP contact:	M HAIGH	233-5757

BUDGET CONFIDENTIAL

ITEM: WIDER TAX CONSEQUENCES OF BGC PRIVATISATION

STARTERS NUMBER: 130 **CLASSIFICATION:** B2

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
..... See below			

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST				

BACKGROUND AND COMMENTS

In the Parliamentary debate following the announcement that BGC was to be privatised, the Secretary of State for Energy undertook to make clear before the sale the basis on which a privatised BGC would be taxed. The sale is scheduled for end-1986. The technical tax consequences of transferring BGC from the public to private sector are covered in Energy's own Gas Privatisation Bill. But there are some wider issues which could need Finance Bill legislation:

(i) the tax valuation of BGC's own gas from Morecambe Bay (covered by separate Starter No 158);

(ii) any knock on effects for the overall tax regime if the Gas Levy were to be abolished (itself primarily a matter for the Treasury);

(iii) should the tax regime currently applying to Southern Basin gas fields (where both BGC and its suppliers have major interests) be changed?

Official in lead:	M A HILL	2514-6018
Official in support:	M HAY	2541-7437
FP contact:	M HAIGH	233-5757

BUDGET
CONFIDENTIAL

ITEM: DEPOSIT INTEREST - PAYMENT GROSS OUTSIDE COMPOSITE RATE SCHEME

STARTERS NUMBER: 131 **CLASSIFICATION:** B2

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million		Staff addition (+) or saving ( )	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Local authorities	Licensed deposit-takers	Negligible	Yes if any change to be effective from 6 April 1986	Perhaps 1 page
*86/7	-£60m	-£10m*		
*Full Year -£10m	Nil*			

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
EST				

BACKGROUND AND COMMENTS

1. Deposit interest paid to UK resident individuals is now subject to composite rate tax. Deposit interest paid to others is usually paid gross by banks, but is subject to deduction of basic rate tax if paid by:

   (a) licensed deposit takers which are not "banks", or

   (b) local authorities

The main question is whether this interest, and certain interest paid to these other composite rate deposit-takers, should be paid gross.

2. Local authorities have made representations asking for parity with banks. EST agreed that this should be considered further (PS/EST 2 July). No public Ministerial statement, but local authorities have been told their representations would be considered.

3. The distinction between banks and other licensed deposit-takers also needs to be reviewed in context of Treasury proposal to revise Banking Act and abolish two-tier aspect of present licensing system.

* costings are very provisional.

Official in lead:	B O'CONNOR	2541-6218
Official in support:	A C GRAY	2541-6785
FP contact:	M HAIGH	233-5757

BUDGET

ITEM: BENEFITS IN KIND: THRESHOLD

STARTERS NUMBER: 133 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Depends on decisions		No	N/A

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	15.11.85	3.1.86	N/A (secondary legislation to be used)	N/A

BACKGROUND AND COMMENTS

Maintenance of the Benefits in Kind income threshold at £8,500 pa increases the numbers of taxpayers chargeable on benefits each year. While increasing the revenue yield this also increases the staff cost for the Revenue and the compliance burden on employers.

Official in lead: M PRESCOTT 2541 6303

Official in support: P SAVAGE 2541 7764

FP contact: M HAIGH 233 5757

BUDGET

ITEM: RELIEF FOR OVERSEAS TRAVEL EXPENSES

STARTERS NUMBER: 134 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
1986-87 - £m10	+10	Yes	2 to 4 pages
1987-88 - £m5	+20		
Full year - £m5	+20		

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	15.7.85	27.11.85	20.12.85	

BACKGROUND AND COMMENTS

Following two consultative documents concerning the relaxation of foreign travel rules, Ministers need to decide the extent, if any, of further relief to be given for overseas travelling and subsistence expenses for UK residents working abroad and expatriates working in the UK; and for UK board and lodging expenses of expatriates and their families.

The high Revenue cost for 1986-87 and 1987-88 relative to full year costs reflect the commitment to backdate relief (but not restrictions) to 6 April 1984.

Official in lead:	M PRESCOTT	2541 6303
Official in support:	M SISK	2541 6708
FP contact:	M HAIGH	233 5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: **EMPLOYEE SHARE SCHEMES: EXTENSION OF EMPLOYEES' RIGHTS UNDER SAVINGS-RELATED SHARE OPTION SCHEMES**

STARTERS NUMBER: 135 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
1986-87 Neg and Full-Year:	Nil	Yes	Up to 1 page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	18.11.85	3.12.85		

BACKGROUND AND COMMENTS

Except in special circumstances employees participating in an approved SAYE-linked share option scheme can exercise their options early only if they have been held for at least three years. A number of companies (eg the Comp Air Ltd case represented recently by David Mudd MP) have complained that on a take-over employees can lose their rights if their employing company leaves a group operating such a scheme. This was the subject of a 1985 Budget Starter, when the Financial Secretary agreed that leglislation was warranted, but not in 1985.

(See also starters 118 and 119).

Official in lead:	J D FARMER	2541 7652
Official in support:	MISS D M GREEN	2541 6457
FP contact:	M HAIGH	233 5757

BUDGET CONFIDENTIAL

ITEM: PENSIONS: REFUND OF SURPLUSES

STARTERS NUMBER: 136 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
* 1986/87: + 150 rising to about +450 for next 3 years and declining to a steady level thereafter	Small staff cost likely	Yes	2-3 pages

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	25.07.85 (interim) 20.12.85	24.12.85		

BACKGROUND AND COMMENTS

Possible 'pensions package' to go with legislation on pensions arising from the Fowler Review postponed until FB 1987. This clause now restricted to legislation covering refunds of surpluses.

* Costings are tentative at this stage.

Official in lead:	N C MUNRO	2541-6487
Official in support:	C S McNICOL	2541-7237
FP contact:	M HAIGH	233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: STAMP DUTY: CAPITAL DUTY AND UNIT TRUST DUTY

STARTERS NUMBER: 137 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
-£m165	- 6	Yes	½ page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
EST	4.12.85			

BACKGROUND AND COMMENTS

A duty of 1 per cent on raising of capital by companies (yield £m95) is imposed under the terms of a 1969 EEC Directive which became mandatory when we joined the Community. Amendments to 1969 Directive made in 1985 allow Member States to abolish the tax or reduce the rate. If capital duty were to be abolished altogether Ministers will need to consider unit trust duty levied at a ½ per cent on property put into a unit trust; the justification for the duty has been that unit trusts do not pay capital duty. The Chancellor asked for abolition of unit trust duty to be included on Starters list (Ms Lomax, 1 July 1985).

Official in lead: D G DRAPER 2541-6646

Official in support: A M RHODES 2541-6605

FP contact: M HAIGH 233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: STAMP DUTY: LOAN STOCK

STARTERS NUMBER: 138 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
+ £20m	Negligible	Yes	1

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
EST	4.12.85			

BACKGROUND AND COMMENTS

Ministers are considering as part of the stamp duty package the possibility of withdrawing the exemption for loan stock. Exemptions would remain for:

(i) gilts

(ii) borrowing in the euro-currency markets; and possibly

(iii) loans for less than 5 years.

Official in lead: D G DRAPER 2541-6646

Official in support: MISS A M RHODES 2541-6605

FP contact: M HAIGH 233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: TREATMENT OF VAT PENALTIES ETC FOR DIRECT TAX PURPOSES (IT & CT)

STARTERS NUMBER: 139 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Nil	Nil	No	1/3 page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	22.11.85	25.11.85	19.12.85	6.1.86

BACKGROUND AND COMMENTS

The 1985 Finance Act introduced penalties, interest and surcharges for certain VAT offences. We require a provision to make it clear beyond doubt that such items are not deductible for the purposes of Income Tax or Corporation Tax.

The Act also introduced repayment supplement on payments of VAT refunded to taxpayers. We require a brief provision to confirm that repayment supplement paid in these circumstances is not income for the purposes of Income Tax or Corporation Tax.

Official in lead:	T A SYMONS	2541-6300
Official in support:	MISS M A BARLOW	2541-7255
FP contact:	M HAIGH	233-5757

BUDGET CONFIDENTIAL

ITEM: CGT: DUAL RESIDENT TRUSTS

STARTERS NUMBER: 140 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Yield impossible to quantify at this stage, but could run to £m100s (see comments)	NIL	No	Perhaps ½ page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	20.12.85			

BACKGROUND AND COMMENTS

Proposal to prevent avoidance of CGT through trusts deliberately set up with one trustee resident abroad (typically in the Republic of Ireland). Evidence suggests that this device is widespread; in 2 actual cases, gains of nearly £m7 are involved.

An alternative to domestic legislation would be to seek amendment to our double taxation agreements with those treaty partners where we consider we are at risk. This would inevitably be a protracted and uncertain process. Such a solution is dependent upon the treaty partners' willingness to open negotiations, and of course provides them with an opportunity to seek unrelated and unwelcome changes.

* Forecast assumes no loss.

Official in lead:	H B THOMPSON	2541-6334
Official in support:	V J BAKER	2541-6739
FP contact:	M HAIGH	233-5757

BUDGET CONFIDENTIAL

ITEM: CGT AND MAINTENANCE FUNDS

STARTERS NUMBER: 141 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Could perhaps be £m1 - £m2 cost.	NIL	NO	Perhaps 1 page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST				

BACKGROUND AND COMMENTS

Proposal that, on the death of a person who has set up a maintenance fund in his lifetime to support heritage property, the value of the assets in the fund should be uplifted for CGT purposes. A point on the heritage lobby's "shopping list" which was pressed on debate at Committee last year with some Opposition support; but no commitment given.

Official in lead:	H B THOMPSON	2541-6334
Official in support:	V J BAKER	2541-6739
FP contact:	M HAIGH	233-5757

BUDGET CONFIDENTIAL

ITEM: CAPITAL GAINS TAX: FUTURES AND TRADED OPTIONS IN GILTS

STARTERS NUMBER: 143 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
1986/87: nil Full Year Could be significant loss of tax if no action taken	Small saving	No	½ to 1 page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
EST	4.7.85 10.1.86	14.1.86		

BACKGROUND AND COMMENTS

After 2 July 1986 (when disposals of gilts and qualifying corporate bonds will be exempt from CGT) an asymmetry could arise in futures and traded options in these instruments. Contracts showing losses will be "closed-out" and the loss taken, contracts showing gains will run to delivery and be exempt. Case for exempting such contracts from CGT has been put by Stock Exchange and London International Financial Futures Exchange, with whom discussions have been held.

If action is to be taken, early announcement desirable to remove uncertainty about tax treatment of contracts entered into before the Budget.

Official in lead:	J P B BRYCE	2541-7427
Official in support:	V J BAKER	2541-6739
FP contact:	M HAIGH	233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: AMENDMENT TO SECTION 58, FINANCE ACT 1969 TO ALLOW THE DEPARTMENT OF EMPLOYMENT TO PASS ON TO LOCAL AUTHORITIES INFORMATION SUPPLIED FROM THE INLAND REVENUE EMPLOYERS' INDEX

STARTERS NUMBER: 144 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
No effect	No effect	No	6 lines

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	24.7.85			

BACKGROUND AND COMMENTS

Section 58, Finance Act 1969 prevents the Department of Employment from disclosing employment information provided by the Inland Revenue other than to another Government Department for the purpose of a statistical survey. The Department of Employment are pressing to be able to pass on this information to local planning authorities and to local education authority careers services to meet a shortfall in the information they can already supply under their own powers.

Not likely to be controversial.

The FST is content (minute 29/7/85) for this item to be included in the list of starters, subject to developing priorities and the availability of legislative space.

Official in lead:	F W NEWCOMBE	2541-6544
Official in support:	J W BOYCE	2541-7333
FP contact:	M HAIGH	233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: SECTION 252 ICTA: USE OF TAX LOSSES ON TRANSFER OF A TRADE BETWEEN COMPANIES IN COMMON OWNERSHIP

STARTERS NUMBER: 146 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Depends on solution adopted. But annual yield of up to £50m not unrealistic	Negligible	No	1 page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	26.11.85	24.12.85		

BACKGROUND AND COMMENTS

Any unused tax losses of a trade may be carried forward and set-off against future profits of that trade (S.177, ICTA). But such tax losses cease to be available either if the trade itself ceases or, generally speaking, if the trade is transferred from one trading entity to another (S.251, ICTA). Section 252, however, provides that where a trade is transferred between companies in substantially common ownership, any accumulated tax losses may also transfer.

Section 252 has various weaknesses, and these are being exploited - with the object, in each case, of enabling the accumulated tax losses to pass with the trade to an unrelated third party. Action to counter the worst of these abuses is desirable, and there are a number of alternative approaches that might be adopted. Of particular concern is the present ability of companies to hive down a trade (and with it the whole of the accumulated tax losses) to a subsidiary which is then sold to a third party, even though certain debts - eg trade creditors - are left stranded in the old company. (If eventually these debts have to be written-off by the creditors there would then also, effectively, have been double relief for the same loss).

Official in lead: J M REED 2541-6442

Official in support: M JARRETT 2541-6257

FP contact: M HAIGH 233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: CAPITAL ALLOWANCES: TECHNICAL AMENDMENTS CONSEQUENT ON ABOLITION OF FIRST YEAR ALLOWANCES

STARTERS NUMBER: 147 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Nil	Nil	No	7 to 8 pages

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	27.11.85	2.12.85	11.12.85	

BACKGROUND AND COMMENTS

First Year Allowances will no longer be generally available for expenditure incurred on or after 1 April 1986. A number of provisions* in existing legislation have been identified as needing amendment - mostly of a technical nature - to allow parts of the capital allowances system to continue to operate satisfactorily in the post-FYA era.

* One example is the 1982 leasing legislation which provides a reduced writing down allowance (10 per cent) for machinery or plant leased to a non-resident. Without an amendment, the legislation will not operate as intended and such leased assets will attract the ordinary w.d.a of 25 per cent.

Official in lead:	G H BUSH	2541-6287
Official in support:	G A A ELMER	2541-7507
FP contact:	M HAIGH	233-5757

PAGE NO:

41/1h

BUDGET CONFIDENTIAL

ITEM: CAPITAL ALLOWANCES FOR EXPENSIVE CARS: ABOLITION OF THE CEILING AMOUNTS OF ALLOWANCE AVAILABLE IN ANY YEAR

STARTERS NUMBER: 148 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
1986-87 Neg 1987-88 -40 Full Year -60	Neg	No	A quarter of a page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	17.12.85			

BACKGROUND AND COMMENTS

Considered and rejected for 1985. But Ministers want to reconsider the issue in the light of further uprating of the car benefit scale charges and of the fiscal position generally. Pressure for limit to be raised or abolished is a hardy annual from motor industry and others.

(NB Paragraph 12A Schedule 8 FA 1971 permits the ceiling to be increased - but not abolished - by SI (negative procedures).)

Official in lead:	G H BUSH	2541-6287
Official in support:	G ELMER	2541-7507
FP contact:	M HAIGH	233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: FURTHER TAX MEASURES TO ENCOURAGE R&D: TREATING R&D AS A TRADE FOR TAX PURPOSES

STARTERS NUMBER: 149 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
?	Negligible	No	2 or 3 pages (very provisional estimate but likely to be technically difficult to draft)

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST				

BACKGROUND AND COMMENTS

The Industrial Support Review said officials would consider further the practical possibility of giving relief for R&D expenditure at the time it is incurred (at present, relief for such expenditure cannot be given until a trade subsequently starts).

The cost would be much increased if relief extended to oil exploration expenditure.

Official in lead:	M J G ELLIOTT	2541-6412
Official in support:	MISS R DYALL	2541-6304
FP contact:	M HAIGH	233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: GROSS PAYMENT OF FOREIGN DIVIDENDS, ETC TO RECOGNISED CLEARING SYSTEMS

STARTERS NUMBER: 151 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Nil	Nil	No	½ Page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	1.11.85	3.12.85	18.12.85	16.1.86

BACKGROUND AND COMMENTS

Clearing systems are used by financial concerns to facilitate transfers of stocks, etc without physical delivery. Under the present foreign dividends provisions a UK paying agent who wished to pay foreign dividends without deduction of tax has to be provided with the name and address of the beneficial owner of the dividend and be satisfied that he is not resident in the UK. The depositary banks holding the stocks for the clearing systems are unable to provide the required information and so the business goes to foreign rather than UK paying agents.

The legislation would permit UK paying agents to pay gross dividends to recognised clearing systems without the need for evidence of beneficial ownership. A similar provision was included in the Eurobond legislation - Section 35(2)(b) FA 1984.

Official in lead: M F CAYLEY 2541-6372

Official in support: G N ALPE 2541-6254

FP contact: M HAIGH 233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: SECTION 8(3) OTA 1983: FIELDS IN COMMON OWNERSHIP: THIRD PARTY USE OF ASSETS

STARTERS NUMBER: 153

CLASSIFICATION: C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
See note 3	None	No	1 page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	5.12.85	9.12.85		

BACKGROUND AND COMMENTS

(1) Section 6 OTA 1983 imposes a charge on tariff receipts in respect of use of a qualifying asset. Section 8(3)(c) provides that where expenditure on a qualifying asset is allowable in more than one oil field (ie apportioned between fields in common ownership) then tariff receipts are chargeable in the field which received development consent first.

(2) Now most cluster developments are going ahead, where it is sensible for fields to be given development consent on the same day. So a further tie breaker is necessary to prevent difficulties in allocating the charge in those cases. (The alternative - to leave the decision in effect to the Secretary of State for Energy - is neither desirable nor wanted by Energy.)

(3) The revenue effects would depend on what would happen without this amendment, but the tax involved in such cases is some £10 million in 1986-87, and will be more in later years. Forecast assumes no loss.

Official in lead:	MRS C HUBBARD	2541-6576
Official in support:	Y S PANG	2541-6250
FP contact:	M HAIGH	233-5757

41/1i

BUDGET CONFIDENTIAL

ITEM: OTA 1983: DISPOSAL RECEIPTS IN EXEMPT GAS FIELDS

STARTERS NUMBER: 154 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Negligible Cost	None	No	1 page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	21.11.85	3.12.85 5.12.85	20.12.85	

BACKGROUND AND COMMENTS

1. Sections 7 and 8 OTA bring into charge PRT tariff and disposal receipts arising from assets, the expenditure on which has been allowed for PRT. It also charges to PRT tariff and disposal receipts in exempt gas fields to avoid distorting commercial decisions where such fields are in competition with PRT fields fo the shared use of assets.

2. During discussions on OTA 1983 UKOITC requested a de minimis limit for disposals in exempt gas fields, to avoid raising assessments to PRT for very small amounts for fields otherwise exempt. No solution was then found, but representations on this front have been maintained, and we think there is a good case for doing something, either by a monetary threshold per field or a restriction of the charge to assets disposed for subsequent field use.

3. The cost would be negligible, and it would make for more efficient use of staff time.

4. The opportunity might be taken to make some other amendments on disposal receipts.

Official in lead: MR C HUBBARD 2541-6576

Official in support: Y S PANG 2541-6250

FP contact: M HAIGH 233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: PRT VALUATION OF LIGHT GASES

STARTERS NUMBER: 157

CLASSIFICATION: C (but see Starter No. 130 (BGC privatisation))

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Should have no effect on tax take	Nil	No	1 page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST				

BACKGROUND AND COMMENTS

Gas sold in non-arm's length deals is valued for PRT purposes under the rules of valuing oil - ie an arm's length price has to be established each month. Such an approach is arguably inappropriate for the lighter gases, which are almost invariably sold under contracts lasting 20 years or so. In recognition of this (and to protect the position of the Mossmorran project), an alternative basis for valuation of ethane for petrochemical purposes was introduced by Section 134 and Schedule 18 FA 82. Providing certain conditions are met, this enables such ethane to be valued according to the price formula in the contract concerned.

ICI are pursuing in the courts their quarrel with Section 134. If the Appeal Court (judgement expected shortly) should cast doubt onthe principal of the Section 134 approach to an arm's length valuation, we should have to reconsider Section 134 de novo.

Although the underlying facts are similar, Section 134 was not applied in 1982 to other light gas (eg methane) or to light gases when used as fuel (partly because of ICI's opposition). But we now have quantitites of methane to value, both for fuel and petrochemical uses. The biggest case involves BGC and the issue may have to be resolved by legislation before privatisation (so in Finance Bill 1986) though a very recent discussion suggests that if we cannot make the present law work, something more than simply extending Section 134 might be needed in their case.

Official in lead:	M A HILL	2541-6018
Official in support:	M HAY	2541-7437
FP contact:	M HAIGH	233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: CTT: LIFETIME CHARGE

STARTERS NUMBER: 161 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
First Year Cost £40 million	Unlikely to be significant		Perhaps 30-50 pages

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST and Chancellor	5.12.85	21.12.85	10.1.86	

BACKGROUND AND COMMENTS

Chancellor's meeting of 6 December confirmed intention to abolish CTT charge on lifetime gifts to individuals, but retain for gifts into trusts. New provisions will be required to protect death charge.

Further work in hand on costs. If significant increases in lifetime giving, final cost could be substnatial eg £150 million if giving doubled. But this is very speculative and unlikely to be reaced before mid-1990's.

Official in lead:	B T HOUGHTON	438 7290
Official in support:	J P BATTERSBY (Non-trusts)	438 6459
FP contact:	H THOMPSON (Trusts)	438 6334

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: TAX RELIEF FOR SAVINGS

STARTERS NUMBER: 162 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Possibly 1987-80 -£m40	Negligible addition	Yes	1-2 pages

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	9.1.86			

BACKGROUND AND COMMENTS

A new relief for investment (subject to an annual limit). Individuals would invest out of taxed income, but there would be no tax charge on disinvestment. Qualifying investments - which might be restricted to equities - would be held by banks, building societies, etc.

A relief on these lines would have similar aims as Loi Monory, Individual Retirement Accounts etc, but would not entail the same administrative and policing difficulties. And the Exchequer cost (much of which would be deadweight) would build up more slowly compared with other, front-end loaded, schemes.

Official in lead: M A HILL 2541-6018

Official in support: Y S PANG 2541-6250

FP contact: M HAIGH 233-5757

PAGE NO:

BUDGET CONFIDENTIAL

ITEM: CO-OPERATIVES' ACCESS TO APPROVED PROFIT SHARING SCHEMES

STARTERS NUMBER: 163 **CLASSIFICATION:** C

DEPARTMENT: Inland Revenue

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
1986-87: negligible cost Full year: perhaps up to -£m2	Nil	Yes	1 page

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
FST	20.12..85			

BACKGROUND AND COMMENTS

The shares which may be used in an approved profit sharing employee share scheme under the Finance Act 1978 must be irredeemable. Co-operatives' shares are usually redeemable and do not therefore qualify. Ministers considered the difficulties which this rule posed for co-operatives last year but decided that no action should be taken. The Financial Secretary has asked for the matter to be re-examined following a meeting in November with Mr Paul Derrick, the chief advocate of a change in the 1978 rules to allow access for co-operatives generally.

Official in lead:	M A HILL	2541-6018
Official in support:	Y S PANG	2541-6250
FP contact:	M HAIGH	233-5757

PAGE NO:

BUDGET
CONFIDENTIAL

ITEM: AMENDMENT OF 1981 BROADCASTING ACT: CHANGE OF IBA ARRANGEMENTS

STARTERS NUMBER: 402 **CLASSIFICATION:** C

DEPARTMENT:

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Not yet clear (likely to be revenue-neutral)	None	No	Annex 2 pages

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
To be decided		Not yet available		

BACKGROUND AND COMMENTS

Treasury and Home Office officials produced a report in May 1985 recommending certain changes to the ITV and ILR levies.

These recommendations are now with Ministers; a decision is expected by the end of November. If changes are to be made, then the 1986 Fnance Bill might be the best vehicle, on grounds of expedincy (there is no suitable Broadcasting legislation currently being planned); previous alterations to the levy has been made in this way (eg 1982). But we are proposing to check this procedure with Parliamentary Counsel. So for the time being, we are putting down a marker; we await a final decision both on the levy report, and on the most appropriate means of legislation.

Official in lead: T J BURR 233-8481

Official in support: N KAUFMANN 233-7200

FP contact: G McKENZIE 233-8974

PAGE NO:

41/1j

BUDGET
CONFIDENTIAL

ITEM: VED EXEMPTION FOR VISITING FORCES' VEHICLES

STARTERS NUMBER: 403 **CLASSIFICATION:** C

DEPARTMENT: Transport

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Nil	Nil	No	12 Lines

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST				

BACKGROUND AND COMMENTS

This item would give 12 months VED exemption to visiting forces' vehicles which have been granted relief from Customs duties; it is needed to make good a deficiency which has come to light in the legislation. The provision would come into force from 1 September 1986.

For many years, vehicles brought temporarily into UK by foreign residents have received 12 months VED exemption, subject to being exempt from Customs duties. However recent Customs legislation implementing an EC Directive on Customs duty exemptions for temporarily imported goods unintentionally had the effect of excluding vehicles of visiting forces from the VED exemption. There would be strong criticism if exemptions for visiting forces were withdrawn and exemption is continuing to be granted extra-statutorily for the present. There are also VED enforcement benefits in the proposed change, since vehicles would automatically have to be registered on arrival.

Official in lead:	R Bird	2067-2430
Official in support:	T Horton	2067-2000
FP contact:	K M Romanski	233-5237

BUDGET
CONFIDENTIAL

ITEM: REMOVE THE REQUIREMENT FOR A £2 FEE ON APPLICATION FOR A DUPLICATE VEHICLE REGISTRATION DOCUMENT (V62)

STARTERS NUMBER: 405 **CLASSIFICATION:** B2

DEPARTMENT: Transport

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Negligible	None	Yes	2 lines

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST				

BACKGROUND AND COMMENTS

Section 23(d) of the Vehicle Road Traffic Act 1971 requires an initial registration document (log book) to be issued free. Section 23 (1)(e) of the Vehicle Excise Act 1971 imposes a fee - presently £2 - for a duplicate registration document. Owners can avoid the fee by saying - truthfully or not - that the original document was lost in the post or - when buying second hand - the previous owner did not pass the document on. Eighty per cent of applicants for duplicate documents do this. It is proposed to stop charging the other 20 per cent on the grounds of equity. It will also simplify administration when the work of relicensing a vehicle where a duplicate registration documents is required is transferred to the Post Office.

This measure is unlikely to be controversial. The income foregone - about £250,000 a year - will be made up from increasing fees on other services.

Official in lead:	R Bird	2067-2430
Official in support:	T Horton	2067-2000
FP contact:	K M Romanski	233-5237

PAGE NO:

BUDGET
CONFIDENTIAL

ITEM: CHANGES TO CLARIFY AND SIMPLIFY TRADE LICENSING ARRANGEMENTS

STARTERS NUMBER: 406 **CLASSIFICATION:** B2

DEPARTMENT: Transport

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Neutral	Small saving Not quantifiable	No	Likely to be 2 or 3 clauses (Guess)

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST				

BACKGROUND AND COMMENTS

The 'trade licensing facility' is designed to enable motor dealers and traders to use on the road vehicles which are temporarily in their possession without the need to register and license them. The proposed changes are designed to bring the facility up to date to cover additional uses, which have come into existence since the present legislation came into force in 1971, and to simplify the procedures in qualifying for plates. The fee is also to be increased.

Official in lead: R Bird 2067-2430

Official in support: T Horton 2067-2000

FP contact: K M Romanski 233-5237

PAGE NO:

BUDGET
CONFIDENTIAL

ITEM: DATE TO END OF MONTH FIRST LICENSING

STARTERS NUMBER: 407 **CLASSIFICATION:** B2

DEPARTMENT: Transport

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving ( )	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
Negligible - probably slightly negative	None	No	3 lines (Guess)

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST				

BACKGROUND AND COMMENTS

At present motor vehicle licences start at the beginning of a month and run for a 6 or 12 month period. The motor trade have been pressing for some time for more flexibility in licensing periods and in particular for the licensing period to start on any day of the month. Such a system would lead to substantial revenue loss, but instead Ministers have promised the trade that they would consider a much more limited scheme which would allow licences for new vehicles only to start on one of four dates in the month and run to the end of the month and then for the full 6 or 12 month period. A special rate of duty would be charged on these licences to reflect their longer validity. A possible system has been investigated and it could be introduced without serious operational difficulties.

It is difficult to provide an estimate of the cost as much will depend on the number of motorists who will take advantage of the scheme. We estimate that any loss will be negligible. The legislation required will be one additional paragraph to Schedule 7 of the Vehicles (Excise) Act 1971.

Official in lead: R Bird 2067-2430

Official in support: T Horton 2067-2000

FP contact: K M Romanski 233-5237

PAGE NO:

BUDGET
CONFIDENTIAL

ITEM: INCREASED PENALTIES FOR VED EVASION

STARTERS NUMBER: 410 **CLASSIFICATION:** C

DEPARTMENT: Transport

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
£3-5 million (see below)	Nil	No	5-6 lines

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
MST				

BACKGROUND AND COMMENTS

The proposal is to amend Section 9(2) of the Vehicles (Excise) Act 1971, so that, on conviction for keeping or using a vehicle without a valid vehicle excise licence, the courts would make orders for back duty at a specified multiple of the actual rate (1½ times or twice - Revenue yield would depend on which).

This would strengthen the punishment for VED evasion and would thus help meet the PAC's criticism of VED evasion and enforcement in a Report published in May 1984. The enhanced penalty would also encourage more offenders to accept the Department's offers to settle out-of-court, thus relieving resource pressures on the Department, Police and Courts. Discussions are in hand with the Home Office and Scottish Home and Heath Department, which it is hoped will enable a submission to be made to Ministers early in 1986.

Official in lead: R Bird 2067-2430

Official in support: J Palmer 2067-2485

FP contact: K M Romanski 233-5237

PAGE NO:

506/38

CONFIDENTIAL

FROM: B O DYER
DATE: 7 February 1986

01-233 4749

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Scholar
Mr Monger
Ms Sinclair
Mr Haigh
Mr McKenzie
Mr Graham - Parliamentary Counsel
PS/IR
PS/C&E

Content with same departmental backers as last year?

1986 FINANCE BILL : BACKERS

In the not too distant future, we shall need to provide Parliamentary Counsel with the names of the Ministers to 'back' this year's Finance Bill. While this is by no means urgent, there would seem advantage in getting as many of the "nuts and bolts" associated with the Finance Bill cleared and out of the way at an early stage, wherever possible.

2. For the record, Counsel give the list of backers to the Public Bill office when handing in the Bill text. The list is subsequently passed to the Treasury Minister presenting the Bill (last year the Financial Secretary) to read out when he 'Walks the Floor' at the conclusion of the Budget debates - circa 10.30pm on Monday 24 March.

3. By tradition the Chairman of Ways and Means heads the list of 'backers' and includes all the Treasury Ministers in the Commons. In addition, up to 7 other Ministers may be associated with the Bill. These are usually Ministers who have an interest in one or more of its clauses or have taken part in the Budget debates. In this context, last

year's Bill was supported by the Secretaries of State for Trade and Industry, Environment, Employment, Transport, the Foreign Secretary and the Minister of Agriculture.

4. It would seem perfectly in order for the same departmental Ministers to support this year's Bill - although the choice, of course, is entirely yours. If you are content to proceed as last year, I will seek the formal agreement of the Ministers concerned and inform Parliamentary Counsel accordingly.

5. The foregoing has been cleared with FP.

B O DYER

cc PS/FST
Mr. Savage

C. To note this new risk. You may like to discuss at next suitable Prayers with the Treasury Whip. Rus 4/3

Chancellor

The loss of the Govt. amdt., at ·X· below, to S.O. No 42 means that any Member can move, immediately after Second Reading, that the Finance Bill be committed to a Special Standing Committee.

Such a motion does not require notice, nor is it debatable. We must be alert, therefore, to vote such a motion down — unless Govt. inspired.

Rpt: WR
Whit Lords
VOC
No Hon

DS. Yes

3/3/86

Reference

PROCEDURE COMMITTEE DEBATE
THURSDAY 27 FEBRUARY 1986.

22 Committal of Bills,—A Motion was made, and the Question being proposed, That Standing Order No. 42 (Committal of bills) be amended, as follows:

Line 8, after ' committee ', insert ' or to a special standing committee ' ;

Line 11, after ' Member ', insert ' (except a motion to commit a bill to a special standing committee, which may be made only b ya Minister of the Crown) '—(*Mr John Biffen*).

An Amendment was proposed to the Question, to leave out lines 4 and 5.—(*Sir Peter Emery.*)

And the Question being put, That the Amendment be made ;

The House divided.

Tellers for the Ayes, *Mr Hugh McCartney, Mr Roger Sims :* 196.

Tellers for the Noes, *Mr Tim Sainsbury, Mr Tony Durant :* 158.

So the Question was agreed to.

And the Main Question, as amended, being put ;

Ordered, That Standing Order No. 42 (Committal of bills) be amended, as follows: Line 8, after ' committee ', insert ' or to a special standing committee '.

2656/010

CONFIDENTIAL

FROM: A B MURRAY
DATE: 27 FEBRUARY 1986

1. MISS SINCLAIR

2. CHIEF SECRETARY

cc: Chancellor
Minister of State
Financial Secretary
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Monger
Mr Scholar
Mr Culpin
Mr Haigh
Mr Romanski
Mr Johns, IR
Mr Wilmott, C&E
Mr Graham, OPC

FINANCE BILL TIMETABLE

This note sets out a provisional timetable for the Finance Bill. It has been prepared in consultation with Central Unit, Information Division, the Revenue Departments, Parliamentary Counsel and Parliamentary Clerk. Mr Maclean in the Chief Whip's Office is aware of the constraint imposed on the date for Second Reading, and subsequent stages, by the Bill's printing and publication timetable. The proposed timetable (set out in Annex 1) includes reserve dates to allow some flexibility in the light of Parliamentary developments in the coming months, and final decisions on the contents of the Bill.

Publication and Second Reading

2. Under the Provisional Collection of Taxes Act 1968 the Bill must be read a second time within 25 sitting days of Budget Day if a Resolution is passed under Section 5 of the Act (which gives immediate effect to changes in eg excise duties). There is also the convention of at least two weekends between publication and Second Reading, which, excluding election years, has not been broken since 1978.

3. Budget Day is 18 March. We expect the House will adjourn for

[redacted] Easter Recess on Thursday 27 March, and return on Monday 7 April. Allowing for Easter and the 25 sitting days rule, the latest date for Second Reading is Wednesday 30 April. The convention of two weekends between publication and Second Reading requires publication by Friday 18 April. We aim to publish on Thursday 17 April, which would secure full coverage for the clauses and our background notes in Friday's Financial Times. This timetable would require Parliamentary Counsel to deliver the Bill to the House authorities by Friday 11 April.

4. By reducing the time available for printing (as done last year) it might in practice be possible to publish a day or two earlier than 17 April. But, given the two weekends rule, there is no scope for bringing forward Second Reading unless the publication date can be advanced to the previous week - ie by Friday 11 April. Parliamentary Counsel does not believe this would be feasible, given the constraints of the drafting and printing timetable, and the intervention of Easter.

5. Publication on or around 17 April would allow for Second Reading on or after Monday 28 April; the sooner Second Reading takes place, the sooner Committee can start, so it would be advantageous to have Second Reading on Monday 28 April; this would give the same intervals after the Budget and publication as in 1985.

28/4 is Luxembourg ECOFIN

Committee Stage

6. The convention is to allow two weeks between Second Reading and Committee - the idea being to give MPs time to table amendments and so on. This would imply starting Committee of the Whole House (CWH) on Monday 12 May. But the convention is a relaxed one: 6 of the last 10 non-election years' Finance Bills (including last year's) have gone into Committee less than 14 days after Second Reading. And, in practice, CWH rarely involves much discussion of the detailed provisions of the Bill: it is more like an extention of Second Reading. Providing there is at least 2 weeks between Second Reading and Standing Committee there should not be too much complaint on this score.

7. We suggest, therefore, that we should aim to start CWH on Tuesday

6 May. This would give the same interval from Second Reading - 8 days - as in 1985.

8. Duration of Committee Stage, and the split between CWH and Standing Committee, will be questions for negotiation with the Opposition early in the week after publication (last year the Monday after) so the committal motion specifying the split of the Bill can appear at least 2 sitting days before Second Reading. Last year both parts of the Committee Stage were unusually short - 2 days in CWH, and 9 upstairs. While this year's Bill is still looking shorter than last year's (latest estimate 183 pages as against 199 on introduction last year), it is almost all new matter to digest (unlike last year when the Keith material had previously been published in draft). There are a number of potentially controversial items the Opposition will be keen to take downstairs; and enough matter to support a longish stint upstairs too. Negotiations might start from last year's 2/9 allocation, but as the Bill currently looks, 3 days in CWH and 10 or 11 upstairs might be a realistic outcome, with say 4/12 as a 'worst case' result.

9. We expect the House to rise for the Whitsun Recess on Friday 23 May, and return on Monday 2 June. Assuming 8 days between Second Reading and Committee, CWH could take place on Tuesday 6, Wednesday 7 and Thursday 8 May, with Monday 12 as a reserve. Standing Committee could then start on Tuesday 13 May (15 days after Second Reading) with a further 3 sessions before Whit. This should be enough to clear the indirect tax measures and make a start on the directs. If Committee resumes on Tuesday 3 June, immediately after the break, it would run on to Tuesday 19 June with 10 sessions, or Tuesday 26 June with 12.

10. On the other hand, allowing a full 14 days between Second Reading and Committee, CWH would be on Monday 12, Tuesday 13 and Wednesday 14, with Thursday 15 May as reserve. If the reserve was needed, Standing Committee could not start until Tuesday 20 May, allowing only 2 sessions before Whit: probably insufficient to deal with the indirect taxes. This reinforces the case for starting CWH on or around 6 May. (For reference, however, Annex 1 sets out the implications of the later start).

Subsequent Stages

11. There should be two weeks between the conclusion of Committee Stage and Report Stage and Third Reading to enable the Revenue Departments and Parliamentary Counsel to prepare amendments which would incorporate Ministers' final decisions into the Bill. Report and Third Reading have not needed more than 2 days since 1981, and this should again suffice this year.

12. On the most optimistic timetable outlined above (8 days from Second Reading to CWH, and 10 days upstairs), Standing Committee could finish as early as 19 June (compared with 18 June in 1985), which would allow Report to start on Thursday 3 July. But given the risk of slippage, and the need to avoid a clash with Ecofin on 7 July, it would seem prudent to assume Report and Third Reading would not take place until, say, Wednesday 9 and Thursday 10 July - the same dates as last year. This would give an interval of 114 days from Budget Day to Third Reading: about the same as in 1985, and less than in 1981, 1982 and 1984. These dates would slip a week (to 16 and 17 July) with 12 days in Committee, still no later than in several recent years.

13. The House of Lords stages take one day and must be completed by 5 August when authority to collect taxes under the Provisional Collection of Taxes Act expires. The usual practice is to take the Lords stages on a day in the penultimate or final week of July.

Summary and Recommendations

14. Annex 1 sets out the proposed timetable with its various alternatives. Annex 2 tabulates the timetable of Finance Bills since 1971.

15. We recommend, in summary:

(i) publication on 17 April and Second Reading on 28 April;

(ii) CWH should start on 6 May rather than 12 May to give more room for manoeuvre in the event of delays later;

(iii) negotiations on the length of CWH might start at 2 days,

but 3 days looks a more realistic figure, with 4 still a possibility;

(iv) Standing Committee should commence on 13 May, if CWH starts on 6 May;

(v) the length of Standing Committee will again be for negotiation - perhaps starting at 9 days, but with 10 days as a likely minimum, and up to 12 quite possible;

(vi) Report and Third Reading on 9 and 10 July, or 16 and 17 July if Standing Committee runs for 12 days; and

(vii) the House of Lords stages could be in either the penultimate or final week of July - say 23 or 30 July.

16. I should be grateful for your views on the above, in particular on whether the timing of CWH should be less than the conventional 2 weeks after Second Reading. When the arrangements are fixed I will submit advice on the publication date of the Bill, and on the meetings with the Opposition and Govenment backbenchers on the split of the Bill between CWH and Standing Committee.

Andrew Murray

A B MURRAY

ANNEX 1

1986 FINANCE BILL : PROVISIONAL TIMETABLE

Budget Day	Tuesday 18 March
Budget Debates)	Wednesday 19 March
)	Thursday 20 March
) 1st Reading of Bill at conclusion of final day	and Monday 24 March
Easter Recess : House Rises	Thursday 27 March
Easter Recess : House Returns	Monday 7 April
Bill handed in to the House (by Parly Counsel)	Friday 11 April
Bill Published	Thursday 17 April (Wednesday 16 April)*
Discuss Split with Opposition	Mon 21 or Tues 22 April
Second Reading (meeting convention of two weekends) Commital motion is moved at conclusion of 2nd Reading debate	Monday 28 April
May Day Holiday	Monday 5 May

		Timetable if 8 days (as in 1985) between 2nd Reading and CWH	**Timetable if two weeks between 2nd Reading and CWH**
Committee of Whole House (CWH):	1st Day	Tues 6 May	Monday 12 May
	2nd Day	Wed 7 May	Tues 13 May
	3rd Day	Thurs 8 May	Wed 14 May
[Reserve	4th Day	Mon 12 May]	
Standing Committee:	1st Day	Tues 13 May	Thurs 15 May+
	2nd Day	Thurs 15 May	Tues 20 May
	3rd Day	Tues 20 May	Thurs 22 May
	4th Day	Thurs 22 May	

Whitsun Recess: House expected to Rise Friday 23 May
: House expected to Return Monday 2 June

Standing Committee			Tues 3 June (4th Day)
	5th Day	Tues 3 June	Thurs 5 June
	6th Day	Thurs 5 June	Tues 10 June
	7th Day	Tues 10 June	Thurs 12 June
Standing Committee	8th Day	Thurs 12 June	Tues 17 June
	9th Day	Tues 17 June	Thurs 19 June
	10th Day	Thurs 19 June	Tues 24 June
If required	[11th Day	Tues 24 June	Thurs 26 June]
	[12th Day	Thurs 26 June	Tues 1 July]

*** Assumed in Mr Graham's letter of 29 January 1986**

\+ Assuming only 3 days in CWH

EC [redacted] N		Monday 7 July	
Report Stage	1st Day	++Wed 9 July	++Mon 14 July
	2nd Day	Thurs 10 July	Tues 15 July
	3rd Reading		
EC Budget Council		Wednesday 16 July Thursday 17 July	
Lords Stages in week beginning		Mon 21 July	Mon 28 July
Royal Assent		Tuesday 5 August (**at latest**)	

++ **Could be a week earlier if only 10 days in Standing Committee**

YEAR	EASTER SUNDAY	BUDGET DAY	BILL PUBLISHED	2ND READING	COMMITTEE				REPORT		3RD READING	LORDS	PAGES		DAYS BUDGET TO 3RD READING	COMMENTS
					WHOLE HOUSE		STANDING									
					BEGAN	DAYS	DAYS	ENDED	BEGAN	DAYS			BILL	ACT		
1971	11 APR	30 MAR	20 APR	28 APR	11 MAY	4	7	21 JUN	5 JUL	3	7 JUL	21 JUL	119	130	99	
1972	1 APR	21 MAR	11 APR	20 APR	9 MAY	6	15	28 JUN	10 JUL	3	19 JUL	26 JUL	204	223	120	
1973	22 APR	6 MAR	23 MAR	2 APR	10 APR	2	7	23 MAY	10 JUL	1	11 JUL	24 JUL	92	116	127	
1974	14 APR	26 MAR	26 APR	9 MAY	16 MAY	5	8	2 JUL	16 JUL	3	22 JUL	30 JUL	93	122	118	POST-ELECTION
1974	–	12 NOV	10 DEC	17 DEC	15 JAN (1975)	3	12	18 FEB (1975)	4 MAR (1975)	4	10 MAR (1975)	13 MAR (1975)	130	157	108	WINTER BUDGET
1975	30 MAR	15 APR	29 APR	8 MAY	15 MAY	3	8	3 JUL	16 JUL	2	17 JUL	31 JUL	110	122	93	
1976	18 APR	6 APR	15 APR	3 MAY	11 MAY	3	13	1 JUL	13 JUL	3	19 JUL	27 JUL	144	179	105	
1977	10 APR	29 MAR	19 APR	28 APR	9 MAY	3	8	23 JUN	14 JUL	3	25 JUL	28 JUL	78	88	128	
1978	26 MAR	11 APR	20 APR	27 APR	8 MAY	3	10	27 JUN	5 JUL	4	13 JUL	31 JUL	91	108	93	
1979	–	12 JUN	21 JUN	27 JUN	3 JUL	5	–	–	18 JUL	1	18 JUL	24 JUL	22	22	36	POST-ELECTION
1980	6 APR	26 MAR	17 APR	8 MAY	2 JUN	3	10	3 JUL	16 JUL	2	17 JUL	31 JUL	142	176	113	
1981	19 APR	10 MAR	3 APR	13 APR	30 APR	5	11	30 JUN	14 JUL	3	20 JUL	24 JUL	195	218	132	
1982	11 APR	9 MAR	26/30 MAR	6 APR	22 APR	4	11	24 JUN	12 JUL	2	13 JUL	20 JUL	189	256	126	
1983	4 APR	15 MAR	31 MAR	14 APR	25 APR	4	–	–	–	–	11 MAY	12 MAY	164	79	56	PRE-ELECTION
1984	22 APR	13 MAR	29 MAR	10 APR	30 APR	3	13	26 JUN	10 JUL	2	11 JUL	25 JUL	223	262	120	
1985	7 APR	19 MAR	16 APR	29 APR	7 MAY	2	9	18 JUN	9 JUL	2	10 JUL	23 JUL	199	242	113	
1986	30 MAR	18 MAR														

ANNEX 2

COPY NO. 1 ..OF 32

BUDGET SECRET

CJ2623

THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

Could you deem transactions on 18-24 March to have taken place on 25/3? Or just prohibit them? IG

FROM: A J G ISAAC
DATE: 27 FEBRUARY 1986

ECONOMIC SECRETARY

STAMP DUTY: ADR

1. Mr Battishill's note earlier today to the Chancellor said that we should be reporting separately to you on the starting date for the new charge on conversions into ADRs - provisionally put at 3 per cent.

2. The problem is that - for the familiar reasons - stamp duty changes cannot be applied retrospectively. The new change, therefore, cannot take effect until the Budget Resolutions are passed on the final day of the Budget debates - that is, Monday evening of 24 March. In consequence, there will be some six days (including the weekend) during which a quick operator can convert stockholdings into ADR form, without paying the new charge.

---

cc Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Sir G Littler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Monger
Mr Odling-Smee
Mr Scholar
Mr Pratt
Mr Cropper
Mr Lord
Mr H Davies

Mr D Walker, Bank of England

Mr P Graham, Parliamentary Counsel

Sir Lawrence Airey
Mr Isaac
Mr Battishill
Mr Beighton
Mr Corlett
Mr Houghton
Mr Painter
Mr Pipe
Mr Draper
Mr Gonzalez
PS/IR

3. In principle, there is clearly a risk of forestalling here. I have now had a chance to discuss with Mr Walker at the Bank of England how serious this risk may be. The Bank's view is that it is serious. Understandably, they cannot put a figure to it. But it would be realistic to assume that stockholdings worth some £ tens of millions could flow through the gap; and if the fashion caught on, the sum could be £ hundreds of millions.

4. I understand that it is not possible, consistent with the House rules, to bring forward the stamp duty Resolution to Budget Day. As we see it, therefore, there are three possible lines of action.

5. **Approach A:** table the ADR Resolution (as planned) on Budget Day; accept that the new stamp duty charge on ADRs will not take effect until the end of the Budget debates; accept that a fair slice of the first year yield from the new charge could slip through the six-day gap and that duty on the shares that escape could be lost for years to come.

6. **Approach B:** legislate, so that the new "transactions tax", which will in any event be needed to underpin the stamp duty (for example, as it applies to intra-account dealing) should be extended - so that it applies to ADR conversions during the six-day gap. This should technically be possible. But it would mean additional and complex legislation, coming at a time when time is very short and Parliamentary Counsel himself is under heavy pressure; and there is a limit to what even he can achieve.

7. **Approach C:** table the ADR Resolution, not on Budget Day, but on Monday 24 March, for passing the same day. We have confirmed with Parliamentary Counsel that this would be possible, and consistent with the rules of the House. So far as we have been able to trace, it would be unprecedented, at least in modern times. It would have to be defended on the basis that the new ADR charge has to take immediate effect,

in order to prevent forestalling; and this might perhaps be less unacceptable to the House, in so far as it was intended to prevent business going abroad to our competitors.

8. If you wish to follow Approach C, we shall need to make some detailed adjustments to the Budget Statement, FSBR and press notices. But I hope that we can still provide the correct "net" figures for the stamp duty package in the FSBR. There will be other formalities which we should need to discuss in detail with Parliamentary Counsel and perhaps the Whips' Office.

9. I am sorry that we have to bring this new problem to you now, but the problem arises essentially because the market advisers now take the view that an ADR conversion rate should be almost "penal". Now that we have identified it, however, I think that both Mr Cassell and Mr Walker share my feeling that it would be risky to leave it unplugged. I should be grateful to know whether you agree and, if so, whether you regard either Approach B or Approach C above as acceptable.

Statistics

10. For convenience, I also attach some further figures showing how the package is now expected to affect the yield of stamp duty on shares, as requested at last week's Overview.

C J C I.

A J G ISAAC

	1986-87 £m		1987-88 £m	
Transfers now subject to duty				
Duty at 1 per cent		560		625
Duty reduced to ½ per cent from Big-bang		490		515
Cost of reduction in rate		-70		-110
Tax on capital gains		-		+ 35
Net cost of reduction in rate		-70		- 75
Other changes from Big-bang				
Intra-account deals	+10		+20	
Renounceable documents	+10		+15	
		+20		+ 35
Changes from Budget day				
Takeovers	+20		+20	
Loan stock	+20		+20	
Own shares	+ 1		+ 1	
ADRs at 3 per cent	+10		+10	
		+50		+ 50
Net effect of package		NIL		+10

831/047

BUDGET SECRET

2 out of 20

FROM: G McKENZIE
DATE: 27 February 1986

1. MISS SINCLAIR

2. FINANCIAL SECRETARY

cc Chancellor
Chief Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Monger
Mr Lord
Mr Cropper
Mr Isaac - IR
Mr Battishill - IR
Mr Painter - IR
Mr Ridley - IR

PS/C&E
Mr Knox C&E
Mr Wilmott C&E
Mr Bone C&E
Mr Graham OPC

For those who have lost track of the numbers and positions, etc. of items in

C/ to note para 3 on length of Finance Bill, which seems similar to last year.

You'll see that not many starters are still undecided. Three or four page summary below this note is useful, if not entirely up to date.

I have removed the think attachment giving details of each starter. PL indicate if you want to see more of any item.

Rs 28/2

1986 FINANCE BILL: STARTERS

Here is the third and final edition of the Starters List.

NUMBER OF STARTERS

2. There are now 79 remaining starters, (which is 1 less than was included in the last list). Of which:

	INCLUDED/ SERIOUS CANDIDATE	STILL UNDER CONSIDERATION	UNLIKELY	TOTAL
I/R	47	7	3	*57
C&E	14	2	-	16
DEPT TRANSPORT/TSY	6	-	-	6
TOTAL	67	9	3	79

* Includes 9 New Starters.

BUDGET SECRET

A list summarising the position of these remaining starters is attached at Annex 1.

3. LENGTH OF FINANCE BILL

3. The present estimate for length of Finance Bill legislation now stands at 183 pages, compared to 153 pages as at 22 January.

	INCLUDED/ SERIOUS CANDIDATE	STILL UNDER CONSIDERATION	UNLIKELY	TOTAL
I/R Starters	129	15	11	155
C&E	23	1	-	24
DEPT TRANSPORT/TSY	4	-	-	4
TOTAL	156	16	11	183

The total length of legislation is now approaching that of last year's Bill on introduction (199 pages). Of the present length of legislation approximately 71 pages (of which 58 were clauses & 40 to schedules) relates to schedules and clauses, and the remaining are still unknown.

NEXT STEPS

4. Given Parliamentary Counsel's timetable for drafting the Bill, Ministers may now wish to consider dropping those starters which are unlikely (122 and 123 and 125), and take decisions on those that are serious candidates and still under consideration (Nos: 7, 9, , 125, 144, 149, 163, 167, 168, 169, 170, 171).

G McKENZIE

BUDGET SECRET

CUSTOMS

ANNEX 1

	STARTER	COMMENTS
1	Excise duties: rates	Included
2	VAT:registration limits	Included
C		
7	VAT: motoring expenses	Still under consideration Needs EC Commission clearance.
8	VAT: avoidance by disaggregation	Included
9	VAT: directors' liability	Still under consideration DTI quibbling - MST seeking urgent solution with Michael Howard
11	VAT: direct exports	Included
14	VAT: transfer of import relief	Included
15	VAT: Long-term lettings of accommodation	Included
16	Beer drawback	Included
17	Spoilt beer relief	Included
18	Excise licences	Included
19	Betting and gaming: (Northern Ireland)	Included
20	Excise duties and VAT: legal evidence by certificate	Included
21	VAT: Provision to apply Penalties for breaches of requirements of Treasury Orders	Included
22	VAT reliefs for the disabled: extension to Emergency Alarm Systems & Lifts	Included
24	Warehousing: Power to inspect records	Included

2656/015

BUDGET CONFIDENTIAL

FROM: A B MURRAY
DATE: 28 FEBRUARY 1986

1. **MISS SINCLAIR**

2. **CHIEF SECRETARY**

cc Chancellor
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Monger
Mr Haigh
Mr Romanski
Mr Cropper
Mr Lord
Mr Johns - IR
Mr Wilmott - C&E
Mr Graham - Parly Counsel

FINANCE BILL: AMENDMENT OF THE LAW RESOLUTION

We need to give Parliamentary Counsel instructions soon on the form of the Amendment of the Law Resolution (ALR) for the Bill and on whether we are to have the usual Incidental Charges Resolution (ICR).

Amendment of the Law Resolution (ALR)

2. Every provision in the Finance Bill for a new tax, for increasing or extending an existing tax, or for renewing an annual tax must be founded on a corresponding Resolution of the House; and the Bill may not increase a tax above the level approved in the Resolution.

3. Provisions for reducing a tax, for dealing with the machinery of tax administration, and for amending the law dealing with the National Debt are covered by a general Resolution, the Amendment of the Law Resolution (ALR). This Resolution covers all provisions within the normal scope of a Finance Bill other than those imposing a charge. Hence without an ALR every clause in the Bill would need to be founded on a specific resolution, and it would be out of order for any Member to move new clauses or amendments which were not covered by a specific Resolution. Omitting the ALR would therefore restrict the discussion of the Bill considerably; a step which has only been taken in unusual circumstances (for example, in 1974 before the General Election and in the summer of 1983 for the second Finance Bill). Omitting the ALR would also greatly increase the number of specific Resolutions.

4. On the other hand, an ALR which left unlimited scope for debate would open the way to some amendments for selective tax reliefs inconsistent with Government policy, which it would be contentious and time-consuming to oppose.

5. Hence the ALR has traditionally been phrased to restrict discussion of such areas as Value Added Tax and, until its abolition, the National Insurance Surcharge, so far as is consistent with the content of the Bill. The ALR last year (copy attached) was drafted so as to exclude amendments designed to zero-rate or exempt individual items or to provide refunds of the tax (except in relation to insolvency, to cover the VAT bad debt relief provisions last year). This drafting precluded amendments providing VAT relief for charities.

6. This constraint does not apply to extensions of VAT exemptions which are effected by Treasury Order, as would be the case with this year's starters. The Budget Resolutions are concerned only to found the Finance Bill; from the point of view of the Resolutions, anything done by Treasury Order is immaterial.

7. We therefore suggest that the ALR should be in its standard form, excluding amendments with respect to VAT which sought to:

(i) zero-rate or exempt any items;

(ii) refund any amount of tax; or

(iii) reduce the rate of VAT or give any relief in respect of specific supplies and not across the board.

The Incidental Charges Resolution

8. Since 1959 the Resolutions have generally also included an Incidental Charges Resolution: a copy of the standard Resolution is also attached. This enables Members to move amendments and new clauses which are designed to relieve tax but which, because of some side effect, might in theory at least result in a tax

charge and would otherwise be out of order (because the ALR does not authorise the imposition of charges). An example might be an amendment to relieve say, capital transfer tax by some rollover or holdover relief, the result of which might be an increased charge on disposal of the asset. (Equally, the Resolution is to the Government's own benefit since the possibility that its own clauses providing reliefs might in some extreme case result in an increased charge for some taxpayers can be ignored). It would be unusual not to include such a Resolution and we recommend that one should be tabled this year in the standard form.

9. We would be grateful for your authority to proceed on these lines, so that instructions can go forward to Parliamentary Counsel.

A B MURRAY

1. Amendment of the law

That it is expedient to amend the law with respect to the National Debt and public revenue and to make further provision in connection with finance; but this Resolution does not extend to the making of any amendment with respect to value added tax so as to provide—

(*a*) for zero-rating or exempting any supply;

(*b*) for refunding any amount of tax, otherwise than by a provision relating to the insolvency of a person to whom goods or services have been supplied;

(*c*) for varying the rate of that tax otherwise than in relation to all supplies and importations; or

(*d*) for any relief other than relief applying to goods of whatever description or services of whatever description.

43. Relief from tax (incidental and consequential charges)

That it is expedient to authorise any incidental or consequential charges to any duty or tax (including charges having retrospective effect) which may arise from provisions designed in general to afford relief from tax.

STARTER	COMMENTS
101 Income tax: thresholds & rates	
102 Cars: car & fuel benefit uprating and related breakpoints	Included
103 Stamp duty: rates & thresholds	Included
103A Stamp duty: American Depository Receipts	Included
103B Stamp duty: non stampable transaction	Included
103C Stamp duty: Takeovers etc	Included
103D Stamp duty: Purchase of own shares	Included
103E Stamp duty: Letter of Allotment	Included
103F Stamp duty: Bearer Duty	Included
104 CTT: threshold and rate band changes	
105 CGT: Annual exempt amount	
106 ACT rate for financial year 1986	
107 Mortgage interest relief limit for 1986-87	
B1	
108 Boarding school allowances & detached duty allowances	To be introduced as new clause during Cttee
110 Removal of restrictions on disclosure of information (between IR & Charity Comm)	Included
113 Agricultural buildings allowance: restructuring	Included
114(a) Accrued Income Scheme - anti bond washing (b) City restructuring - market (c) Accrued Income Scheme - technical points	) Included
115 Extension of relief under Section 22(2)FA 1974 (pensions paid to Nazi victims)	Included
116 Mines and wells allowances (MOWA)	Included
118 Employee share scheme: use of restricted shares	Included

BUDGET SECRET

119	Employee share schemes: access for certain companies currently excluded	Included
120	Removal of limit on charitable donations and deductible for higher rate purposes	Included
121	Stamp duty: stock exchange reliefs	Included
122	CTT: reliefs for employee ownership	Likely to be dropped
123	CGT: relief for venture capital companies	Likely to be dropped
124	Business Expansion Scheme	Included
125	Tax treatment of enterprise allowance	Still under consideration
129	PRT relief for onshore E&A	Included

C

133	Benefits in kind: threshold	Secondary legislation
134	Relief for overseas travel expenses	Included
135	Employee share schemes extension of employees' rights under savings-related SOS's	Included
136	Pensions: refund of surpluses	Included
138	Stamp duty: loan stock	Included
139	Treatment of VAT penalties etc for direct tax purposes (IT&CT)	Included
140	CGT: dual resident trusts	Included
143	CGT: futures and traded options in gilts	Included
144	Amendment to s 58 FA 1969: disclosure of data supplied from employers' index	Still under consideration
145	Section 286 ICTA: Loans to participators in close coys.	Included
146	Section 252 ICTA: use of tax losses (xfer of trade-coys in common ownership)	Included
147	Capital allowances: technical amendments consequent on abolition of FYA's	Included

BUDGET SECRET

149 Further tax measures to encourage R&D: treating R&D as trade for tax purposes	Still under consideration
151 Gross payment of foreign dividends etc to recognised clearing systems	Included
153 Section 8(3) OTA 1983: fields in common ownership: third party use of assets	Included
154 OTA 1983; disposal receipts in exempt gas fields	Included
157 PRT valuation of light gases	Included
161 CTT: Abolition of life time charge	Included
162 Tax relief for savings	Included
163 Industrial co-operatives	Still under consideration
164 Small companies CT (No form yet)	Included
165 Building Societies' Composite rate scheme: Minor Consequentials	New Starter
167 Relief for individuals for charitable donations through payroll deduction scheme	New Starter
168 Stokes V Costain and the oil industry	New Starter
169 CTT interaction of Business and Agricultural reliefs and partly exempt transfers	New Starter
170 Section 16 OTA 1975: ACTs restructing of set-off against ring fence profits	New Starter
171 Tax relief for donations by companies to charities (No form yet)	New Starter

BUDGET SECRET

DEPARTMENT OF TRANSPORT/TREASURY

	STARTER	COMMENTS
402	Amendment of 1981 Broadcasting Act	Included
403	VED: exemption for visiting forces vehicles	Included
405	Remove the requirement for £2 fee on application for duplicate vehicle registration document	Included
406	Changes to clarify and simplify trade licensing arrangements	Included
407	Date to end of month first licensing	Included
410	Increased penalties for VED evasion	Included

BUDGET CONFIDENTIAL

b/f 7/3

FROM: P WYNN OWEN
DATE: 4 MARCH 1986

MR McKENZIE

cc: PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Monger
Miss Sinclair
Mr Lord
Mr Cropper
PS/IR
PS/C&E

1986 FINANCE BILL: STARTERS

The Chancellor has seen your minute of 27 February to the Financial Secretary.

2. In the table in paragraph 2 he has noted that nine starters are still under consideration. He would be grateful for an up-to-date note on these nine starters, telling him if there are any problems with any of them.

Rwo.

P WYNN OWEN

FROM: P WYNN OWEN
DATE: 5 March 1986

MR DYER

cc PS/Financial Secretary
Mr Savage

FINANCE BILL-SPECIAL STANDING COMMITTEE?

The Chancellor was grateful for your note of 3 March. He agreed with your comment and observed that the Government will have to vote it down in the House. The Whips know this.

pp P WYNN OWEN

CONFIDENTIAL

FROM: M W Norgrove

DATE: 5 March 1986

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Mr Cassell
Mr Monger
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Haigh
Mr Romanski
Mr Murray

PS/Inland Revenue
Mr Johns - IR

PS/Customs & Excise
Mr Wilmott - C&E

Mr Graham - OPC

FINANCE BILL TIMETABLE

The Minister of State has seen Mr Murray's minute of 27 February. He has commented that taking the Committee of the Whole House on 8 May (Polling Day in the local government elections) is likely to cause problems, and that there would be potential Opposition objections, through the usual channels, to taking the CWH in the days that precede Polling Day.

M W NORGROVE
Private Secretary

1986 FINANCE BILL: STANDING COMMITTEE

2155/42

FOR PRAYERS

FROM: VIVIEN LIFE
DATE: 6 March 1986

PS/CHIEF SECRETARY

cc PS/Chief Secretary
PS/Chancellor
PS/Economic Secretary
PS/Minister of State
Mr Monger
Mr Pratt
Mr Haigh
Mr Cropper

1986 FINANCE BILL: STANDING COMMITTEE

The Financial Secretary has seen Mr Dyer's minute of 4 March.

Size and Composition

2. In the Financial Secretary's view the 1985 size was fine. And it was better in terms of Whipping and management of a Bill.

3. In his view it is important to keep the minority party to one Member if at all possible.

Membership

4. He would like an opportunity for a word about who should be on the Committee. In the meantime he suggests that the following would all be fine:

Michael Stern
John Watts
Nigel Forman
Graham Bright
William Powell
Neil Hamilton
Andrew Hunter
Tim Wood

VIVIEN LIFE

2155/32

CONFIDENTIAL

FROM: VIVIEN LIFE
DATE: 6 March 1986

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Mr Cassell
Mr Monger
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Dyer
Mr Haigh
Mr Romanski
Mr Murray
PS/IR
Mr Johns IR
PS/C&E
Mr Wilmott C&E
Mr Graham OPC

FINANCE BILL TIMETABLE

1. The Financial Secretary has read Mr Norgrove's minute of 5 March. He has commented that it is of course an important point to bear in mind. However, he thinks there will in practice not be a problem with the 2 days before 8 May. And that we may find it helpful in negotiating for only 2 days in Committee of the whole House.

2. Certainly he would not propose abandoning the proposal to take Committee of the whole House in the week beginning 6 May and the consequent timetable.

VIVIEN LIFE

CONFIDENTIAL

2 of 19

BUDGET CONFIDENTIAL

FROM: R J BROADBENT
DATE: 7 March 1986

MR A B MURRAY

cc: Chancellor
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Monger
Mr Haigh
Miss Sinclair
Mr Romanski
Mr Cropper
Mr Lord
Mr Johns - IR
Mr Wilmott - C & E
Mr Graham - Pary Counsel

C. To note.

Ro 11/3

FINANCE BILL: AMENDMENT OF THE LAW RESOLUTION

The Chief Secretary has seen your minute of 28 February. He agrees that instructions should go forward to the Parliamentary Counsel on the basis proposed in your minute.

R J BROADBENT
Private Secretary

CONFIDENTIAL

FROM: R J BROADBENT
DATE: 7 March 1986

MR A B MURRAY

cc: Chancellor
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Monger
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Haigh
Mr Romanski
Mr Johns, IR
Mr Wilmott, C & E
Mr Graham, OPC

C/To note Ro 11/3

FINANCE BILL TIMETABLE

The Chief Secretary has seen your minute of 27 February on which the Financial Secretary has also given his views. The Chief Secretary would like to go for the following timetable if at all possible:

(a) publication on 16 April (he thinks there is a presentational advantage in publishing on a Wednesday);

(b) CWH starting on 6 May. The Chief Secretary recognises the point made by the Minister of State (Mr Norgrove's minute of 5 March) but, like the Financial Secretary, he thinks this could work to the Government's advantage in that it would increase the pressure for only two days in CWH.

(c) the Standing Committee should start on 13 May.

CONFIDENTIAL

(d) the aim should be to complete all stages in the Commons by early July.

R J BROADBENT
Private Secretary

LT3.1

1. Philip 2. B/f 11/3 with note from Mr Cassell

SECRET

FROM: A W KUCZYS
DATE: 10 March 1986

MR McKENZIE

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

1986 FINANCE BILL: STARTERS

The Chancellor was grateful for your minute of 7 March. He looks forward to seeing a note by Mr Cassell on Starter 157 in the light of the ICI case.

A W KUCZYS

2656/039

BUDGET SECRET

COPY NO 1 OF 18

FROM: G McKENZIE
DATE: 7 MARCH 1986

1. **MISS SINCLAIR** 7/3

2. **CHANCELLOR**

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Monger
Mr Haigh
Mr Murray
Mr Lord
Mr Cropper
PS/IR
Mr Ridley - IR
PS/C&E
Mr J Bone - C&E

1986 FINANCE BILL: STARTERS

Your Private Secretary's note of 4 March, asked for an up-date on the nine Starters which were still under consideration on the list attached to my minute of 27 February.

2. You will see from the attached list, that decisions have now been taken on almost all of the [redacted] Starters [redacted] The only exceptions are:

See blue folder below

(i) Starters No 9: 'VAT: directors' liability,' where consultations are still going on between DTI Ministers and the MST.

[(ii) * No 125 'tax treatment of enterprise allowances' where the FST has recommended that you include this Starter.]

You have recently seen Apps on this.

(ii) Starter 157: 'PRT valuation of light gases' is now being reconsidered by Mr Cassell in the light of the ICI case, and note expected by Tuesday 11 March

[(iv) * the FST has recommended to you that new Starter 170 should now be included.]

3. Once we have decisions on these remaining Starters, I will send you the final list of Starters which are to be included in this year's Finance Bill.

* Now included

G McKENZIE

4624

BUDGET SECRET

CUSTOMS

ANNEX 1

	STARTER	COMMENTS
1	Excise duties: rates	Included
2	VAT:registration limits	Included
7	VAT: motoring expenses	Included
8	VAT: avoidance by disaggregation	Included
9	VAT: directors' liability	Still under consideration
11	VAT: direct exports	Included
14	VAT: transfer of import relief	Included
15	VAT: Long-term lettings of accommodation	Included
16	Beer drawback	Included
17	Spoilt beer relief	Included
18	Excise licences	Included
19	Betting and gaming: (Northern Ireland)	Included
20	Excise duties and VAT: legal evidence by certificate	Included
21	VAT: Provision to apply Penalties for breaches of requirements of Treasury Orders	Included
22	VAT reliefs for the disabled: extension to Emergency Alarm Systems & Lifts	Included
24	Warehousing: Power to inspect records	Included

STARTER	COMMENTS
101 Income tax: thresholds & rates	Included
102 Cars: car & fuel benefit uprating and related breakpoints	Included
103 Stamp duty: rates & thresholds	Included
103A Stamp duty: American Depository Receipts	Included
103B Stamp duty: non stampable transaction	Included
103C Stamp duty: Takeovers etc	Included
103D Stamp duty: Purchase of own shares	Included
103E Stamp duty: Letter of Allotment	Included
103F Stamp duty: Bearer Duty	Included
106 ACT rate for financial year 1986	Included
107 Mortgage interest relief limit for 1986-87	Included
B1	
108 Boarding school allowances & detached duty allowances	To be introduced as new clause during Cttee
110 Removal of restrictions on disclosure of information (between IR & Charity Comm)	Included
113 Agricultural buildings allowance: restructuring	Included
114(a) Accrued Income Scheme - anti bond washing (b) City restructuring - market (c) Accrued Income Scheme - technical points	) Included
115 Extension of relief under Section 22(2)FA 1974 (pensions paid to Nazi victims)	Included
116 Mines and wells allowances (MOWA)	Included
118 Employee share scheme: use of restricted shares	Included
119 Employee share schemes: access for certain companies currently excluded	Included

	STARTTER	COMMENTS
120	Removal of limit on charitable donations and deductible for higher rate purposes	Included
121	Stamp duty: stock exchange reliefs	Included
124	Business Expansion Scheme	Included
125	Tax treatment of enterprise allowance	Still under consideration
129	PRT relief for onshore E&A (3 mile limit)	Included
C		
133	Benefits in kind: threshold	Secondary legislation
134	Relief for overseas travel expenses	Included
135	Employee share schemes extension of employees' rights under savings-related SOS's	Included
136	Pensions: refund of surpluses	Included
138	Stamp duty: loan stock	Included
139	Treatment of VAT penalties etc for direct tax purposes (IT&CT)	Included
140	CGT: dual resident trusts	Included
143	CGT: futures and traded options in gilts	Included
145	Section 286 ICTA: Loans to participators in close coys.	Included
146	Section 252 ICTA: use of tax losses (xfer of trade-coys in common ownership)	Included
147	Capital allowances: technical amendments consequent on abolition of FYA's	Included
151	Gross payment of foreign dividends etc to recognised clearing systems	Included
153	Section 8(3) OTA 1983: fields in common ownership: third party use of assets	Include
157	PRT valuation of light gases	Still under consideration by F Cassell (link ICI)
161	CTT: Abolition of life time charge	Included

	STARTER	COMMENTS
162	Tax relief for savings	Included
163	Industrial co-operatives	Included
164	Small companies CT (No form yet)	Included
165	Building Societies' Composite rate scheme: Minor Consequentials	Included
167	Relief for individuals for charitable donations through payroll deduction scheme	Included
168	Stokes V Costain and the oil industry	Included. But in Committee
169	CTT interaction of Business and Agricultural reliefs and partly exempt transfers	Included
170	Section 16 OTA 1975: ACTs restructing of set-off against ring fence profits	Still under consideration
171	Tax relief for donations by companies to charities	Included
172	Exempting social security uprating from income tax	Included
173	CGT Relief: selling land to repay debts	Included
174	Non-resident entertainers and sports-men	Included. But in Committee

DEPARTMENT OF TRANSPORT/TREASURY

STARTER

402	Amendment of 1981 Broadcasting Act	Included
403	VED: exemption for visiting forces vehicles	Included
405	Remove the requirement for £2 fee on application for duplicate vehicle registration document	Included
406	Changes to clarify and simplify trade licensing arrangements	Included
407	Date to end of month first licensing	Included
410	Increased penalties for VED evasion	Included

506/39

CONFIDENTIAL

FROM: B O DYER
DATE: 10 March 1986

01-233 4749

CHANCELLOR

cc Mr Cropper

FINANCE BILL : STANDING COMMITTEE MEMBERSHIP

At 'Prayers' this morning, I understand that Mr Sainsbury took exception to the reference in my minute of 4 March about how the membership of the Committee is selected; and that you asked that all copies of the minute be withdrawn. This has been done. I must say, however, that I am a touch surprised by Mr Sainsbury's sensitivity and reaction.

2. First, I am mystified as to how Mr Sainsbury got a copy of my minute, which was clearly classified 'confidential'. Moreover, it was a conscious decision on my part - cleared with your Private Office - not to include either him or any of the PPSs among the copy recipients.

3. Secondly, there was nothing new in my minute. It followed essentially the same pattern as that put forward previously (in the 1970s) - irrespective of party - to identify an item for Ministerial consideration, prior to the Bill's introduction.

B O DYER

Chancellor

I have asked Brian Dyer to call in all copies of his note on membership of the Standing Committee.

I shared herein that Bryan had specifically not copied the note to the Whip or PPS's.

One of our colleagues must have inadvertently given Tim Sainsbury a copy in order to avoid his co-operation!

PJR.
10 March

PS: Had an interesting conversation with Mr Mossman this am!

RP2.74

CONFIDENTIAL

FROM: P WYNN OWEN
DATE: 10 March 1986

MR DYER

cc Mr Cropper

FINANCE BILL: STANDING COMMITTEE MEMBERSHIP

The Chancellor has seen and was grateful for your minute of 10 March. He will find out who gave Mr Sainsbury a copy, since they should not have done. He notes that Mr Sainsbury's sensitivity was certainly overdone, as he made clear at Prayers. He has noted that the point at issue was not the general advice and information, but the naming of specific backbench colleagues.

P WYNN OWEN

BP/74

PERSONAL

FROM: P WYNN OWEN
DATE: 11 MARCH 1986

MR CROPPER

FINANCE BILL: STANDING COMMITTEE MEMBERSHIP

The Chancellor has seen and was most grateful for your personal note of yesterday evening.

P WYNN OWEN

Chancellor.

Brian Dyer etc

I think it was probably the FST who gave Tim Sainsbury the note. It was done for a perfectly sensible reason, I guess. Not a case for court martial.

DJR

CH/EXCHEQUER
REC. 12 MAR 1986
ACTION CST, FST, EST, MST
COPIES TO SIR P MIDDLETON
SIR T BURNS
MR PER BUTLER
MR CASSELL
MR SCHOLAR
MR GILMORE
MR MONCUR
MR BURR, MR DYER, MR MURRAY
MR KAUFMANN, PS/IR

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SWIH 9AT
213 3238

11th March 1986.

Dear George,

FINANCE BILL

Thank you for your letter of 11th March. I have now seen a copy of Peter Graham's letter to the Chancellor's Private Secretary of the same date.

He is right in thinking that our proposals do not form part of the Budget as such. Accordingly we would have no objection to the introduction of the necessary amendments at Committee Stage, which would, as he says, remove the need for a Budget resolution.

The delay in submitting Instructions, which we all regret here, results from the need for a fairly fundamental change in the policy which arose after we received the Chancellor's letter of 8th January. We became aware that the ITV companies were proposing a scheme for a new service which cut across the Working Group's proposal for the treatment of overseas profits. Adapting the proposals to the new scheme involved consultations with the IBA and the Treasury, with the result that the lawyer concerned did not receive instructions from administrators until the end of February.

I deeply regret the strain that this has imposed on you and the draftsman and I am grateful for his offer to prepare amendments for Committee.

I am copying this letter to those named on the attached sheet.

Yours,

(J. NURSAW)

Sir George Engle KCB QC
The Parliamentary Counsel.

E.R.

PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
PS/Inland Revenue
Mr P Graham (Parliamentary Counsel)

BUDGET - SECRET

Office of the Parliamentary Counsel 36 Whitehall London SW1A 2AY
Telephone Direct line 01 210 6600
Switchboard 01 210

* Reply by close of play Today 11/3/86

CH/EXCHEQUER
REC. 11 MAR 1986
ACTION MR KAUFMAN*
COPIES TO MR FEER BUTLER
MR CASSELL
MR SCHOLAR, MR MONGER
MR GILMOR, MR DYER
MR A. MURRAY, PS/IR

11/3

CST, FST
EST, MST

J Nursaw Esq CB
Home Office
Queen Anne's Gate
LONDON SW1

11 March 1986

Dear Jim,

FINANCE BILL

Your instructions for amendments to the Broadcasting Act 1981, to be included in the Finance Bill, reached me at 10 a.m. today.

With Budget day on 18th March and the Finance Bill due to be handed in on 11th April, this is inexcusably late for the Home Office to be delivering instructions for provisions that not only need to be drafted and got right, but also require a Budget resolution which will have to be drafted within a matter of days.

If, as you say, the Chancellor of the Exchequer gave authority for the use of the Finance Bill for this purpose on 8th January, I would like to know why it has taken two months to send drafting instructions.

I am sending a copy of this letter to the Chancellor's private secretary.

Yours sincerely
George Engle

GEORGE ENGLE

BUDGET - SECRET

Office of the Parliamentary Counsel 36 Whitehall London SW1A 2AY

Telephone Direct line 01 210-6640
Switchboard 01

PS/Chancellor
HM Treasury
Parliament Street
London SW1

From Peter Graham

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Nursaw (Home Office)
PS/Inland Revenue

11 March 1986

*FOR REPLY BY CLOSE OF PLAY TODAY (11.3.86)

CH/EXCHEQUER

REC.	11 MAR 1986
ACTION	MR BURR *
COPIES TO	MR FER BUTLER
	MR CASSELL
	MR SCHOLAR, MR MONGER
	MR GILMORE, MR DYER
	MR A MURRAY PS/IR

I.B.A.: STARTER 402

1. We have today received from the Home Office 16 pages of instructions for amendments to the Broadcasting Act 1981. These instructions are appallingly late and I regret that I must ask that we be allowed to postpone dealing with them until Committee stage.

2. Instructions on many important Finance Bill matters are themselves running very late (later than I have ever known in a reasonably long acquaintance with Finance Bill work). We have to hand the Finance Bill text to the House in a little over four weeks, let alone get the Resolutions right by next Monday.

3. You will, I think, have received a copy of Sir George Engle's letter of today to the Home Office. It is not in the nature of Finance Bill draftsmen to cry "wolf" but I am already concerned about our ability to deliver in the time allowed a reasonably complete and accurate text of the Finance Bill, without the additional burden of this complex Home Office proposal. Furthermore, as I understand the Chancellor's letter of 8 January which approved this subject for inclusion in the Finance Bill, it is not part of "the Budget" as such.

4. The problem is immediate because, so far as I can see from a very quick reading of the instructions, the Home Office proposals will require a resolution. If that is so and a resolution is included in the Budget resolutions, we have to produce text in the Finance Bill at introduction. Any time devoted to the production of that text must eat into time which should be devoted to Inland Revenue starters. If a resolution is not included in the resolutions passed at the conclusion of the Budget debate, the subject cannot be included in the Finance Bill until Committee at the earliest.

PETER GRAHAM

BUDGET CONFIDENTIAL

From: N M KAUFMANN
Date: 12 March 1986

PS/CHIEF SECRETARY

cc
PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Butler
Mr Cassell
Mr Scholar
Mr Gilmore
Mr Monger
Mr Burr o/r
Mr Dyer
Mr Murray
PS/IR

ch/ Just to note. Rather a storm in a tea-cup. This is OK. But I will be grateful if I can see a copy of X. AWK 12/3

IBA : STARTER 402

Peter Graham's letter of 11 March to PS/Chancellor, covering one from Sir George Engle to Mr Nursaw in the Home Office, protests at the late instructions for amending the Broadcasting Act 1981 to incorporate the new arrangements for the ITV and ILR levies agreed by the Home Secretary and the Chancellor earlier this year. Mr Graham asks if he can postpone dealing with the instructions until Committee Stage.

2. Whilst the Chancellor did undertake to use the Finance Bill as the vehicle for the changes in his letter of 8 January, they are not Budget measures. We see no reason why they cannot be introduced at Standing Committee Stage, if need be, provided that business managers can find time for the necessary ways and means resolution. This would be one evening at 10pm (exempted business for 45 minutes) prior to the clause being debated. This should present no problem.

3. I attach a draft letter for you to send Mr Graham agreeing to postponement. The Home Office are reconciled to this and I have discussed with Mr Dyer. You said you could wait till this morning for a typed version of this advice.

N.K.

N M KAUFMANN

BUDGET CONFIDENTIAL

DRAFT LETTER FROM PS/CHIEF SECRETARY TO PETER GRAHAM

IBA : STARTER 402

You wrote to PS/Chancellor on 11 March about the Home Office instructions for amending the Broadcasting Act 1981.

2. I am sorry these instructions have come so late. In the circumstances I can agree to postponement until Committee Stage.

3. I am copying this to Mr Nursaw, Home Office.

[JR]

RT8.21

CONFIDENTIAL

FROM: A W KUCZYS
DATE: 12 March 1986

MR MONGER

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Cassell
Mr Scholar
Mr Dyer
Mr Murray
PS/IR

IBA: STARTER 402

The Chancellor has seen the two letters of yesterday from Parliamentary Counsel, and Mr Kaufmann's minute of this morning. He is pleased to see that the particular complaint has now been sorted out. But he has noted that Peter Graham, in paragraph 2 of his letter, says:

> "Instructions on many important Finance Bill matters are themselves running very late (later than I have ever known in a reasonably long acquaintance with Finance Bill work)."

2. The Chancellor would be grateful to know the explanation for this.

A W KUCZYS

2655/057

BUDGET SECRET Copy No 1 of 18

FROM: G McKENZIE
DATE: 13 MARCH 1986

1. MISS SINCLAIR GM 13/3

2. CHANCELLOR

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Monger
Mr Haigh
Mr Murray
Mr Lord
Mr Cropper
PS/IR
Mr Ridley - IR
PS/C&E
Mr J Bone - C&E

FINANCE BILL STARTERS

Following my note of 7 March, I now attach the final list of Finance Bill Starters. There is one new Starter (411: provision to allow Exchange Equalisation Account to hold ecus) on which a submission will follow very shortly. See blue folder tucked in below.

The length of Finance Bill legislation presently stands at 184 pages, which is 16 pages lower than it was on introduction last year. The split is:

	Pages	Schedules	Unknown	Total
IR	40	51	75	166
C&E	7½	7	-	14½
Dept Transport/Tsy	3½	-	-	3½
TOTAL	51	58	75	184

G McKENZIE

SL8

ANNEX 1

CUSTOMS

	STARTER	COMMENTS
1.	Excise duties: rates	Included
2.	VAT: registration limits	Included
7.	VAT: motoring expenses	Included
8.	VAT: avoidance by disaggregation	Included
11.	VAT: direct exports	Included
14.	VAT: transfer of import relief	Included
15.	VAT: Long-term lettings of accommodation	Included
16.	Beer drawback	Included
17.	Spoilt beer relief	Included
18.	Excise licences	Included
19.	Betting and gaming; (Northern Ireland)	Included
20.	Excise duties and VAT: legal evidence by certificate	Included
21.	VAT: provision to apply Penalties for breaches of requirements of Treasury Orders	Included
22.	VAT reliefs for the disabled: extension to Emergency Alarm Systems & Lifts	Included
24.	Warehousing: Power to inspect records	Included

INLAND REVENUE

	STARTER	COMMENTS
101	Income tax: thresholds & rates	Included
102	Cars: car & fuel benefit uprating and related breakpoints	Included
103	Stamp duty: rates & thresholds	Included
103A	Stamp duty: American Depository Receipts	Included
103B	Stamp duty: non stampable transaction	Included
103C	Stamp duty: Takeovers etc	Included
103D	Stamp duty: Purchase of own shares	Included
103E	Stamp duty: Letter of Allotment	Included
103F	Stamp duty: Bearer Duty	Included
106	ACT rate for financial year 1986	Included
107	Mortgage interest relief limit for 1986-87	Included
B1		
108	Boarding school allowances & detached duty allowances	To be introduced as new clause during Cttee
110	Removal of restrictions on disclosure of information (between IR & Charity Comm)	Included
113	Agricultural buildings allowance: restructuring	Included
114(a)	Accrued Income Scheme - anti bond washing	)
(b)	City restructuring - market	) Included
(c)	Accrued Income Scheme - technical points	)
115	Extension of relief under Section 22(2)FA 1974 (pensions paid to Nazi victims)	Included
116	Mines and wells allowances (MOWA)	Included
118	Employee share scheme: use of restricted shares	Included
119	Employee share schemes: access for certain companies currently excluded	Included

	STARTER	COMMENTS
120	Removal of limit on charitable donations and deductible for higher rate purposes	Included
121	Stamp duty: stock exchange reliefs	Included
124	Business Expansion Scheme	Included
125	Tax treatment of enterprise allowance	Included
129	PRT relief for onshore E&A (3 mile limit)	Included
C		
133	Benefits in kind: threshold	Secondary legislation
134	Relief for overseas travel expenses	Included
135	Employee share schemes extension of employees' rights under savings-related SOS's	Included
136	Pensions: refund of surpluses	Included
138	Stamp duty: loan stock	Included
139	Treatment of VAT penalties etc for direct tax purposes (IT&CT)	Included
140	CGT: dual resident trusts	Included
143	CGT: futures and traded options in gilts	Included
145	Section 286 ICTA: Loans to participators in close coys.	Included
146	Section 252 ICTA: use of tax losses (xfer of trade-coys in common ownership)	Included
147	Capital allowances: technical amendments consequent on abolition of FYA's	Included
151	Gross payment of foreign dividends etc to recognised clearing systems	Included
153	Section 8(3) OTA: fields in common ownership: third party use of assets	Included
157	PRT valuation of light gases	Included
161	CTT: Abolition of life time charge	Included

	STARTER	COMMENTS
16[redacted]	Tax relief for savings	Included
163	Industrial co-operatives	Included
165	Building Societies' Composite rate scheme: Minor Consequentials	Included
167	Relief for individuals for charitable donations through payroll deduction scheme	Included
169	CTT interaction of Business and Agricultural reliefs and partly exempt transfers	Included
170	Section 16 OTA 1975: ACTs restructuring of set-off against ring fence profits	Included
171	Tax relief for donations by companies to charities	Included
172	Exempting social security uprating from income tax	Included
173	CGT Relief: selling land to repay debts	Included
174	Non-resident entertainers and sportsmen	Included. But in Committee

DEPARTMENT OF TRANSPORT/TREASURY

	STARTER	COMMENTS
402	Amendment of 1981 Broadcasting Act	Included. But in Committee
403	VED: exemption for visiting forces vehicles	Included
405	Remove the requirement for £2 fee on application for duplicate vehicle registration document	Included
406	Changes to clarify and simplify trade licensing arrangements	Included
407	Date to end of month first licensing	Included
410	Increased penalties for VED evasion	Mr Romanski's submission of 12 March recommends dropping
411	Provision to allow Exchange Equalisation Account to hold ecus.	New Starter (for Committee) Submission to follow

You have this

RT8.31

CONFIDENTIAL

FROM: A W KUCZYS
DATE: 26 March 1986

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Cassell
Mr Monck
Mr Scholar
Mr Dyer
Mr Murray
Sir George Engle - Parliamentary Counsel
Mr Graham - Parliamentary Counsel
Mr Isaac - IR
PS/IR

FINANCE BILL

The Chancellor was most grateful for Mr Isaac's minute of 14 March. He believes there <u>are</u> a number of starters where it ought to be possible to get instructions to Parliamentary Counsel at an earlier date (eg. by reaching Ministerial decisions at an earlier stage). He would be grateful if the Financial Secretary could look into this and make recommendations for next year.

A W KUCZYS

Ch

As promised, the notes on amendments (for when you go over to the Finance Bill Cttee)

AJK

BOARD OF INLAND REVENUE

FINANCE BILL 1986
COMMITTEE

Schedule 8

Amendment	Page	Line
90	103	26
93	103	27
91	104	16
92	104	37

Mr Ian Wrigglesworth (Stockton S - SDP)

Schedule 8, page 103, line 26, leave our 'and capital gains tax'. 90

Schedule 8, page 103, line 27, at end insert 'and to a tax rebate based on a percentage of the average value of the Fund during the previous tax year'. 93

Schedule 8, page 104, line 16, leave out 'or to capital gains tax'. 91

Schedule 8, page 104, line 37, leave out 'and capital gains tax'. 92

PURPOSE OF THE AMENDMENTS

Resist Cost: unquantifiable but could be substantial

1. These amendments are presumably intended to provoke a debate on the relative merits of the Personal Equity Plan proposals and the French 'Loi Monory /Delors' scheme, which the Alliance favour. The ostensible purpose of the amendments is to recast Schedule 8 so that the forthcoming Regulations can encompass a scheme on 'Loi Monory' lines (ie tax relief for the act of investment but no relief from capital gains tax on disposals). In practice they would probably not achieve this result.

NOTES FOR USE IN DEBATE

2. The intention underlying these amendments is apparently that Personal Equity Plans should be similar in form to the French 'Loi Monory/Delors' scheme. The French relief has broadly the same objective as our proposal. But it differs in that tax relief is given (at the investor's marginal rate) when the investment is made whereas we propose that tax relief on capital gains should be given on the disposal of an investment in a Personal Equity Plan. It is claimed that our approach will not be sufficiently attractive to small investors (because they are unlikely to have capital gains in any year exceeding the annual exemption which is currently £6,300).

3. For technical reasons, I do not think these amendments would achieve the desired result. But I do not intend to base my arguments on mere technicalities.

Attraction of Personal Equity Plans

4. Unlike the honourable member for Stockton South, I believe Personal Equity Plans will be attractive to small investors. I acknowledge that someone who takes out only one Plan and holds it for only two or three years may not realise capital gains exceeding the annual exempt limit. But the purpose of this scheme is to encourage people to buy shares and to hold them - and if possible, to take out a new Plan every year. Someone doing this over a period of time could easily accumulate a substantial holding of shares - and the capital gain arising on a disposal could easily exceed the annual exemption.

5. But in any case the capital gains tax relief is only one attraction. The fact that dividends will be exempt from tax if they are reinvested in the scheme will also be a powerful incentive. And there is also the point that, once a Plan has satisfied the minimum holding period, the investor can forget about the Inland Revenue so far as his shares are concerned.

Drawbacks of the 'Loi Monory' approach

6. In contrast, there is no doubt that, if adopted in this country, the 'Loi Monory' approach would entail serious disadvantages which are not present to anything like the same extent with 'Personal Equity Plans'.

i. Cost to the Exchequer

7. With Loi Monory, tax relief is 'front-end loaded' - ie it is given, at the investor's marginal income tax rate, when the investment is made. This means that the initial cost to the Exchequer is very high. Thus, if the percentage rebate envisaged by amendment 93 were the investor's marginal tax rate, the cost would be at least £m70 for every 100,000 investors - assuming that they all invested £2400. If, as we have assumed, half a million people invest in Personal Equity Plans, the cost would be some £m350. Much of this cost would be deadweight (because the investor would have bought shares any way).

8. The beauty of our proposal is that the cost to the Exchequer builds up slowly - so that, in 1987-88, it would only be about £m25 on a take-up by half a million investors. This enables us, among other things, to set a higher annual level on qualifying investment.

ii Complexity and locking in

9. Another disadvantage inherent in the French approach is that the scheme has to be complicated. Because tax relief is given on entry, special restrictions are needed to ensure that the money is kept in the scheme for a minimum period. And special rules are required to claw back relief if money is withdrawn prematurely. Otherwise, the same amount of cash could be recycled every year to obtain multiple tax relief.

10. Furthermore, the minimum holding period has to be quite long - in France it is 5 years. Unless he is willing to face a tax clawback, that is how long the French investor must stay in the scheme. In the United States IRAs - which are a better comparison - tax or a clawback is charged on withdrawals from the fund at any time.

11. In contrast, the Personal Equity Plan scheme is very simple - and the minimum holding period can be much shorter (between 1 and 2 years). This is because, unlike the French scheme, the tax benefit for Plan holders will become greater the longer they remain in the scheme.

iii Inland Revenue Manpower Targets

12. The 'Loi Monory' approach would require tax relief to be given on individual claims. This is not a problem in France because taxpayers file annual returns anyway.

13. But in the UK most people pay tax through PAYE and do not make returns every year. The work of processing individual claims - and the task of monitoring the scheme to ensure that the same money was not 'recycled' - would have serious implications for Revenue manpower targets. On the other hand, the Personal Equity Plan approach would require only minimal Revenue involvement.

Conclusion

14. To sum up: we have studied the French 'Loi Monory' scheme very carefully on several occasions since it was introduced there in the late 1970s. The matter has been debated in the House several times - most recently last year. But a scheme on these lines has always run up against serious practical difficulties. Our proposals do not give rise to such serious problems: and in some respects I believe it is a better scheme than the French one.

/ BACKGROUND NOTE

BACKGROUND NOTE

15. In the Second Reading debate on 29 April 1986 Mr Wrigglesworth signalled his intention of raising the 'Loi Monory' alternative at Standing Committee Stage (Hansard extract attached at Annex A).

16. The Alliance (and, in earlier years, the Liberals) have been pressing for a relief on French lines for some years. Their proposals have been debated twice - in 1981 and 1985 - and, in other years, New Clauses have not been selected for debate. The Hansard extract for last year's debate is attached at Annex B.

/ ANNEXES

ANNEX A

Mr Wrigglesworth

I want to say a few words about the share ownership proposals in the Finance Bill because we on the alliance Benches have a long-standing interest in this matter. **The personal equity plan, which unfortunately has only the barest ground rules for its establishment in the Finance Bill, has turned out to be a pretty emaciated mouse.** The cost of tax relief for the scheme in 1987-88 is estimated at only £25 million, which will do very little to encourage the spread of shareholding. The incentives for individuals are minute. This point has been recognised by Conservative Members as well as by Opposition Members. **Those most helped by the scheme will be the better-off taxpayers and those on the higher rates who are already utilising their £6,300 capital gains tax exemption and who will be able to build up a tax-free fund.**

The **apparent exclusion of investment trusts and certainly of unit trusts** from the scheme means that on a relatively small amount it would be hard to achieve the kind of **spread of risk** which would make the scheme attractive to small shareholders. Those who do not benefit already from the CGT exemption will only benefit from the tax refund on reinvested dividends. Although the objection to including unit trusts is that they do not represent direct shareholding, the PEP scheme is unlikely to appeal to the small saver without them. **The Chancellor's proposals are quite inadequate to achieve a wider spread of share ownership.**

[Hansard : 29 April 1986 col 842-3]

ANNEX B

Mr. Ian Stewart: My hon. Friend the Member for Tatton (Mr. Hamilton) was right to draw attention to the position under the new directive on stamp duty, but I am sure that neither he nor any other hon. Member would expect me on the Government's behalf to accept on Report a new clause with a cost of £80 million or more—five or more times the cost of the stamp duty package that we debated earlier. Any decision on the future of the tax would only be taken in the context of budgetary considerations. The case for a reduction in or abolition of the rate of duty would have to be considered alongside any other tax reduction proposals as a matter of priority.

My hon. Friend has performed a useful service in drawing our attention to the fact that there is stamp duty on capital raising and that there are arguments for suggesting that it may be an impediment. No doubt, this is a matter of which we should take account at a suitable occasion in the future.

Mr. Terry Davis: The amount of stamp duty may be regarded as an "impediment" on raising money through the market, but it can be argued also that fees charged by accountants, lawyers, merchants and other who take part in a share issue—

Mr. Neil Hamilton: They provide a service.

Mr. Davis: Those charges can also be regarded as an impediment to raising money through the market. I do not expect the hon. Member for Tatton (Mr. Hamilton) to agree with me—he is in favour of those people; we are not.

Mr. Neil Hamilton: By leave of the House, I do not propose to rise to the bait offered by the hon. Member for Birmingham, Hodge Hill (Mr. Davis). Having heard what my hon. Friend the Economic Secretary said, I hope that we shall return to this matter on another occasion. I therefore ask leave of the House to withdraw the motion.

Motion and clause, by leave, withdrawn.

New Clause 43

RELIEF FOR EXPENDITURE ON ELIGIBLE SECURITIES

'(1) This section has effect where an individual, who throughout a year of assessment is resident in the United Kingdom, incurs expenditure on acquiring eligible securities.

(2) For the purposes of this section eligible securities consist of:—

(a) shares or stock which at the time acquisition by an individual to whom the provisions of this section apply (or, if later, on 5th April 1986) form part of the ordinary share capital of a company resident in the United Kingdom and are quoted on a recognised stock exchange; and

(b) units in such authorised unit trusts as the Board may by regulation prescribe.

(3) An individual to whom the provisions of this section apply and who has, in any year of assessment, incurred expenditure on acquiring eligible securities may, by notice in writing given within six months after that year, make a claim for relief from income tax on an amount of his income equal to so much of such expenditure as does not exceed £500.

(4) The Treasury may by order made by statutory instrument increase the amount of £500 in subsection (3) of this section to such amount as shall be specified in that order.

(5) The following provisions shall have effect as respects relief under this section—

(a) the amount of any expenditure in respect of which a claim for relief might otherwise be made under this section as regards any year of assessment shall be reduced by the aggregate amount of the proceeds of any disposals of eligible securities made during that year by the individual concerned;

(b) in the event that an individual to whom relief has been given under this section as regards any year of assessment disposes of eligible securities in any subsequent year of assessment (being a year of assessment ending on or before 5th April 1986) and does not in such subsequent year of assessment incur expenditure on acquiring eligible securities in an amount equal to or exceeding the proceeds of all such disposals, then he shall forfeit so much of such relief as is equal to the amount by which such expenditure falls short of such proceeds, or, if there is no expenditure so much of such relief as is equal to such proceeds;

(c) a claim for relief may require it to be given only by reference to the income of the individual without extending to the income of his spouse;

(d) subject to paragraph *(c)* above, relief shall be given by treating the expenditure as reducing first the earned income of the individual, then his other income, then the earned income of his spouse and then his spouse's other income;

(e) the relief shall be given in priority to relief under section 168 of the Taxes Act or section 30 of the Finance Act 1978.

(6) Where the Board is of opinion that any acquisition or disposal of eligible securities which is material for any of the purposes of this section is not at arms' length and accordingly directs that this subsection shall apply, then for the purposes of this section there shall be substituted—

(a) in the case of an acquisition of eligible securities, for the expenditure on such acquisition; or

(b) in the case of a disposal of eligible securities, for the proceeds of such disposal; the market value of such securities at the time of such acquisition or disposal.'.

—[Mr. Kirkwood.]

Brought up, and read the First time.

Mr. Archy Kirkwood (Roxburgh and Berwickshire): I beg to move, That the clause be read a Second time.

The provenance of the new clause was provided by the speech made by the Chancellor on 11 June 1985 at the Morris Macmillan memorial lecture, which he delivered to the Wider Share Ownership Council in the Grand Committee Room. The terms of the new clause are neither original nor entirely new to the House. In 1981 my hon. Friend the Member for Colne Valley (Mr. Wainwright) introduced a similar measure. The idea behind the new clause was pioneered in France, where the scheme has been in operation for some years. The scheme has been extended to Belgium, Sweden and Norway. It has found great favour abroad and has produced economic and financial benefits in other European countries. I suggest that it has friends not only abroad but in the House, including Conservative Members.

The scheme involves giving tax relief on acquiring securities in certain circumstances. The details of the maximum limit to the amount of relief in the period of the tenure and the other terms of the scheme would all be open to negotiation and discussion. The key feature is that the money that would be granted relief would be wholly additonal investment. Life assurance and pension funds have tax advantages — why not equity acquisition as well? Tax neutrality is a worthwhile goal at which to aim, but in today's fiscal conditions why not have an element of equity purchase too?

The main purpose of the relief is to arrest and reverse the tide of investment in corporate form, in contradistinction to the sad decline in the personal sector of investment. Under the heading "Wider Share Ownership" the Chancellor said:

"In the 1950s, for example, private investors accounted for two-thirds of all transactions on the Stock Exchange. The proportion is now probably below a quarter. And until very recently the decline was accelerating. The proportion of UK shares owned directly by individuals fell from 37 per cent. in 1975 to 28 per cent. by the end of 1981."

The opportunity is there for the Government to do a great deal more to encourage the private sector to return to the stock market. I accept that they have done something by reducing stamp duty and that a certain amount has been done under the employee share ownership scheme, but a scheme of the sort that is proposed in the new clause would produce a great increase in turnover in the stock market and would lead to a strong market performance in future. I urge the Government strongly to consider the scheme.

2.45 am

Mr. Wrigglesworth: As my hon. Friend the Member for Roxburgh and Berwickshire (Mr. Kirkwood) has said, the new clause is an attempt to implement in the United Kingdom a scheme to encourage share ownership purchase similar to that pioneered in France by Rene Monory in 1978. The French scheme was subsequently amended by Mr. Mitterrand's Minister, Mr. Delors. As my hon. Friend said, such schemes have been introduced with considerable success in other European countries such as Belgium, Sweden and Norway. A similar scheme is proposed in the Netherlands.

The Government might claim that their privatisation programme will lead to much wider share ownership, but that is questionable. The extensive programme of asset sales—it is estimated to average about £2·5 billion annually for the next three years—will not necessarily build a large base of private shareholders. By comparison with the United States or Japan, the British record of individual shareholding is poor. Less than 4 per cent. of individuals in Britain hold shares compared with almost 20 per cent. in the United States and almost 17 per cent. in Japan. Even the 8 per cent. of the adult population to which share ownership in Britain rose as a consequence of the BT flotation has fallen to 7 per cent. as a result of subsequent share disposals.

The unprecedented campaign and the incentives to attract small investors may again be emulated by the sale of British Gas but it will be hard to sustain in future issues. The evidence of British Aerospace is not encouraging. Of the 44,000 who held up to 99 shares each on that sale immediately after flotation, only 3,279 remained a year later. That was a staggering reduction. Of the 80,000 who held between 100 and 500 shares, only 13,000 remain. The total number of shareholders fell in a year from 157,829 to a mere 27,175. It will not be until the end of the voucher incentives for the larger shareholders in BT—those who hold 3,000 shares or more—that a full picture of the concentration of share ownership in BT will become possible.

It is clear that the take-up of employee share options in the privatised companies has been extremely limited. A parliamentary answer on 9 January gave the proportion of shares held initially by employees. It was 3·6 per cent. in British Aerospace, 1·4 per cent. in Cable and Wireless, 3·7 per cent. in Amersham International, only 0·1 per cent. in Britoil, 4·3 per cent. in Associated British Ports, 0·03 per cent. in Enterprise Oil, 1·3 per cent. in Jaguar and 1·9 per cent. in BT. These are minute percentages of the employees.

Even though the privatisation programme has not yet resulted in wider share ownership and employee share ownership on the scale that was claimed for it, it has undoubtedly kindled interest in the concept of share ownership among many who would not previously have contemplated it, and that is to be welcomed. The number of employee share ownership schemes approved by the Inland Revenue since the fiscal incentives were promoted in the Finance Act 1978 has grown impressively from 33 in 1979-80 to about 433 now. There are nearly 800 if employee share ownership schemes are included. It shows a substantial growth on the basis of the scheme introduced in 1978 that bears some resemblance to this new clause.

Even if these schemes can be viwed as a form of deferred pofit sharing, like other forms of wider share ownership they are transforming the character of the market economy and conferring the benefits of capital ownership upon a wider number of people than entrepreneurs and those who are fortunate enough to have a substantial accumulation of capital. The time is opportune to provide incentives through the tax system to give a new impetus to these developments and to stimulate the rapid growth of an industrial third force, the co-operative sector, and radical innovations such as employee buy outs to revive companies which have failed through incompetent management rather than through adverse market conditions.

The new clause would build on the modest take-up of the 1978 profit-sharing scheme which, although it started well, still covers fewer than 2 per cent. of employees. It provides the framework for stimulating these developments as well as boosting the equity base of companies and stimulating savings. It would help us to move away from the inbuilt discrimination in the taxation system which channels 70 per cent. of our savings into safe institutional investment in building societies, insurance companies and pension funds, compared with only 50 per cent. in the United States.

The variants on the Loi Monory scheme and the Delors scheme which have been introduced in Europe have helped to promote an inflow of cash which, according to the *Investors Chronicle*, has been an important factor in limiting the extent of market setbacks and contributing to a further substantial rise in prices. The introduction of schemes such as that contained in new clause 43 has taken place in combination with the creation of equity funds, which in Sweden showed a phenomenal growth from £13 million in 1979 to £165 million in 1983 and made a significant contribution to the buoyancy of the Swedish stock market.

The potential for employee shareholding schemes is at present strictly limited by the requirements of the institutions' protection committees: that not more than 5 per cent. of a company's pre-tax profits can be used in any one year and not more than 1 per cent. of issued share capital can be subscribed in any one year. For a large British company with a turnover of £1 billion, a capitalisation of £200 million and profits of £50 million this would mean that no more than £2·5 million of equity could be purchased annually. It would take 20 years to build up an employee's stake of as much as 20 per cent. This is a most regrettable state of affairs. By accepting the amendment the Government should take this opportunity to review the obstacles that stand in the way of wider share ownership. We hope that the Financial Secretary will respond to that opportunity.

Dr. McDonald: I listened carefully to the speech of the hon. Member for Stockton, South (Mr. Wrigglesworth). He referred to employee share ownership schemes and to the promotion of co-operative share ownership. The Opposition might view the new clause with more favour if that was the purpose of the new clause, but it does not limit tax relief for employees or co-operative share ownership. Tax relief is to be made available to individuals and the maximum relief to be made available will be £500. However laudable its aim might be, the new clause provides yet more relief to those who already have. Even though the maximum amount of money that can be invested in shares in any one year is limited to £500, this comparatively small amount is beyond the means of many people. This would not be our first choice when considering how tax relief should be distributed.

Secondly, the richer the investor and the higher his rate of tax the more this relief is worth. Neither the hon. Member for Roxburgh and Berwickshire (Mr. Kirkwood), who moved the new clause, nor his hon. Friend the Member for Stockton, South gave an estimate of its cost. I hope that the Economic Secretary will refer to it so that we may have some idea of the size of the give away that the new clause envisages.

Mr. Ian Stewart: I compliment the hon. Member for Roxburgh and Berwickshire (Mr. Kirkwood) on his patience in batting last in the order but on having nevertheless instituted an interesting debate at this hour on the proposals in the new clause, and his hon. Friend the Member for Stockton, South (Mr. Wrigglesworth) spoke of the wider share ownership aspects.

I have considerable sympathy in principle with proposals which promote wider share ownership by individuals and which encourage investment in British industry. The record of the Government on wider share ownership is good. But with regard to investment in United Kingdom industry, we have felt it more appropriate to target relief for new investment where it is most needed —for example, through the business expansion scheme.

The hon. Gentleman referred in particular to the example of the Loi MONORY, but the situation in France is, and has been, different from that in our stock market. One of the objectives of the French scheme was indeed wider share ownership, but they also wanted to strengthen their stock market and improve the capital base for French companies, which was much less developed than that in the city. They wanted to reduce the gearing of companies and provide funds for additional investment. It is not on all fours with the position in the United Kingdom.

The other French objectives, other than wider share ownership, are less relevant for us because of our larger stock market. They also have a different tax system in France and it is not possible, therefore, to make a direct comparison with that country, nor with the other countries mentioned in the *Investors Chronicle* article. Some of the growth in the stock markets of those countries has been due, in any event, to the increase in foreign investment.

The first questions to ask about the new clause are, as the hon. Member for Thurrock (Dr. McDonald) said, the cost and whether such a provision would represent a sensible use of those resources. We calculate that for every 1 million cases, the tax relief would cost about £150 million. It is not possible to predict in advance how many people would take advantage of such a scheme, but I have given the round figure of about £150 million.

The trouble is that such investment would not be wholly additional. The expectation is that, at least in the first year, and probably in other early years, much of the cost would derive from switching by people who already have share ownership. It would be bed and breakfast; they would sell and re-purchase or sell one and buy another. It would be difficult to isolate individual purchasers in that way.

Mr. Gerald Bermingham (St. Helens, South): Does the hon. Gentleman agree that, as a result of the Budget, bed and breakfast has become legal again?

Mr. Stewart: Bed and breakfast has never been illegal. It has sometimes been easier and sometimes less easy to do. It seems to be an ordinary stock exchange operation. I am not suggesting that we should provide an opportunity for it, with heavy cost to the taxpayer, which would not bring substantial funds into the market for the reasons that I have given.

It was pointed out that similar new clauses were debated four or five years ago. I am afraid that hon. Members will have recognised that the arguments that I am adducing are similar to those which may have been used on those occasions. I have sympathy with the objectives of the new clause, though I do not believe that this would be the way to achieve them, and the considerations that were put forward four of five years ago still apply. For those reasons, I cannot commend the new clause to the House.

Mr. Kirkwood: I refute everything that the Minister said about the application of the Loi Monory, but perhaps we should go there and investigate the osition. I beg to ask leave to withdraw the motion.

Motion and clause, by leave, withdrawn.

Further consideration adjourned. — *[Mr. Archie Hamilton.]*

Bill (not amended in the Committee, and as amended in the Standing Committee), to be further considered this day.

BOARD OF INLAND REVENUE

FINANCE BILL 1986
COMMITTEE

Schedule 8

Amendment	Page	Line
94	103	32

Mr Ian Wrigglesworth (Stockton S - SDP)

Schedule 8, page 103, line 32, after 'invest', insert 'and to specify an investment income limit'.

PURPOSE OF THE AMENDMENT

Resist Cost: unquantifiable

1. This amendment would enable the Personal Equity Plan regulations (made by the Treasury under Schedule 8) to impose a limit on the amount of income which could be derived from investments in a Personal Equity Plan. The reason for seeking such a restriction is not clear.

NOTES FOR USE IN DEBATE

2. The purpose underlying this amendment is to impose a limit on the income which an investor may derive from investments in a Personal Equity Plan. If such a limitation were desirable it could probably be included in the Regulations even without this amendment. But it is not clear why it is needed.

3. One justification might be to discourage investment in high yielding assets. This could be a point to watch if, as another amendment (no. 95) proposes, the scheme should be completely open to unit and investment trusts.

But we do not envisage more than a modest amount of qualifying investment in unit and investment trusts: and, on that basis, this amendment adds an unnecessary complication to the scheme. By ensuring that most Personal Equity Plan investment is in ordinary quoted shares - so that eg preference shares are excluded - we shall achieve the same result in a simpler way.

4. Another reason for this amendment might be to discourage plan investments from being held in the form of cash deposits for too long a period. If so, this seems a complicated way to go about it. Our proposal is that, to enable efficient portfolio management, reinvestment in qualifying shares must take place within four weeks.

FOR USE IF PRESSED

5. It has been suggested that a Personal Equity Plan could be used as a tax shelter for a deposit account by switching in and out of shares every four weeks, and holding the cash in an interest-bearing account for the rest of the time. This thought may be behind this amendment but we believe the associated costs of individual share transactions would make this sort of manipulation unattractive.

/BACKGROUND NOTE

BACKGROUND NOTE

6. We can only try to guess at the purpose underlying this amendment. Other amendments proposed by Mr Wrigglesworth appear to be prompted either by his preference for the 'Loi Monory' approach to tax relief for savings (nos. 90 - 93), or by his belief that the Personal Equity Plan scheme should be completely open to unit and investment trusts (no. 95). But, so far as we are aware, the French system imposes no limit on the income which an investor may derive from his investments in the scheme.

7. Our consultations continue with potential Plan Managers and other interested parties and, if the point behind this amendment seems worthy of consideration, it can be looked at in that context.

BOARD OF INLAND REVENUE

FINANCE BILL 1986
COMMITTEE

Schedule 8

Amendment	Page	Line
101	103	25

Mr Terry Davis (Hodge Hill - Lab)
Dr Oonagh McDonald (Thurrock - Lab)
Mr Tony Blair (Sedgefield - Lab)

Schedule 8, page 103, line 25, leave out 'shares under a plan (a personal equity plan)' and insert 'a unit trust'.

PURPOSE OF THE AMENDMENT

Resist Cost: Unquantifiable

1. This is a wrecking amendment. Its purpose is that Regulations made by the Treasury under Schedule 8 should only provide tax relief for investment in unit trusts and not shares.

NOTES FOR USE IN DEBATE

2. The amendment is directly contrary to the underlying objective of the Personal Equity Plan proposals, which are intended to encourage ordinary people to buy shares in British companies. If accepted, the amendment would introduce yet another fiscal distortion in favour of institutional investment.

3. It has been claimed that an amendment on these lines would be necessary for two reasons. First, the cost of transactions in small numbers of shares is prohibitively expensive - because stockbrokers are not interested in dealing with small investors. Second, small investors putting up to £2,400 a year in shares will not

be able to spread their risks adequately. Investment in unit trusts gets around both these problems.

Administrative costs

4. On the first point, I agree that in the past the handling charges imposed by stockbrokers have been relatively high for the small investor. But the indications are that this will change - particularly with the increased use of new technology. For example, the Small Order Automatic Execution Facility (SAEF) will in time dramatically reduce the administrative costs and the inconvenience of handling even very small packets of shares.

5. Moreover, other potential Plan Managers (such as the banks) have indicated that it should be possible to construct a Personal Equity Plan scheme which will not be too expensive to operate.

Spread of risk

6. I would accept that there is some substance in the second point. That is why we recently announced a change in our original intentions. We now envisage that investment in unit trusts and investment trusts up to a modest amount (to be decided) should be possible within the overall annual limit. This will safeguard the position of the small investor while at the same time providing him with an incentive to use some of his money to buy shares in United Kingdom companies.

7. To sum up. It would not be right to permit tax relief for full investment in unit trusts (still less to deny relief for investment in equities). The purpose of our scheme is to retain, as far as possible, a clearly identified link between investors and their shares. But we acknowledge the disadvantages of excluding unit (and investment) trusts altogether. Our proposed approach is a sensible compromise between these two extremes.

BOARD OF INLAND REVENUE

FINANCE BILL 1986
COMMITTEE

Schedule 8

Amendment	Page	Line
102	103	27

Mr Terry Davis (Hodge Hill - Lab)
Dr Oonagh McDonald (Thurrock - Lab)
Mr Tony Blair (Sedgefield - Lab)

Schedule 8, page 103, line 27, at end insert 'provided that the investor does not hold any shares.'.

PURPOSE OF THE AMENDMENT

Resist Cost: Unquantifiable

1. The intention behind this amendment is that access to a Personal Equity Plan should be denied to any investor who already owns shares.

NOTES FOR USE IN DEBATE

2. This amendment is presumably intended to ensure that people who are already shareholders (or who would have been anyway) should not benefit from the Personal Equity Plan tax reliefs. In other words, relief should be confined to new shareholders.

3. Since the Personal Equity Plan proposals are intended to encourage ordinary people to buy and hold shares directly, it might seem reasonable to deny tax relief to existing shareholders. But this proposal is not acceptable because there is no practical way of enforcing it. Would a Plan Manager receiving an investor's application to open a Personal Equity Plan have to check with every registrar of every United Kingdom company that no shares were held

in the investor's name? Even if that were possible, how could the Plan Manager be sure that the investor did not hold shares indirectly?

4. Certainly the Inland Revenue could not enforce this rule - not least because, provided that Plans are kept for the qualifying period, there is no reason why the Revenue will need to be involved.

5. In our view, there is nothing to be gained from imposing a rule which cannot be enforced. It is not a practical possibility to exclude existing shareholders from this scheme. The most we can do is to stop existing shareholdings being assigned to a Plan by requiring that investment should be in cash. This means that anyone wishing to transfer a shareholding to a Plan would have to sell them - paying any tax and other charges that might be due - and buy them back again.

6. A further point is that, as drafted, the amendment could apply to investors who already held shares in a Personal Equity Plan taken out in a previous year. So, in effect, no-one could have more than one yearly Plan.

/BACKGROUND NOTE

BACKGROUND NOTE

7. Confining tax relief to bona fide new investors in shares is in principle an attractive proposition - not least because it would dramatically reduce the cost of relief to the Exchequer. But in present circumstances it is not a practical possibility.

[8. Not for use: Even if it was desired to impose such a rule, this amendment would probably be unnecessary. Paragraph 2(5) of Schedule 8 is a 'catch-all' provision which we think would enable such a restriction to be made.]

BOARD OF INLAND REVENUE

FINANCE BILL 1986
COMMITTEE

Schedule 8

Amendment	Page	Line
103	103	31

Mr Terry Davis (Hodge Hill - Lab)
Dr Oonagh McDonald (Thurrock - Lab)
Mr Tony Blair (Sedgefield - Lab)

Schedule 8, page 103, line 31, leave out 'may' and insert 'shall'.

PURPOSE OF THE AMENDMENT

Resist Cost: nil

1. This appears to be a probing amendment. Elsewhere in Schedule 8 the word 'shall' has been used in preference to 'may'. The Opposition presumably want to know why.

NOTES FOR USE IN DEBATE

2. The point at issue concerns drafting. Why does paragraph 1(3) state that the Regulations may specify various conditions, whereas paragraph 1(2) - for example - provides that they shall set out conditions?

3. There is a simple reason for this subtle distinction. Paragraph 1(2) sets out in general terms what conditions will need to be covered by the Regulations. So the formula here has to be prescriptive. Paragraph 1(3) gives, in more detail, various examples of the sort of conditions which might be needed - depending on the final shape of the Personal Equity Plan scheme. So the formula here is permissive - in case any of the examples given turn out not to be necessary, and to make it clear that the list is not intended to be comprehensive.

4. This is not a major point. But I feel that, in the circumstances, the approach adopted by the Parliamentary Draftsman is the better one.

BOARD OF INLAND REVENUE

FINANCE BILL 1986
COMMITTEE

Schedule 8

Amendment	Page	Line
104	103	43

Mr Terry Davis (Hodge Hill - Lab)
Dr Oonagh McDonald (Thurrock - Lab)
Mr Tony Blair (Sedgefield - Lab)

Schedule 8, page 103, line 43, at end insert -

'(g) specify the maximum charges to be made by plan managers.'.

PURPOSE OF THE AMENDMENT

Resist Cost: nil

1. The amendment would enable the Regulations for Personal Equity Plans to dictate the maximum charges which plan managers could impose.

NOTES FOR USE IN DEBATE

2. I have some sympathy with the purpose underlying this amendment. Clearly small investors will be deterred from taking out Personal Equity Plans if plan managers charge too much for their services. But I do not think this will be a problem.

3. It has been claimed that, because of the administrative expense of handling small amounts of shares, potential plan managers would only be prepared to participate in the scheme if they could pass on all their costs to investors. Some plan managers may indeed find themselves in this position. But it is clear to us that other potential plan managers are confident that they can devise schemes which will <u>not</u> be too expensive to run.

4. I do not believe it would be right for the Government to dictate the terms on which a plan manager could offer financial services to his clients. But for Personal Equity Plans we intend to require all plan managers to disclose in full their charges and other remuneration from clients' business. This was made clear in the Prospectus recently published by the Inland Revenue.

5. Investors will be in no doubt what they will have to pay, and what they will get for their money. On this basis, plan managers whose charges are too high will lose business to their more efficient competitors.

/BACKGROUND NOTE

BACKGROUND NOTE

6. Technically, this amendment is unnecessary. The general enabling powers conferred on the Treasury by Schedule 8 would enable the Regulations to specify the maximum charges which plan managers could impose.

BOARD OF INLAND REVENUE

FINANCE BILL 1986
COMMITTEE

Clause 37

Amendment	Page	Line
105	36	28

Mr Terry Davis (Hodge Hill - Lab)
Dr Oonagh McDonald (Thurrock - Lab)
Mr Tony Blair (Sedgefield - Lab)

Clause 37, page 36, line 28, leave out 'Board' and insert 'Treasury'.

PURPOSE OF AMENDMENT

Accept Cost: Nil

1. This amendment corrects a drafting error. The Regulations for Personal Equity Plans are to be made under Schedule 8 by the Treasury - as paragraph 1(1) of the Schedule makes clear. But Clause 37 refers to Regulations made by the Board.

NOTES FOR USE IN DEBATE

2. The amendment corrects a technical discrepancy between Clause 37 and Schedule 8. We had not spotted this defect in the drafting and we are grateful to the Opposition for their helpful amendment.

BOARD OF INLAND REVENUE

FINANCE BILL 1986
COMMITTEE

Schedule 8

Amendment	Page	Line
202	103	25

Mr Ian Wrigglesworth (Stockton South - SDP)

Schedule 8, page 103, line 25, after 'shares', insert 'unit trusts and investment trusts'.

PURPOSE OF THE AMENDMENT

Resist

1. The purpose of this amendment is assumed to be to ensure that an individual can invest in unit trusts and investment trusts (as opposed to shares) as part of a Personal Equity Plan. In fact the amendment would merely enable regulations made under Schedule 8 to specify the kind of unit and investment trusts in which an individual could invest in a Plan.

NOTES FOR USE IN DEBATE

2. This amendment draws attention to the fact that, as drafted, Schedule 8 speaks only in terms of "shares", and makes no mention of unit trusts or investment trusts.

3. It is not our intention to exclude unit or investment trusts from the scope of Personal Equity Plans. On the contrary, we recognise that an individual, especially the small, first-time investor, should be able to acquire a balanced portfolio at a reasonable cost.

That is why we have made it clear - in the Prospectus which we issued recently - that investors will be able to hold a modest proportion of their portfolio in a unit or investment trust.

4. I assume the Hon Gentleman wishes to ensure that unit and investment trusts are not excluded. As drafted, however, his amendment would merely enable the regulations to specify what kind of unit and investment trusts would qualify for these purposes. Any amendment to the Schedule needed to put the position of unit and investment trusts beyond doubt ought to cover the ground more widely.

5. For this reason I cannot commend this amendment to the Committee. But I can assure the Hon Gentleman that, if necessary, we shall amend the Schedule at Report to make sure that a modest amount of investment in unit and investment trusts will be possible.

/BACKGROUND NOTE

BACKGROUND NOTE

6. Amendment 202 seeks to insert a reference to unit and investment trusts in one place only in Schedule 8 despite the numerous other references in the Schedule to "shares". We assume, therefore, it is of a probing nature. (An earlier amendment - No 95 - would have made the same change in a different place. That amendment has now been withdrawn.) During the Second Reading debate, Mr Wrigglesworth made clear his view that unit and investment trusts should be included in Personal Equity Plans to enable an investor to spread risk (copy of Hansard extract at Annex).

7. The term "shares" is apt to cover shares in investment trusts. But we shall need to consider whether amendments to the Schedule are necessary to make sure that the Regulations can provide exemptions for:-

- investment and unit trusts

- interest, if re-invested, from cash deposits held in a Plan.

8. The Prospectus refers to a "low limit" up to which investment in unit and investment trusts would be permitted. What this limit should be is still under consideration, and is one of the matters on which Ministers will doubtless be receiving views and representations.

9. Depending on the outcome of the current consultative exercise, it is possible that other amendments may also be required at Report.

/ANNEX

ANNEX

HANSARD 29 APRIL 1986 Cols 842-843

Mr Wrigglesworth

I want to say a few words about the share ownership proposals in the Finance Bill because we on the alliance Benches have a long-standing interest in this matter. The personal equity plan, which unfortunately has only the barest ground rules for its establishment in the Finance Bill, has turned out to be a pretty emaciated mouse. The cost of tax relief for the scheme in 1987-88 is estimated at only £25 million, which will do very little to encourage the spread of shareholding. The incentives for individuals are minute. This point has been recognised by Conservative Members as well as by Opposition Members. Those most helped by the scheme will be the better-off taxpayers and those on the higher rates who are already utilising their £6,300 capital gains tax exemption and who will be able to build up a tax-free fund.

The apparent exclusion of investment trusts and certainly of unit trusts from the scheme means that on a relatively small amount it would be hard to achieve the kind of spread of risk which would make the scheme attractive to small shareholders. Those who do not benefit already from the CGT exemption will only benefit from the tax refund on reinvested dividends. Although the objection to including unit trusts is that they do not represent direct shareholding, the PEP scheme is unlikely to appeal to the small saver without them. The Chancellor's proposals are quite inadequate to achieve a wider spread of share ownership.

FROM: Deputy Parliamentary Clerk

DATE: 1 May 1986

PRINCIPAL PRIVATE SECRETARY

cc PS/FST
PS/EST
PS/MST
Miss Sinclair - FP
Mr Cropper
PS/IR
PS/HMCE

PS/ CHIEF SECRETARY

R. — Would C be interested in X or does he know already. No need for him to know about the rest, I assume, as he's not here.

FINANCE BILL 1986 - COMMITTEE OF THE WHOLE HOUSE

The Government Whip's Office has just advised us that there is to be a debate on "The Situation in HM Prisons" from the Commencement of Business till 7pm on Tuesday 6 May. This means that the Finance Bill will not be able to start its first day in Committee of the Whole House until 7pm. As the Finance Bill is exempted business, this change will undoubtedly result in the House sitting late(r) - most probably into the early hours of Wednesday morning.

Richard Savage

RIHCARD SAVAGE

008/2763

FROM: **JILL RUTTER**
DATE: **1 May 1986**

PRINCIPAL PRIVATE SECRETARY

cc: PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Monger
Miss Sinclair

PS/Inland Revenue
PS/Customs & Excise

FINANCE BILL

As you know, the Chief Secretary is in the lead on the Finance Bill.

2 He has expressed concern that there are some matters under consideration which affect the Finance Bill where this office is not being copied the papers, nor is the Chief Secretary being asked to meetings to discuss.

3 I would be grateful if you and other copy recipients could ensure that the Chief Secretary does receive a copy of any paper relating to a Finance Bill subject - even if he was not involved in the pre-Budget policy formulation. I would also be grateful if we could be alerted to any meetings that the Chancellor is having on any Finance Bill subject, so that we can draw it to the attention of the Chief Secretary. He will not be able to, nor wish, necessarily to attend all meetings but since he will need to have an overview of the way in which the Finance Bill is developing it would be useful for us to be kept informed of what is happening.

3 The only subject which I am currently aware that we have not been receiving papers on is that pension fund surpluses. If you or others are aware of other topics which fall into the category described, where we have not seen papers, I would be grateful if they could be provided.

5 I understand that the Chancellor has discussed this with the Chief Secretary, and agrees with the Chief Secretary's request.

Jill Rutter

JILL RUTTER
Private Secretary

FROM: Deputy Parliamentary Clerk

DATE: 1 May 1986

PRINCIPAL PRIVATE SECRETARY
PS/ CHIEF SECRETARY
PS/ FINANCIAL SECRETARY
PS/ ECONOMIC SECRETARY
PS/ MINISTER OF STATE

cc PS/IR
PS/HMCE
Miss C E C Sinclair - FP
Mr M Haigh - FP
Mr K Romanski - FP
Assistant Parliamentary Clerk

STANDING COMMITTEE G - COMMITTEE STAGE OF THE FINANCE BILL 1986

The results of yesterday's Committee of Selection have appeared in the Votes and Proceedings this morning. A Committee of 33 Members has been selected (rather smaller than usual) and, for your convenience, is listed below:

CONSERVATIVES 21

Mr John MacGregor
Mr John Moore
Mr Ian Stewart
Mr Peter Brooke
Mr Tim Sainsbury
Mr Peter Lilley
Mr Michael Lord
Mr John Ward
Mr Barry Henderson
Mr Christopher Chope
Mr John Browne
Mr Nick Budgen
Mr Nigel Forman
Mr Jeremy Hanley
Mr Michael Hirst
Mr Andrew Hunter
Mr Michael Portillo
Mr William Powell
Sir Brandon Rhys Williams
Mr John Watts
Mr Tim Yeo

LABOUR 11

Mr Terry Davis
Dr Oonagh McDonald
Mr Tony Blair
Mr Ron Davies
Mr Stuart Bell
Mr Gerald Bermingham
Mr Michael Cocks
Mr Harry Cohen
Mr Terry Lewis
Mr Austin Mitchell
Mr Nick Raynsford

SDP 1

Mr Ian Wrigglesworth

Richard Savage

RICHARD SAVAGE

353/24

FROM: Deputy Parliamentary Clerk
DATE: 8 May 1986

01-233 5532

PPS 12/2
PS/CHIEF SECRETARY
PS/FINANCIAL SECRETARY
PS/ECONOMIC SECRETARY
PS/MINISTER OF STATE

cc PS/IR
PS/C&E
Miss C E C Sinclair - FP
Mr M Haigh - FP
Mr K Romanski - FP

STANDING COMMITTEE G - COMMITTEE STAGE OF THE FINANCE BILL 1986

Please refer to my minute of 1 May listing members of the Finance Bill Standing Committee (G).

2. The Committee of Selection yesterday discharged Mr Terry Lewis and appointed Mr Richard Caborn.

3. You may also care to note that today's Order Paper (p.3158) formally announced that Standing Committee G will commence its deliberations on the Finance Bill at 4.30pm on Tuesday 13 May.

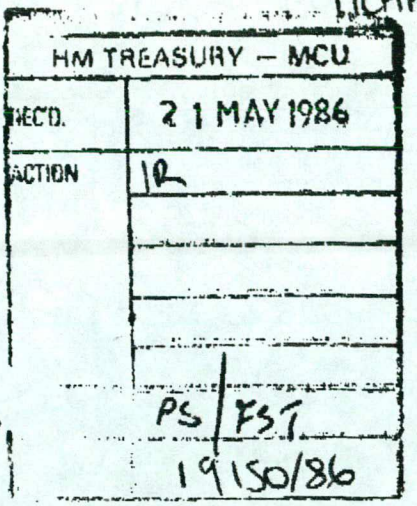
Richard Savage

RICHARD SAVAGE

Telephone 01-353 5282

21 Whitefriars Street
London EC4Y 8AL

IJCHAR



9th May, 1986

The Chancellor of the Exchequer,
11 Downing Street,
Whitehall,
LONDON, S.W.1.

Dear Chancellor,

At a meeting yeterday of representatives of the charities listed below I was asked to write to you in the following terms.

We believe that the interests of the Government and of charities will be best served if Clause 29 and Schedule 7 of the Finance Bill is withdrawn. There must be time for proper consultation. Speed is not conducive to the emergence of a cohesive or satisfactory policy over what may be regarded as a proper application of charitable moneys. This process does a grave disservice to an important section of the community which the Government wishes to help. If the second attempt also gets it wrong, the damage to the Government's reputation will then, in our judgement, be serious.

It is not our place to involve ourselves in political activity, nor do we wish to do so. We do wish to assist the Government in its rightful endeavours to prevent abuse of the reliefs from direct taxation which charitable status affords. Our advice is that consultation via a Consultative Paper will be more productive to achieve that end while at the same time protecting the legitimate interests of genuine charities and their beneficiaries. We believe that such a process should extend to a review of the resources and powers available to the Charity Commissioners. The co-operation of this group of charities, representative of general charitable trusts, learned societies, charities which co-ordinate and sponsor groups of affiliated charities and fund-raising charities, is freely available in the consultative process.

In order to be helpful, we have drawn up a "Declaration of General Principles" which we feel are the minimum acceptable philosophies and concepts to meet the interests of charities generally. We have communicated that document to the Chairman of the Board of Inland Revenue and I attach a copy. We do not believe that "refinement" of the drafting of Clause 29 and Schedule 7 is practicable, nor would it

prove as satisfactory as a cool, calm and detached appraisal of the need to accommodate the diverse nature of many different charities which a Consultative Paper would provide.

Yours sincerely,

J. S. Hillyer

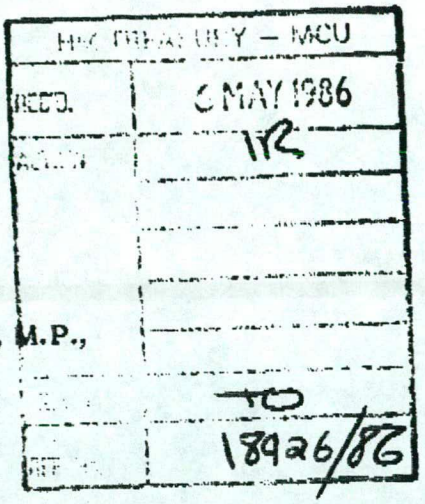
Enc.

Dr. Barnardo's
British Red Cross Society
Help the Aged
The National Council of YMCAs
The Nuffield Foundation
Royal Institute of British Architects
The Save the Children Fund
The Spastics Society
The Wellcome Trust
The YWCA of Great Britain

c.c. The Chairman, The Board of Inland Revenue
The Chief Charity Commissioner

Telephone 01-353 5282

21 Whitefriars Street
London EC4Y 8AL



1st May, 1986

The Rt. Honble. Nigel Lawson, M.P.,
Chancellor of the Exchequer,
House of Commons,
Westminster,
LONDON, S.W.1.

Dear Chancellor,

I write both as an Honorary Treasurer of one of the largest fund-raising charities in the United Kingdom and as a practising chartered accountant whose work is involved with trusts and tax and whose heart is very concerned in the field of charity generally.

Thus it is that with one hat I welcome the content of your Budget for the further encouragement of charitable giving; with the other I cannot share the same enthusiasm for the provisions of the Bill.

Imperfections in drafting can be put right by suitable amendment. But if some underlying philosophies and concepts are flawed, there is fundamental thinking required before the drafting problem can even start to be tackled. Your bill attempts to deal with two dissimilar problems and the result, if I may say so, is a disaster. Firstly, you need to safe-guard the Exchequer from the abuse of the so-called "company purchase scheme" device; secondly, it attempts to draw parameters around the question of what constitutes an application of income and gains for charitable purposes.

It is in seeking to mix these objectives and to achieve the latter without consultation that the Bill is both complex and wrong.

I urge you to consider therefore taking a Draconian power on a temporary basis for the Inland Revenue to refuse relief at its discretion - temporary because such a power ought not to be open-ended. No genuine charity need fear the Inland Revenue; relationships between charities and the Revenue are excellent and I would wish them to remain so. Then you could postpone the other provisions to a later time, making sure that you identify the philosophical and conceptual approaches to the second problem.

The boundary between what is acceptable and not acceptable as regards accumulation is indistinct - as Lord Denning put it in a different context, it is like the border between night and day or red and orange. The Bill seeks to make a finite and general border for many different types of charity with many different purposes or reasons for accumulation. Take no thought for tomorrow is not a wise principle.

For an endowed charity there is a finite border line: although its income may not be wholly distributable in one accounting period for a number of reasons, it will be. For the non-endowed foundation of a quasi permanent nature the preservation

of the purchasing power of the grant aid that its founder intended may require additions to its fund to achieve that object. What is wrong with that as a principle? To the emerging charity accumulation to set up an endowment fund by public appeal for say a scholarship or to build a new science block for a school or the extension of a wing to a hospital are laudable objectives are they not? I find it hard to believe that a Chancellor who expresses his concern to help charitable giving on the one hand can have made a political decision to take away that which has been given with the other.

As to concepts, you may have heard of ED38 (the draft Statement of Recommended Accounting Practice on Accounting by Charities). It recommends the accruals concept. The Finance Bill is based upon the concept of receipts and payments. The one has its feet on the ground and the other its head in the clouds. The gulf between the two inevitably means that there will always be timing differences and always be uncertainty for some charities as to whether they will get tax relief or not. How can a charity be expected to distribute income which it may find it will not have? Then there is the question of control over what investments may be made. To find a Conservative Chancellor dressing in the trousers of Roy Hattersley is an unexpected spectacle. I find it astonishing that you wish to penalise charities that invest abroad. The principle is a dangerous one.

The suggestion that the Inland Revenue should have discretionary powers is also a dangerous principle, but I believe it would have general acceptance given the enormous diversity of charities and the need for you to take immediate steps to check a serious abuse. In my opinion, a Green Paper on the other issues would have been a preferable way of going about the further changes that are thought to be necessary. To link the two as the Finance Bill does is a mistake and I submit time for quiet reflection and consultation is necessary.

Yours sincerely,

John Hillyer

J. S. Hillyer

8th May, 1986

DECLARATION OF GENERAL PRINCIPLES

On 8th May, 1986 the undermentioned charities met at short notice to consider the implications of Clause 29 and Schedule 7 of the Finance Bill 1986. Noting that those provisions call into question the principles governing the reliefs from taxation available to charitable bodies and the basis upon which those bodies seek to achieve their aims, the charities concerned agreed upon the following statement of general principles which they believe should underlie any proposed legislation.

A. PHILOSOPHY

1. That accumulation or retention of income should be recognised as a valid application for charitable purposes

If limitation on this general principle is to be introduced as a condition of tax relief under S.360 TA 1970 or S.145 CGTA 1979, no such limitation should extend to prevent:

i) the creation of or addition to an endowment fund for purposes of applying the resultant income therefrom for charitable purposes;

ii) the maintenance of a quasi-endowment fund by sufficient accumulation to preserve the purchasing power of grants to the objects of the charitable trust for future years;

iii) the retention of funds to permit the preservation or extension of the work of any charity on the objects of the charity, including the setting aside of sufficient reserves to secure the present and future ability to maintain its work against whatever temporary adversity may afflict the charity due to inflation or other causes;

iv) the retention of funds for long-term objectives such as the replacement or substantial repair of fixed assets or investments in freehold or leasehold property;

v) the retention of funds for the acquisition of assets of a type enabling the fulfilment of the objects of the charity - for example, assets of heritage character, medical equipment and the like;

vi) provision for the depreciation or amortisation of wasting assets.

2. That in applying the above general principle, flexibility should be allowed to make good shortfalls in the desirable levels of retention or accumulation which fluctuations in the levels of available resources may impose in particular years.

3. That investment policy should not be dictated or distorted by taxation considerations. Thus there should be no additional statutory limitation on the nature of investments in which charity trustees may invest, in particular that investment overseas should not disqualify a charity from relief under S.145 CGTA 1979.

B. CONCEPTS

1. That all tests of acceptable retentions and/or accumulations should be based upon the accounts of charities which adopt the accruals concept of the Statement of Recommended Practice for Accounting by Charities (presently in draft as ED38) - that is to say, tests should be on an income and expenditure basis, not on the receipts and payments basis of the Finance Bill;

2. That restriction of relief should have regard to past performance, preferably over a period of years, rather than the current year;

3. That no payment to another charity, which may fail in any year whatever tests of limitation of relief apply to it, should affect the status of the paying charity.

4. That there should be a finite period after which the source of the charity's fund should be ignored in determining its status for tax purposes.

We were not able to address our minds to questions concerning funds received for special purposes. There are difficulties over the extent to which special purpose funds create separate charitable trusts and this will need maturer thought.

We put these principles forward as responsible major charities in the belief that they represent the needs not only of ourselves but of charity generally to meet the overall purpose of all charities in providing for the wellbeing of the community.

Dr. Barnardo's
British Red Cross Society
Help the Aged
The National Council of YMCAs
The Nuffield Foundation
Royal Institute of British Architects
The Save the Children Fund
The Spastics Society
The Wellcome Trust
The YWCA of Great Britain

Many thanks. I believe there are a number of statutes, the most important of which is the Finance Bill. Is there any need for Parliamentary Counsel to be instructed?

Ch

My very limited experience is that Parliamentary Counsel always says something of the sort at this time every year. But they never fail to come up with the goods in the end. So Rather this than the other way round — ie complacency, but failing to meet the deadline.

I'll look into this & make arrangements for next year.

AWK 17/3

CONFIDENTIAL

THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

FROM: A J G ISAAC
DATE: 14 MARCH 1986

1. CHAIRMAN

2. CHANCELLOR OF THE EXCHEQUER

1. Mr Monger has passed to me your request for an explanation of Mr Graham's letter of 11 March about late instructions for the Finance Bill. I have discussed this reply with Mr Battishill.

2. Let me say at once that we think that Mr Graham and his colleagues have a real problem. You may recall that I expressed my own anxiety about this in my note to the Economic Secretary (about Stamp Duty) of 27 February. (below)

3. I would not want to argue about precise comparisons from year to year. A very crude comparison suggests that, as at 4 March this year, Parliamentary Counsel had received instructions on a higher proportion of starters than at the same time last year. But that is cold comfort. And some of the late instructions this year are formidably long and complex. (By contrast, the legislation on which we were well advanced - Keith - has dropped out of the Bill.)

---

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Cassell
Mr Monger
Mr Scholar
Mr Dyer
Mr Murray

Sir George Engle) Parliamentary
Mr Graham) Counsel

Sir Lawrence Airey
Mr Isaac
Mr Battishill
Mr Painter
PS/IR

4. There is no doubt about the essential fact. Finance Bill timetables have recently slipped compared with the "norm" in past years. To take an (extreme) example from my own experience, when we reformed Corporation Tax in 1972 we were able to send the main instructions to Counsel, so that he could be well advanced with the drafting before Christmas. By contrast, this year's reform of Capital Transfer Tax (leading into a comparable volume of legislation, if we exclude the special transitional provisions) was not initiated until late November - with the first decisions taken in the second half of December and the first instructions not sent until early January.

5. Parliamentary Counsel have a similar problem with Stamp Duty (legislation here will be shorter than for CTT, but no less complex). By contrast with CTT, it was foreseeable that significant legislation would be needed this year (and options were put forward in Mr Draper's "end of term report" of 31 July). However, policy developed over the Summer and Autumn; the main policy discussions took place in December and January; and decisions were not taken until the beginning of February.

6. Similarly with the 20 pages of MOWA legislation, the Autumn was taken up receiving and analysing representations on the consultative document, we reported to Ministers just before Christmas, and final decisions were taken towards the end of January (by which time the first batch of instructions had gone to Counsel).

7. Having said that, we recognise that it is easy enough to identify the problem. It is not quite so easy to find a solution.

8. In so far as the answer lies in our hands, Policy Divisions here are very conscious of the need to get instructions to Counsel as early as possible. After all, it is very much in our own interests as well as that of Counsel;

and it is the all too familiar fact that legislation conceived in haste is regretted in Committee. We have introduced this year a new and improved system for monitoring progress; and I think Parliamentary Counsel accepts that people here have - as he has - been working hard and long hours in an attempt to meet the timetable. As always, however, we can never be complacent.

9. Beyond that, I think that we are very conscious of the constraints under which Ministers are working, in a world which is so much more uncertain than it appeared to be in the early 1970s. And it is 10 years since we last saw a year when (for very different reasons) the Budget prospects and the scope for action changed so much between the Summer and the following Spring. The most constructive suggestion that we can offer for the future would be to seek to get decisions well before Christmas on as many as possible of the structural reforms and minor starters (even if some decisions had to be to some extent provisional), in order to get drafting on them out of the way, and the decks clear for those decisions which need to wait on the last minute Budget judgment. However, it is very much for your judgment whether that would be politically acceptable.

A J G ISAAC

112/2767

CONFIDENTIAL

FROM: JILL RUTTER
DATE: 19 May 1986

MISS SINCLAIR

cc: PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Monger
Mr Haigh
Mr Romanski
Mr Dyer
Mr R K C Evans
Mr Cropper
Mr Ross Goobey
Mr Tyrie

PS/IR
PS/C & E
Mr Isaac - IR
Mr Walker IR
Mr Bone C & E
Mr Graham OPC
The Hon T Sainsbury

PS/CST → SINCLAIR 19/5

FINANCE BILL: TIMETABLE

The Chief Secretary discussed progress on the Finance Bill with his Ministerial colleages and Mr Sainsbury today.

2 It was agreed that the order of Clauses should not be changed.

3 The expectation is that Clause 41 will be reached by the end of the session on 22 May.

4 To help the Economic Secretary with the clash in the week beginning 2 June with the Building Society Bill Report Stage it has been agreed that the Minister of State will take over Clause 53 and Clauses 55 to 57 inclusive. The intention will be to take all of the Stamp Duty clauses, which the Economic Secretary will still do, on 5 June.

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5 On this timetable consideration of clauses in the Bill will be completed by the end of the session on 10 June. Consideration would therefore move to new clauses on 12 June.

6 Ministers discussed Mr Prescott's minute of 15 May on taxation of lump sums for employment. It was agreed that the clause on Golden Handshakes should not be put down before the Recess.

7 More generally the Chief Secretary is very concerned that we appear to have few Government New Clauses available for tabling before the Recess. He would be grateful for an urgent progress report on the state of play on Government New Clauses - and because he will be taking the clause, I would be grateful in particular for advice on the position on the clause on Entertainers and Sportsmen. He has also asked about progress on the Robeco clause. Could Mr Isaac supply urgent advice on these points and other clauses.

JILL RUTTER
Private Secretary

2655/068

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FROM: A B MURRAY
DATE: 25 MARCH 1986

APS/CHIEF SECRETARY

cc PS/Chancellor
PS/FST
PS/EST
PS/MST
Miss Sinclair
Mr Haigh
Mr Romanski
Mr Dyer
Mr Walker, IR
Mr Bone, C&E
Mr Graham OPC

C/To note.
Ro 25/3

FINANCE BILL STARTERS TO BE INTRODUCED IN COMMITTEE

We spoke. The following Starters are intended to be introduced in Committee:

108: Boarding school etc allowances (by Backbencher)
174: Non-resident entertainers and sportsmen.
402: Amendment of 1981 Broadcasting Act (Home Office).
410: Increased penalties for VED evasion (Transport).
411: Provision to allow Exchange Equalisation Account to hold ecus.

A B MURRAY