

PO-CH/NL/0475
PART A

PO CH/NL/475
PART A

PO CH/NL/475
PART A

1989 BUDGET DAY
PRESS NOTICES

3-3-89

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM



**NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM
HM TREASURY AT 2.30PM ON MONDAY 23 JANUARY 1989**

Present: Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Gieve
Mr Gilhooly
Mr Michie
Mrs Chaplin
Mr Tyrie
Mr Call

Mr Jefferson Smith C&E
Mr Tracey C&E
Mr Cross-Rudkin C&E

.....

ECJ JUDGEMENT ON VAT ON NON-DOMESTIC CONSTRUCTION

Papers: Mr Culpin's note of 19 January; Mr Wilmott's minute of 18 January (ECJ progress report); Mr Wilmott's note of 17 January (VAT: Charities and the handicapped); Economic Secretary's note of 17 January (exposure of draft legislation).

The Chancellor, opening the discussion, said he was most grateful to the Economic Secretary and Treasury and Customs officials for the work they had undertaken. In a brief preliminary exchange, it was noted that (i) the liability of oil and coal products would be determined by the size and quantity of delivery, and occasionally by the status of the end-user; (ii) that the supply of water and sewerage would be taxed not only to manufacturing industry, but to



the construction and extractive industries. Those industries would, however, be able to reclaim the VAT from Customs. The Economic Secretary noted that this sort of definition was both consistent with the wording of the ECJ judgment for these goods and services and in practice the only way in which hospitals and schools could be kept out of charge.

The Chancellor invited the meeting to consider the questions set out in the annotated agenda (Annex B of Mr Culpin's note of 19 January).

Presentation

(i) It was agreed that draft clauses should be issued under cover of a Customs' News Release, with copies being placed in the House Library.

(ii) The Chancellor invited Customs to submit drafts of the new material. He would prefer that the material contained no deadline, though it should be made clear that it was issued in relation to the forthcoming Budget. Mr Jefferson Smith should, however, alert interested bodies to make their representations before the end of February. It should be emphasised that technical representations only were sought. It was agreed that an explanatory commentary should be provided in addition to the text of the draft clauses.

(iii) It was agreed that publication should take place on 2 January.

(iv) It was agreed that all clauses should be published at this stage, though it should be made clear that implementation would be staggered.



(v) It was agreed that there should be a Government statement at the same time as publication of the clauses. There was some discussion of whether this should be an oral statement to the House by the Economic Secretary. Such a statement would have the advantage that the Government would be seen to take the initiative, and would be able to scotch any ill-informed criticism. On the other hand, an oral statement might run the risk of whipping up interest in the issue. Moreover, the Economic Secretary had already made a statement to Parliament on the principle of the matter; and a statement at this stage, in relation to the Budget, might set an unwelcome precedent. It was agreed, therefore, that the announcement should be by written answer.

(vi) It was agreed that: the Economic Secretary should write to Sir Leon Brittan (on a private and personal basis); that Commission officials should be approached via UKREP; and that briefing should be provided to MEPs (identical to that which will be prepared for backbenchers).

Charities

(i) It was agreed that there was a reasonable story to tell in relation to charities.

(ii) It was agreed not to point up the improvement in the position of charities arising from the changes to the local authority rating system at the time the draft clauses were published. This point could be deployed at a later stage (perhaps the Budget Speech).



(iii) It was agreed that (i) exemption for charity and certain other fund-raising events; and (ii) extension of existing zero rates to include both sterilising equipment and classified advertising should be provided. The Chancellor invited Customs to consider whether the overall turnover limit for exemptions for charities could be removed. It was noted that removal would cost little in terms of revenue foregone, because of the current "voluntary donations" loophole.

(iv) It was agreed to resist zero rating for building alterations for social welfare charities, general purpose equipment for medical activities, wireless sets for the bedridden, charities' purchases of lifeboats, and remote controlled devices to open doors.

(v) It was agreed that we should continue to resist exemption for gravestones.

(vi) It was confirmed that there were no other reliefs which could be targeted at smaller charities. The Chancellor noted that smaller charities would be the hardest hit; Ministers should look sympathetically at suggestions made during debate.

(vii) It was agreed that VAT lollipops should be announced as part of the Budget package.

(viii) The Economic Secretary was invited to consider further whether a concession on the construction of shops, offices and warehouses should be ready for use if necessary. An alternative possibility would be to include any relaxations in the draft clauses. The Chancellor was inclined to follow this latter course. Since the legislation was being



presented as being forced on the UK, it would be reasonable to go as far as possible at the outset to mitigate its effects. Making concessions later would imply that the Government had tried to go further than the ECJ judgment required.

Overall consistency and defensibility

The Chancellor said he was satisfied that the overall package was equitable. He would like to be able to say that the Government had gone as far as it could, consistent with the law, to meet the wishes of those affected by the judgment. (This sort of argument could, incidentally, be used against eg Mr Bradman.) It was agreed that the package was reasonably EC-proof; that the compliance burden was reduced to something manageable; and that adequate safeguards were built in against abuse.

The Chancellor noted that the problem in relation to the penalty for incorrect customer declarations had now been resolved. It was also agreed to extend relief to holiday accommodation.

The Chancellor invited Mr Jefferson Smith to submit drafts of the statements and related material to Ministers by the end of the week.

A handwritten signature in dark ink, appearing to be 'J M G TAYLOR'.

J M G TAYLOR

24/1



Copies to:

Those present

PS/Financial Secretary

Mr Anson

Mr Wilmott - C&E

Mr P R H Allen - C&E



H.M. CUSTOMS AND EXCISE
 DEPARTMENTAL PLANNING UNIT
 NEW KING'S BEAM HOUSE, 22 UPPER GROUND
 LONDON SG1 9PJ
 01-620 1313 Ext 5023

MP

FROM: P R H ALLEN
 Departmental Planning Unit

DATE: 13 February 1989

CHANCELLOR

BUDGET DAY PRESS NOTICES

The following is in response to your Principal Private Secretary's note of 9 February asking for a provisional list of the press notices we expect to issue on Budget Day.

- A. Measures to promote unleaded petrol.
- B. Restriction of duty paid blending of made wine.
- C. Determination of original gravity of beer.
- D. Changes in VAT registration and deregistration thresholds.
- E. Simplification of VAT registration requirements.
- F. Changes in arrangements for bad debt relief.
- G. Review of default surcharge.
- H. Recovery of VAT and Excise duty overpaid in error
- I. Charities and the handicapped.
- J. Research and development cars.

Circulation: Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton
 Mr Scholar
 Mr Culpin
 Mr Riley
 Mr Gilhooly
 Mr Matthews
 Mr Pickford
 Mr Macpherson
 Miss Simpson
 Miss Wallace

CPS
 Mr Jefferson Smith
 Mr Wilmott
 Mr Finlinson
 Mr Vernon
 Ms French
 Mr Warr
 Miss Davenport
 Mr Broyd

This year's Customs Budget package has a strong deregulatory and pro-business flavour. We intend to consider whether an additional omnibus press notice encapsulating the pro-business elements (items D to H above) might better provide maximum publicity for the package.

On the assumption that, following exposure of the ECJ items on 6 February, the budget approach will be low key, we do not recommend any further Budget Day publicity.

RA.

P R H ALLEN

BUDGET SECRET



INLAND REVENUE
CENTRAL DIVISION
SOMERSET HOUSE

MP

Copy No 15 of

FROM: D DENTON
EXT: 6302
DATE: 15 FEBRUARY 1989

MR A C S ALLAN

BUDGET DAY PRESS NOTICES

1. You asked (your note of 9 February) for a provisional list of all the press notices we expect to issue on Budget Day.
2. I attach a list (not necessarily in order of importance). For the moment, a marker has been included on the point about unauthorised disclosure of information, although I gather an announcement may be made before Budget Day. Whenever the announcement, the press notice will presumably be a joint one covering Customs' interest as well. Other items in square brackets are provisional pending decisions.

D DENTON

cc. PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Riley
Mr Gilhooly
Mr Matthews
Mr Pickford
Mr Macpherson
Miss Simpson
Miss Wallace
Mrs Chaplin
Mr Tyrie
Mr Call
PS/Customs (cover note only)

Chairman
Mr Isaac
Mr Painter
Mr Beighton
Mr Bush
Mr McManus
Mr McNicol
Miss McFarlane
Mr Denton
Mr Shaw (Rm 44, New)
Mr Willmer
PS/IR

INLAND REVENUE BUDGET DAY PRESS NOTICES

The Budget 1989: Income tax

Income tax rates and personal allowances for 1989/90: PAYE

[Reduction in basic rate of income tax: consequentials]

New basis of assessment for earnings

Income tax: company cars

Relocation costs: reform of tax reliefs

Income tax: gifts between husband and wife and other settlements

Charities: payroll giving limit increased

[Heritage charities: membership covenants to qualify for tax relief]

Personal Equity Plans improved

Pensions: tax rules simplified

Higher tax free limits for Approved Employee Share Schemes

[Employee Share Ownership Plans]

Profit-Related Pay

Employees' material interest tests

[Easements of Employee share and other participation arrangements]

[Electricity Privatisation]

Abolition of Stamp Duty on shares

Life Assurance

Unit trusts: [introduction of new tax regime for unit trusts within the UCITS directive]

Corporation Tax rates

Business Expansion Scheme

Advance Corporation Tax

Abolition of close company apportionment

Capital allowances

Tax treatment of foreign exchange gains and losses: consultative document

● Extension of relief for pre-trading expenditure

Set-off of trading losses against capital gains

Sub-contractor Tax Scheme: consultation on reduced voucher requirements

Petroleum Revenue Tax: incremental investment allowance

Lloyd's: change in CGT rules to facilitate stock lending to market makers by Lloyd's underwriters

Capital [gains] [taxes]: miscellaneous changes

Capital gains tax and gifts

Capital gains: branches and agencies of overseas businesses

Gifts to Housing Associations

[Inheritance tax]

Taxes Management: measures to modernise the compliance system

[New criminal penalties for wrongful disclosure of taxpayer information]

European Economic Interest Groupings

Swaps: consultative document and extra-statutory concession

Deep discounted and index linked bonds; changes in the tax rules



Inland Revenue

Capital and
Valuation Division
Somerset House

FROM: M F CAYLEY
DATE: 21 February 1989

1. MR PITTS *W 21/2*
2. MR PAINTER *W 21/2*
3. FINANCIAL SECRETARY

PWP

STARTER 252 - CGT GIFTS RELIEF - BUDGET DAY PRESS RELEASE

1. I attach a draft press release on the proposed changes for gifts, and would be grateful to know if you are content.

2. I would like to draw your attention specifically to the second paragraph on the first page, which gives a brief explanation of the reasons for the changes. You will, I think, wish to consider

(i) whether you wish something like this to be included in the press release, or alternatively it is better to keep the release purely factual, leaving the rationale to be explained in the Budget Speech and ministerial speeches in the Budget debates;

(ii) if you do want something of this kind in, have we flavoured the paragraph in the way you would like?

MFC

M F CAYLEY

cc. Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mrs Chaplin
Mr Tyrie

Mr Fieve

Mr Painter
Mr Pitts
Mr Cayley
Mr Hamilton
Mr Denton
Miss Dyall
Ms McFarlane
PS/IR



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x]

14 March 1989

REFORM OF CAPITAL GAINS TAX RULES FOR GIFTS

1. In his Budget, the Chancellor proposes to reform the capital gains tax relief for gifts by individuals and trusts. Under present law, tax on any gain accrued up to the date of gift of an asset can normally be deferred until the donee disposes of the asset.

2. One of the original reasons for introducing this deferral was the existence of a simultaneous charge to capital transfer tax. With no general Inheritance Tax charge on lifetime giving, that rationale no longer applies. In addition, the capital gains tax deferral has come to be widely used not just to postpone gains but also to reduce or eliminate the tax charge on gains up to the date of gift. The reform, by substantially restricting the scope of the deferral, will make it much more difficult to use the relief for tax planning.

3. The main features of the reform are:-

(i) deferral to be restricted to

- gifts of business assets (including unquoted shares in trading companies and holding companies of trading groups)
- gifts of heritage property
- gifts to heritage maintenance funds
- gifts to political parties, and
- gifts on which there is an immediate charge to inheritance tax.

(ii) where deferral is not available, payment of tax by instalments will be allowed for gifts of land, controlling shareholdings, and minority holdings in unquoted companies.

(iii) some technical changes will be made to ensure that deferral does not effectively lead to gains being taken out of the capital gains charge.

/4. These changes
starter.252

4. These changes will apply to gifts and disposals made on or after 14 March 1989. They are expected to yield £m10 in 1990-91, rising to £m40 in a full year.

5. Gifts to charities will be unaffected by these changes. So - apart from one technical change (see paragraph 13 of the detailed description below) - will gifts between husband and wife.

DETAIL

A. GIFTS ON WHICH DEFERRAL WILL REMAIN AVAILABLE

1. The following paragraphs describe the types of gift on which deferral will continue to be available.

(i) Business Assets

2. Business assets will be defined for this purpose to include:-

(a) assets used in a trade, profession or vocation carried on

- by the donor, or

- if the donor is an individual, by his family company or a member of a trading group of which the holding company is his family company (the definitions here will be the same as for retirement relief), or

- if the donor is a trustee, by the trustee or by a beneficiary who has an interest in possession in the settled property.

As now for Schedule 4 of the Capital Gains Tax Act, deferral will be restricted if the asset was either not used in the trade etc throughout the period of ownership or if it is a building only part of which was used in the trade etc.

(b) agricultural property which would attract 50% relief from inheritance tax (the main assets concerned are farmland and associated buildings where the donor has vacant possession).

(c) shares and securities in trading companies, or holding companies of trading groups (defined as for retirement relief), where either

- the shares or securities are neither quoted on a recognised stock exchange nor dealt in on the Unlisted Securities Market,

or

/ - if the donor

- if the donor is an individual, the company concerned is his family company (defined as for retirement relief),

or

- if the donor is a trustee, the trustee can exercise 25% or more of the voting rights.

As now for Schedule 4 of the Capital Gains Tax Act, deferral will be restricted if the trading company or trading group has assets not used in a trade: but this restriction will not apply if, throughout the period of twelve months before the gift, the donor had less than 5% of the voting rights in the trading company or holding company of the trading group.

(ii) Heritage Property and Maintenance Funds

3. The reliefs provided by Section 147 CGTA for certain disposals of works of art, historic buildings, land of scenic, historic or scientific interest, etc, will continue unaltered. The reliefs provided by subsections (1) and (3) of Section 147 are confined to outright gifts (including gifts in settlement): in cases where some consideration (but less than market value) is received, deferral will continue for disposals which attract exemption from inheritance tax.

4. In addition, deferral will continue for gifts to heritage maintenance funds which attract exemption from inheritance tax.

(iii) Political Parties

5. Gifts to political parties and to trusts for political parties will continue to attract deferral if they would be exempt from inheritance tax under Section 24 Inheritance Tax Act 1984.

(iv) An Immediate IHT Charge

6. Deferral will also continue where a gift constitutes a transfer immediately chargeable to inheritance tax. The most common examples will be gifts to discretionary trusts and companies. But deferral will not be available - except in cases falling within (i), or (ii) above - if the gift is a potentially exempt transfer on which inheritance tax in the event becomes chargeable.

7. A gift will be regarded as chargeable to inheritance tax even if it falls within the nil rate band of that tax. It will also be regarded as so chargeable if it would be immediately chargeable but for the fact that it is within the inheritance tax annual exemption (Section 19 of the Inheritance Tax Act 1984).

B. INSTALMENTS

8. Where deferral ceases to be available any capital gains tax may be paid by annual instalments over ten years if the gift is of

/- land, or

- land, or
- a controlling shareholding in a company, or
- minority holdings of shares or securities in a company neither quoted on a recognised stock exchange nor dealt in on the Unlisted Securities Market.

9. The instalments will, if paid on time, be interest free if the gift is of agricultural property (as defined for inheritance tax: the main example is tenanted agricultural land given away by the landlord). Otherwise interest will run from the normal due date for capital gains tax.

10. The first instalment will be due on the normal due date. Taxpayers may pay the tax still outstanding, plus any accrued interest, early if they do not want the instalment arrangements to run their full course. If the gift is to a connected person and the asset is subsequently sold within the ten-year instalment period, any outstanding tax and accrued interest will become payable immediately.

C. TECHNICAL CHANGES

11. Deferral is not available under present law if the gift is to a person neither resident nor ordinarily resident in the United Kingdom. Some donees may be resident for tax purposes in both the United Kingdom and another country: in such circumstances a double taxation agreement may exempt some of their assets ("prescribed assets") from the normal United Kingdom charge on capital gains. In situations where deferral would otherwise continue, it will no longer be available if the gift is of an asset which would be "prescribed" in the hands of the donee. (A rule of this kind already exists if the donee is a dual resident trust.)

12. Where shares or securities within the capital gains charge are exchanged for qualifying corporate bonds (which are exempt from charges on gains), tax on any gain on the original shares or securities is deferred until there is a disposal of the replacement bonds. Further deferral will not be allowed on a gift of the replacement bond. If the bonds become the subject of a no gain/no loss transfer (eg within a group of companies or between husband and wife) the charge on the gain is preserved but due to a technical defect in the rules it is lost if there is more than one such transfer. Legislation will be introduced to correct this defect and will apply where there is a disposal on or after 14 March 1989 which has been preceded by more than one no gain/no loss transfer.

13. The new rules will also deny deferral under the gifts relief provisions for certain arrangements designed to take business assets outside the capital gains charge, for example by transferring business assets to a company the shares in which are owned by a non-resident trust.



Inland Revenue

Capital and
Valuation Division
Somerset House

FROM: C E GORDON
EXT: 6739
DATE: 21 FEBRUARY 1989

PWP

- 1. Mr Pitts *21/2*
- 2. Mr Painter *21.2*
- 3. Financial Secretary

BUDGET DAY PRESS RELEASES: CAPITAL GAINS TAX
STARTER 254 - UK BRANCHES OF OVERSEAS BUSINESSES
STARTER 263 - GIFTS OF LAND TO HOUSING ASSOCIATIONS

- 1. I attach draft Budget Day Press Releases for these starters (together with a Compliance Cost Assessment for Starter 254) which should be self-explanatory.
- 2. I would be grateful to know if you are content.

C E GORDON

- cc Chancellor
- Chief Secretary
- Economic Secretary
- Paymaster General
- Mr Scholar
- Mr Culpin
- Miss Sinclair
- Mr Riley
- Mr Allen
- Mrs Chaplin
- Mr Tyrie
- Mr Gieve

- cc Mr Painter
- Mr Pitts
- Mr Bush
- Mr Hamilton
- Mr Sadler
- Mr Elliss
- Mr Cayley
- Mr Evans
- Mr Jaundoo
- Mr Prescott
- Mr Fawcett
- Mr Thompson
- Mr Denton
- Miss McFarlane

PSLR



BUDGET
CONFIDENTIAL

**INLAND
REVENUE**

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x]

14 March 1989

CAPITAL TAXES: GIFTS OF LAND TO HOUSING ASSOCIATIONS

The Chancellor proposes in his Budget changes to the capital gains tax and inheritance tax rules for gifts or sales of land below market value to non-charitable Registered Housing Associations. This means

- the transferor will be liable to capital gains tax only in so far as there is a gain by reference to the actual sale proceeds; and
- the transfer will normally be exempt from inheritance tax.

These changes will apply where the transfer to the Registered Housing Association takes place on or after Budget Day.

NOTES FOR EDITORS

1. Under existing law, landowners who donate land (or sell it cheaply) to a non-charitable Housing Association can face a capital gains or inheritance tax charge based on the market value of the land. The person transferring the land may therefore face a capital gains tax liability based on an amount greater than any actual sale proceeds received. There may also be an inheritance tax charge on the decrease in value of the landowner's estate as a result of the transfer.

2. Under the Chancellor's proposals, where land is given or transferred cheaply to a Registered Housing Association the transfer will no longer be treated as taking place at market value. This means that a capital gain - which may be reduced by indexation allowance - will arise only if the actual sale proceeds exceed the amount of the allowable expenditure. If the actual sale proceeds do not exceed the amount of the allowable expenditure, the landowner will be treated as making neither a gain nor a loss after any indexation allowance.

/3. The Chancellor's

3. The Chancellor's proposals also mean that gifts or sales below market value of land to a Registered Housing Association will normally be exempt from inheritance tax.

4. As far as the landowner is concerned, the effect of these changes will be to bring the CGT and IHT treatment of transactions with non-charitable Registered Housing Associations into line with the rules which already apply to transactions with charitable Housing Associations.

5. The estimated cost of these changes is negligible.



BUDGET
CONFIDENTIAL

**INLAND
REVENUE**

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x]

14 March 1989

**CAPITAL GAINS TAX: NON-RESIDENTS WITH UK BRANCH OR AGENCY
AND DUAL RESIDENT COMPANIES**

The Chancellor proposes in his Budget a reform of the capital gains tax rules for non-residents carrying on a business in the UK through branches or agencies. He also proposes to introduce rules dealing with companies which are resident in both the UK and another country for tax purposes. Without these changes there would be a risk of substantial tax loss to the Exchequer, in particular from avoidance of the charge on migrating companies introduced last year.

(A) Non-Residents with UK branch or agency

1. The Chancellor proposes that:

- (a) any unrealised gains on assets will be chargeable if
 - (i) the UK business ceases; or
 - (ii) the assets are removed from the UK;
- (b) the capital gains tax rollover relief will be available only where the replacement asset is within the UK tax charge;
- (c) non-residents carrying on professions or vocations in the UK through a branch or agency will be treated in the same way as traders; but in this case only gains accruing from Budget Day will be brought into charge;
- (d) if a non-resident company fails to meet its liability on branch or agency gains other companies in the same group or controlling directors may be called upon to meet the liability;
- (e) with necessary modifications, the changes will extend to certain non-mobile assets and dedicated mobile assets used in connection with the exploration or exploitation of the UK continental shelf.

/2. The changes

2. The changes will generally apply where the disposal (or cessation or removal of the asset from the UK as the case may be) takes place on or after Budget Day.

Background

3. At present a person who is not resident (and in the case of an individual, not ordinarily resident) in the UK is not normally chargeable to capital gains tax (or corporation tax on capital gains in the case of companies). Such a person is however chargeable on the disposal of an asset which is situated in the UK and which is or has been used for the purpose of a trade carried on in the UK through a branch or agency in the year of assessment in which the disposal takes place.

(B) Dual-resident Companies

4. The Chancellor proposes that where assets of a dual resident company change, under the terms of the double taxation agreement, from being within the UK tax charge to being outside it, the company will be liable to tax on all unrealised gains on those assets.

5. The change will apply where the asset ceases to be within the UK tax charge on or after Budget Day.

6. At the same time the change to the capital gains tax rollover relief rules described in paragraph 1(b) above is extended to dual resident companies.

Background

7. A company which is resident in the UK may at the same time be treated as resident abroad under the terms of a double taxation agreement. The double taxation agreement will specify to what extent assets belonging to the company are within the UK tax charge, and to what extent they are outside. Where a company resident in the UK becomes dual resident then - following changes last year - it has to pay tax on all unrealised gains on assets which, under the relevant double taxation agreement, thereafter fall outside the UK tax charge.

NOTES FOR EDITORS

1. These changes will counter arrangements by which non-residents carrying on a business in the UK through a branch or agency may be able very easily to avoid the intended capital gains tax charge on the disposal of assets situated in the UK and used for that business.

/2. At present

2. At present the charge is generally confined to assets situated in the UK which are sold while the trade is continuing. So if the trade ceases before the asset is sold the charge is normally lost. Similarly if the asset is removed from the UK before being sold the charge is lost. Even where the UK asset is sold while the trade is continuing, capital gains tax rollover relief permits the non-resident vendor to roll the gain into assets which are outside the UK tax net, and so again the charge may be permanently lost.

3. Until recently the scope for, and extent of, abuse was limited. However last year new company residence and migration rules were introduced. Under these, companies wishing to migrate have to pay tax on unrealised gains on migration; but that charge does not apply to assets of a branch or agency which remain in the UK and thus still within the UK tax net. So companies wishing to migrate may very easily be able to arrange things so that their assets remain in the UK in a branch or agency - thus avoiding the emigration charge - and then to exploit the weaknesses in existing law to take gains wholly out of tax. Many millions of tax may be at stake.

4. The measures proposed by the Chancellor will counter these possibilities by ensuring that those carrying on business in the UK through a branch or agency pay tax on all unrealised gains when the business ceases and on any unrealised gain on an asset, if that asset is removed from the UK. At the same time the CGT rollover relief rules (which allow deferral of tax where disposal proceeds are used to acquire certain replacement assets within certain time limits) are being tightened up; and because of the possible difficulty of collecting tax from non-residents extra enforcement powers are being provided on the same lines as those already applying for the gains charge on companies which migrate. With necessary modifications the rules are extended to those involved in the use of certain non-mobile assets and dedicated mobile assets for the exploration or exploitation of the UK continental shelf.

5. Both the existing and the new rules are also extended as appropriate to non-residents carrying on professions or vocations here through a branch or agency. But because these persons have not hitherto been liable to capital gains tax it would be hard to justify catching all gains realised on or after Budget Day; so the change will apply only to gains accruing on or after Budget Day.

6. Finally, rules are being introduced for dual resident companies whose assets cease - under the terms of a double taxation agreement - to be within the UK tax charge. These rules will be in line with those introduced last year for companies whose assets cease to be within the UK tax charge when they become dual resident. As is the case for companies becoming dual resident there will be a charge on any unrealised gains on the relevant assets. As for non-residents carrying on business in the

/UK through a

UK through a branch or agency, the CGT rollover relief rules are being tightened up.

Compliance Cost Assessments

7. Assessments of the compliance costs of proposals affecting business are available. A copy of the Compliance Cost Assessment for this proposal can be obtained from:

Inland Revenue Deregulation Unit,
Room 77
New Wing
Somerset House
London WC2R 1LB.



**Inland Revenue
Capital and Valuation Division**

BUDGET CONFIDENTIAL

Somerset House
London
WC2R 1LB
Telephone 01-438

Your ref

Our ref

Date
14 March 1989

PROPOSED CHANGES IN CAPITAL GAINS RULES FOR UK BRANCHES AND AGENCIES OF NON-RESIDENT BUSINESSES - COMPLIANCE COST ASSESSMENT

NATURE OF THE REGULATION

1. What is the origin of the regulation - eg EC proposal, UK statute, request from industry/trade/interest group/other?

Ministerial policy decision as part of 1989 Budget.

2. What is the problem requiring regulation? How severe is it?

Although there is an existing capital gains charge on United Kingdom branches and agencies and activities in the continental shelf it is not watertight. It is also confined to trades and does not extend to professions and vocations. Without the proposed changes there could be a substantial loss of tax to the Exchequer where non-residents dispose of assets used in United Kingdom business activity. This would place non-residents at a fiscal advantage over UK residents engaged in similar activity.

3. What is the existing regulatory provision, if any?

The background on existing tax law and details of the proposed changes are given in an Inland Revenue press release of 14 March 1989.

4. Are there alternatives to regulation eg a code of conduct or voluntary agreement? Why have these been rejected?

Legislation is the only way to effect the proposed changes.

5. What timetable is proposed for the introduction of the new regulation? Must all measures be introduced at once or can these be introduced over a period?

It is proposed that the changes will apply from 14 March 1989. Introduction over a period would be inappropriate.

6. Can the period of operation of the new regulation be limited?

No.

willis.cca

7. How will the regulation be enforced? By central government or through local authorities?

By the Inland Revenue.

8. What specific provisions for small firms have been considered; such as exempting them from the regulation's requirements or other measures?

To exclude small firms from the changes would give non-resident small businesses an advantage over their Uk equivalents.

9. What consultations have there been with business? Are there any concerns raised by business which have not been met? If so What are they?

There has been no consultation. Business has made no representations.

IMPACT ON BUSINESS

10. Are certain sectors of industry or companies of a certain size likely to be particularly affected by the regulation? Please state the numbers of companies or establishments and employees which will be affected.

The changes will affect persons and companies resident overseas and either having by a branch or agency in the United Kingdom or involved in activity on the United Kingdom continental shelf.

11. What will businesses have to do to comply with the regulation? How will this compare with their current practice?

Some businesses will have to start reporting capital gains to the Inland Revenue in circumstances where they would not have done so in the past.

12. What additional resources or work will businesses be faced with in modifying their behaviour to comply with the regulation. What will this cost (a) a typical business and (b) industry as a whole.

Information on the gains concerned will normally be needed for the business's own commercial purposes; and in many cases those conducting the business would anyway have to report the gains to the tax authorities of the country where they are resident. In general the changes should add little to businesses' administrative costs. Some businesses may face additional tax liabilities.

BENEFITS

13. What will be the benefits to the UK economy as a whole, to Government objectives, to consumers, employees, traders or enforcement authorities? This should include tangible benefits eg savings on health and emergency services. Unquantifiable gains in efficiency and intangible benefits should also be mentioned.

The changes will promote a more level playing field between non-residents involved in UK business activity and UK residents.

MONITORING AND EVALUATION

14. What steps are being taken to measure the effectiveness of the new regulation in meetings its objectives? When will the regulations be reviewed?

The operation of the rules will be kept under constant review.

PWP



Inland Revenue

Capital and
Valuation Division
Somerset HouseFROM: MISS R A DYALL
DATE: 21 February 1989

1. MR PITTS *21/2*
2. MR PAINTER *22.2*
3. FINANCIAL SECRETARY

BUDGET DAY PRESS RELEASE - CAPITAL GAINS: MISCELLANEOUS PROPOSALS

1. I attach a draft Budget Day Press Release on miscellaneous proposals on capital gains. The Press Release covers

(i) the increase in the chattels exemption from £3,000 to £5,000;

(ii) the proposal to maintain the annual exempt amount at £5,000;

(iii) the extension of the exemption for qualifying corporate bonds;

(iv) some minor consequential provisions of the 1988 rebasing provisions.

2. May we have your approval, please?

Robin Dyall

MISS R A DYALL

cc. Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Gieve
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Neilson

Mr Painter
Mr Isaac
Mr Pitts
Mr Bush
Mr Hamilton
Mr Cayley
Mr O'Connor
Ms McFarlane
Miss Dyall
Mr Denton
PS/IR

pittsbd.pr



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x]

14 March 1989

CAPITAL GAINS: MISCELLANEOUS PROPOSALS

In his Budget the Chancellor proposes:-

(i) to increase from £3,000 to £5,000 the exemption for chattels, including chattels used in a trade, with effect from 6 April 1989;

(ii) to maintain the annual exemption at its present level. For 1989/90 (as for 1988/89) an individual will be exempt on the first £5,000, and most trusts on the first £2,500 of gains;

(iii) to extend the exemption from capital gains tax, and corporation tax on gains, for disposals of qualifying corporate bonds to non-convertible sterling bonds generally. The change will apply to disposals made on or after 14 March 1989 of non-convertible sterling bonds, and to options and contracts to acquire or dispose of such bonds.

It is also proposed to make some minor technical amendments to clarify the application of rebasing in some special circumstances. The detailed provisions will be included in the Finance Bill.

NOTES FOR EDITORS

Exemption for chattels

1. A chattel is an item of tangible movable property such as a picture, antique, piece of jewellery etc. Business assets which are chattels include plant and machinery. Under present law the gain accruing on the disposal of a chattel is exempt from capital gains tax if the consideration for the disposal does not exceed £3,000. The charge is tapered where the consideration just exceeds this amount. The new limit of £5,000 will apply to disposals on or after 6 April 1989 in the same way as the present limit.

/Annual exempt

pittsbd.pr

Annual exempt amount

2. At present an individual whose total net gains in a year of assessment do not exceed £5,000 is not liable to capital gains tax. This exemption is also available to the trustees of a mentally disabled person or a person in receipt of attendance allowance, and to personal representatives for gains accruing to them in the year of death and the two following years of assessment. For trustees of other settlements the exempt amount is £2,500.

Qualifying Corporate Bonds

3. Disposals of qualifying corporate bonds have been exempt from capital gains tax since 1984. At present the exemption is limited to non-convertible sterling bonds which

- from the time of issue have been quoted on the UK Stock Exchange or dealt in on the Unlisted Securities Market; or
- issued by a UK company or other body with shares or securities quoted on the UK Stock Exchange or dealt in on the Unlisted Securities Market.

It is proposed to remove this limitation.

Rebasing

4. In the 1988 Finance Act the base date for computing capital gains was brought forward from 1965 to 1982. The Finance Bill will include some minor clarifications of the rebasing rules. Very few people are likely to be affected. The main changes concerned will be designed to ensure that:-

- (i) rebasing will eliminate the charge on certain gains deferred before 1982. This change will apply to disposals on or after 6 April 1988 - the start date for the general rebasing provisions; and
 - (ii) an appropriate adjustment is made to an asset's 1982 value where there has been a small part-disposal between 1982 and 1988 but the consideration received exceeded the allowable expenditure. This will have effect for disposals on or after 6 April 1989.
-

B U D G E T C O N F I D E N T I A L



FROM: S M A JAMES
DATE: 14 February 1989

PS/CHANCELLOR

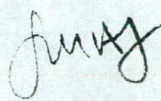
cc: PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Riley
Mr Gilhooly
Mr Matthews
Mr Pickford
Mr MacPherson
Miss Simpson
Miss Wallace

PS/C&E
Mr Jefferson-Smith - C&E
Mr Wilmott - C&E
Mr Finlinson - C&E
Mr P R H Allen - C&E

BUDGET DAY PRESS NOTICES

The Economic Secretary has seen Mr Allen's minute of 13 February.

2. He would favour on omnibus press notice on items D to H in Mr Allen's provisional list. Presumably an ECJ press release would be necessary if there are any significant changes in the clauses due to consultation (which the Economic Secretary hopes will not be the case).


S M A JAMES
Private Secretary

FROM: S J FLANAGAN
DATE: 21 February 1989

1. MR GILHOOLY *21/2*
2. APS/CHANCELLOR

cc PS/Financial Secretary
PS/Economic Secretary
Mr Culpin
Mr Riley
Mr Pickford
Mr Macpherson
Miss Simpson
Mr M Ralph

*Ch. OK for me to
write as proposed?*

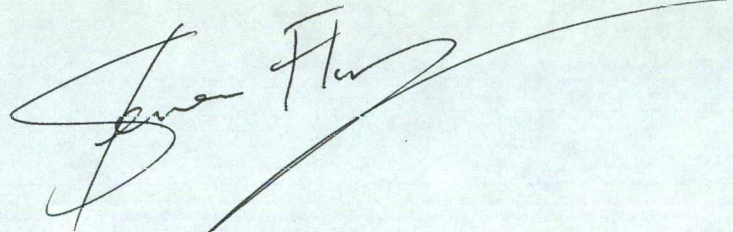
21/2

BUDGET DAY PRESS NOTICES

Customs and Revenue have provided lists of the press notices they expect to issue on Budget day. We should now trawl other Departments to see if they have any plans for Budget Day press notices, and to let them know the precise arrangements.

2. I attach a draft letter for you to send to private secretaries and Chief Press Officers. It is closely based on the one used last year. A list of Chief Press Officers, drawn up by IDT, is attached at Annex A.

3. Given the timetable we are setting, it would be helpful if this letter could issue within the next few days.



S J FLANAGAN

We are checking separately, with MA's help, on what press releases the Bank may have in mind to issue.

21/2

JMG *Neville Taylor*
DRAFT LETTER FROM MR SPARKES TO PRIVATE SECRETARIES AND CHIEF PRESS OFFICERS

BUDGET DAY PRESS NOTICES

As you will be aware, the Chancellor will be giving his Budget Statement on Tuesday 14 March. In handling press notices, we propose to follow the arrangements of previous years under which all press notices, including those issued by Departments other than the Chancellor's, are collated by the Treasury and issued both to the press and the House.

Your Department and others will no doubt already be considering what press notices you wish to issue on Budget Day. I would be grateful to know your intentions by close on Monday 6 March and the subject matter of any notices which you will be producing. It would also be helpful if you could let Steven Flanagan here (270-5666) have by then a contact point (name and telephone number, together with a proxy) for any subsequent enquiry on each. All press notices should, of course, be cleared in draft with the appropriate public expenditure divisions in the Treasury as early as possible.

As you will appreciate, the Treasury will be photocopying and collating a large volume over the weekend before the Budget. As a consequence, I am afraid that we must ask for copies of press notices to be sent to us by no later than midday on Friday 10 March and preferably beforehand. We will require 1995 copies

in all. These should be sent to Mr M C Ralph in our Committee Section split within the package into three sets numbering 1150, 670 and 175 copies respectively.

If you are issuing more than one press notice, it would ease our handling problems considerably if they could be packaged separately.

I am sending a copy of this letter to the Private Secretaries of all other Cabinet Ministers, Paul Gray (No 10), Trevor Wooley (Cabinet Office) and all Chief Press Officers.

Neville Taylor
COI Press Office
Hercules Road
London
SE1 7DU

Hugh Colver
Chief of Public Relations
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

Romola Christopherson
Director of Information
Department of Health
Richmond House
79 Whitehall
London SW1A 2NS

Brian Mower
Director of Information
Home Office
Queen Anne's Gate
London SW1H 9AT

Jean Caines
Director of Information
Department of the Environment
2 Marsham Street
London SW1P 3EB

Christopher Meyer
Head of Department
News Department
Foreign & Commonwealth Office
Downing Street (West)
London SW1A 2AL

Adrian Moorey
Director of Information
Department of Trade & Industry
1 Victoria Street
London
SW1H 0ET

Michael Granatt
Head of Information
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

Gill Samuel
Head of Information
Department of Transport
2 Marsham Street
London SW1P 3EB

Jim Coe
Head of Information Division
Ministry of Agriculture,
Fisheries & Food
3 Whitehall Place
London SW1A 2HH

Barry Sutcliffe
Head of Information
Department of Employment
Caxton House
Tothill Street
London SW1H 9NF

Peter Shaw
Head of Information
Department of Education
& Science
Elizabeth House
York Road
London SE1 7PH

John Machin
Press Secretary and
Head of Information
Overseas Development Administration
Eland House
Stag Place
London
SW1E 5DH

John Wright
Head of Information
Cabinet Office
Government Offices
Horse Guards Road
London
SW1P 3AL

Alan Thompson
Senior Press Officer
Welsh Office
Gwydyr House
Whitehall
London SW1A 2ER

Fred Corbett
Director
Scottish Information Office
Dover House
Whitehall
London SW1A 2AU

Fiona McFarlane
Board of Inland Revenue
Somerset House
London
WC2R 1LB

Andy Wood
Director of Information
Northern Ireland Office
Whitehall
London SW1A 2AZ

Graeme Hammond
Head of Information
Customs and Excise
New King's Beam House
22 Upper Ground
London SE1 9PJ

Mike Reardon
Department of Social Security
Richmond House
79 Whitehall
London SW1A 2NS



Inland Revenue

Compliance and
Collection Division
Somerset House

FROM: D L SHAW

DATE: 22 FEBRUARY 1989

PWP

- 1. MR ROBERTS *DMC*
- 2. MR BEIGHTON *4/13/89*
- 3. FINANCIAL SECRETARY

STARTERS 450 AND 212 - KEITH

I attach drafts of the Budget Press Release and the Compliance Cost Assessment on the Keith package for your approval.

David Shaw

D L SHAW

-
- | | | |
|----|-----------------------|----------------|
| cc | PS/Chancellor | Mr Beighton |
| | PS/Chief Secretary | Mr Bush |
| | PS/Paymaster General | Mr Cherry |
| | PS/Economic Secretary | Mr Roberts |
| | Mr Culpin | Mr McGivern |
| | Mr Gilhooly | Mr Page |
| | Mr Gieve | Mr Hugo |
| | Mrs Chaplin | Mr Duxbury |
| | Mr Tyrie | Mr Hinson |
| | Mr Call | Mr Shaw |
| | Miss Hay | Mr Elliott |
| | Mr Finlinson (C&E) | Mr E Jones |
| | | Mr Hodgson |
| | | Mr Sutcliffe |
| | | Miss McFarlane |
| | | Miss Barlow |
| | | PS/IR |



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x]

14 March 1989

TAXES MANAGEMENT: MEASURES TO MODERNISE THE COMPLIANCE SYSTEM

The Chancellor proposes in his Budget to introduce measures to

- simplify and update the system of interest and monetary penalties for tax offences, and
- modernise the information and search powers of the Inland Revenue and provide greater safeguards for the taxpayer.

These measures are based on recommendations of the Keith Committee for the reform of the compliance system for income tax, capital gains tax and corporation tax. They take account of extensive consultations with business and professional organisations. Together with measures introduced in the last two Finance Acts, they substantially complete the Government's programme of reform in this area.

Most of these measures will take effect immediately, although some will be introduced gradually over a lengthy transitional period.

MAIN PROPOSALS

1. The proposals are designed to modernise and simplify the administrative structure of the compliance system, to provide a proper balance between taxpayers' rights and obligations, and between the powers of the Revenue and safeguards for taxpayers. The proposals are in the following areas:

- civil penalties for tax offences;
- the compliance regime for employers' PAYE;
- Revenue interest provisions;
- time limits for assessments on tax offenders and claims for further reliefs;
- Revenue information powers, including protection for accountants broadly equivalent to that for lawyers;

/- a new criminal

- a new criminal offence for the intentional falsification or destruction of documents called for under the Revenue's information powers;
- Revenue search powers;
- seizure of goods to meet tax debts.

DETAILS OF MAIN PROPOSALS

Civil penalties for tax offences

2. It is proposed to update, simplify and streamline the system of civil penalties for tax offences. This will result in a simpler structure of penalties which can be applied easily and fairly, so that offences of similar seriousness attract similar penalties.

3. Tax offences can be divided into four groups, each with its own type of penalty. The new proposals bring these penalties up to date, restore limits eroded by inflation, remove obsolete limits and eliminate differences within each group.

4. First, there is the group of fully-mitigable tax-g geared penalties for offences that put tax seriously at risk - for instance, omissions from tax returns and very long delays in completing personal tax returns, continuing beyond the end of the tax year following the year in which the return is issued. The penalties for offences in this group are, at present, up to £50 plus 100 per cent, or in some cases 200 per cent, of the tax underpaid or paid late. In practice, the penalties are based on 100 per cent of the tax and further mitigated according to the seriousness of the offence. It is proposed to bring the law into line with practice, and make the penalty 100 per cent of the tax, fully-mitigable, for offences in this group.

5. Second, there is the group of fully-mitigable fixed limit penalties for offences that help to put tax seriously at risk - for instance, where a business omits payments to persons in the black economy from an information return or an accountant helps a taxpayer to prepare a false return. The penalties for offences in this group are, at present, up to £250, or, in certain cases, £500. It is proposed to increase these penalties in line with inflation since they were last set in 1960, and to eliminate the differences. This will give a single penalty of up to £3000, fully-mitigable, for each offence in this group.

6. Third, there is the group of fully-mitigable fixed limit penalties for delay. These arise in the present compliance regimes, where the Revenue can take proceedings before the Appeal Commissioners to force a taxpayer to complete an overdue return - for instance, for a personal tax return or an information return from a business. The penalties for offences in this group are, at present, up to £50 for the initial offence, and up to £10 per day if it continues thereafter. It is proposed to increase these limits in line with inflation since they were last set in 1960, to up to £300 for the initial offence, and up to £60 per day if it continues thereafter, both fully-mitigable.

/7. Offences

7. Offences in this group can be further subdivided into obligations which are imposed at the Revenue's discretion, for instance to complete a tax return, and obligations which are imposed automatically by law, for instance to account to the Revenue for tax deducted at source. It is proposed to add a further safeguard for the taxpayer, for offences within the first category, by providing for a final warning to be given to complete the overdue return before a penalty can be awarded. It would not be appropriate, however, to allow a final warning before penalties can be awarded for offences in the second category.

8. Fourth, there is the group of automatic, that is non-mitigable, penalties for failing to make returns. These arise in the more modern compliance regimes, where the taxpayer is automatically required to complete a return. A modern compliance regime for companies, known as Pay and File, was introduced in Finance (No 2) Act 1987. It is now proposed to introduce a broadly similar, modern compliance regime for employers and this is described further below.

A modern compliance regime for employers

9. At the end of the tax year, the employer is required to make an end of year return providing details of pay, PAYE and NIC deductions for his employees (forms P14, P35 and P38/38A). At present, the end of year return is due on April 19. It is proposed to change the due date to May 19 and to introduce a new system of penalties for late returns. (NB These proposals relate only to the end of year returns. Other employer's returns, including forms P11D, will continue to be dealt with under the present compliance regime.)

10. It is proposed to introduce automatic penalties for late end of year returns. This will be a penalty of £100 for each 50 employees, and for each month the return is late up to 12 months. The automatic penalties will not begin before 1995.

11. It is proposed to tighten up the compliance rules gradually over the transitional period, starting with the 1989/1990 return due on 19 May 1990 and continuing up to the introduction of automatic penalties. Under these proposals, the Revenue will be able to take proceedings before the Appeal Commissioners for late end of year returns. The Commissioners will be able to award an initial penalty of up to £1200 per 50 employees. If the failure continues thereafter, automatic penalties of £100 per 50 employees and per month will be charged for further delays, up to 12 months after the original due date. There would be no final warning before proceedings were taken, but in the first year of operation, proceedings would not be taken for returns that were less than three months overdue, that is that were made by 19 August. This would be reduced progressively over the transitional period, to allow penalty proceedings to be taken for any late return from 1995 onwards.

12. It is proposed also to introduce a separate, fully-mitigable penalty for delays in completing end of year

/returns of more

turns of more than 12 months and for incorrect end of year returns, of up to 100 per cent of the tax underpaid or paid late as a result.

13. These proposals for PAYE deductions apply in the same way to NIC deductions, which are collected with them, and to deductions under the scheme for subcontractors in the construction industry, which are collected under similar rules.

Default interest

14. Where tax is assessed late as a result of an offence by a taxpayer, interest is charged from the date that the tax would have been due if it had been assessed at the correct time. It is proposed to extend this "default" interest more generally, to any tax which is assessed late as a result of an incorrect return. This is to eliminate the advantage that the taxpayer would otherwise enjoy over a taxpayer who completed his return correctly, and to compensate the Exchequer for the delay in payment of the tax.

Determining default interest and penalties

15. It is proposed to introduce a simpler and more streamlined procedure for charging default interest and penalties. Under the new procedure, the Revenue will make a formal determination of the penalty, or that default interest is due. This will be similar to an assessment. It will not alter in any way the taxpayer's rights to challenge whether default interest or a penalty is due, or the amount thereof, before the Appeal Commissioners or the Courts.

16. The new procedure will not apply to the initial penalties in the present compliance regimes (see paragraph 6 above), as these can be awarded only where proceedings are taken before the Appeal Commissioners.

Interest provisions

17. Changes to the interest rates charged on late payments to the Revenue, and paid on repayments by the Revenue, are presently made by statutory instrument. This is a slow and cumbersome procedure which makes it difficult to keep rates closely in line with the market. It is proposed to introduce a more open and streamlined procedure under which formulae by which rates are to be set would be made by statutory instrument, and rate changes would then be made automatically to follow changes in market rates.

18. It is proposed to redraft the rules for charging interest on overdue tax, but without changing the way in which they work. The purpose of the redraft is to make the provision easier to understand and to remove a possible technical defect in the drafting.

19. The main rule is that interest does not start to run on tax in dispute until six months after the normal due date. The rules were amended in 1982 to provide that interest ran in the same way

/where an assessment

where an assessment was increased on appeal. The Revenue have always applied this rule in the way it was intended to work. It now appears that it may be defective in certain exceptional cases where an assessment is first reduced by the Commissioners and then increased by a higher Court. For avoidance of doubt, it is proposed to correct this possible defect. As the purpose of the correction is to confirm the way in which the law has been applied since 1982, the amendment will be retrospective to 1982.

20. All repayments by the Revenue are made by payable order. A wide range of provisions require the Revenue to include interest with the repayment which is calculated up to the day that the payable order is issued. There is now doubt that this is the effect of the wording in some cases. It is, therefore, proposed to amend these provisions to use common wording which puts it beyond doubt that interest is to be calculated up to the day that the order is issued. Here too the purpose of the correction is to confirm the way in which the law has been applied and the changes will therefore be retrospective.

21. It is proposed to introduce a new procedure for companies, to come into effect together with Pay and File (the new system for payment of corporation tax, which will not start earlier than 1992) to allow repayments to be surrendered within groups. Under this procedure, a company would be able to surrender a repayment of corporation tax, income tax, or payment of tax credit, to another company within the same group. The surrendered payment would be treated as if it had originally been made by the receiving company for the same accounting period. The purpose of this provision is to allow groups to rearrange tax liabilities within the group without being subject to the differential that is proposed for Pay and File between the interest rates on overdue tax and on repayments.

Time limits

22. The normal time limit for making an assessment of tax is six years from the end of the period being assessed. This is extended, in some cases indefinitely, for assessments made to recover tax which has not been paid as a result of an offence by the taxpayer. It is proposed to introduce a uniform time limit of 20 years for these "default" assessments. This brings the time limits for direct taxes into line with those for VAT.

23. Taxpayers are allowed extra time to make claims for reliefs against default assessments. It is proposed to introduce a similar extension of time limits for claims to relief where the Revenue discovers that further tax is due but there is no offence by the taxpayer - for instance as a result of an innocent error. The taxpayer will be allowed to make, or vary, claims to reliefs up to one year after the assessable period in which the discovery assessment is made, so as to reduce his tax liabilities by up to the amount charged by the discovery assessment.

Information powers

24. It is proposed to update the Revenue's powers to call for information about a taxpayer whose affairs are under enquiry. At

/present, the

At present, the Revenue can call only for documents which are already in existence. It is proposed to allow the Revenue to require the taxpayer to give written answers to written questions of fact. This brings the Revenue's information powers into line with the similar powers of the Appeal Commissioners.

25. At present, the working papers of an accountant are protected from disclosure under the Revenue's information powers. It is proposed to replace this by a better focused protection which protects audit papers from disclosure by a company's auditor and tax advice from disclosure by a taxpayer's tax adviser, but allows the Revenue access to facts essential to the understanding of a taxpayer's return and accounts. The new provision will give accountants protection which is broadly equivalent to that given, for tax, to lawyers.

26. Furthermore, it is proposed to give additional safeguards to the taxpayer, in line with police search powers, by protecting personal records and journalistic material from disclosure to the Revenue; and, except in certain serious cases where the notice is given by the Board of Inland Revenue, to allow not less than 30 days for the documents or information to be produced.

Falsification of documents

27. It is proposed to introduce a criminal sanction against the falsification or destruction of documents which the Revenue has called for under its information powers.

28. This will provide that a person who intentionally falsifies or destroys a document which the Revenue has called for under its information powers is guilty of a criminal offence. He is automatically released from this obligation to preserve the document once it has been seen by the Revenue, six months after the initial informal request for access has been made and, unless the Revenue renews its request for access, two years after the formal request. He can also apply to the Revenue or to the Appeal Commissioners to be released from the obligation. A person guilty of an offence under this provision will be liable, on summary conviction, to a fine not exceeding £2000 or, on conviction on indictment, to an unlimited fine and to imprisonment for up to two years.

Search powers

29. It is proposed to update the Revenue's search powers, to restrict them to cases of serious fraud and to provide further safeguards for the public in line with police and VAT search powers.

30. It is proposed to make the search warrant more specific, so that the warrant must show, and the Judge approve, the number of Revenue officers who may carry out the search, the time of day at which it is to be carried out and whether a uniformed police constable should be present.

31. The officer conducting the search will be allowed to take with him other persons whom he considers to be necessary, for

/example a

example a locksmith or an interpreter. Persons on the premises may be searched, but only by a person of the same sex - this can, for instance, be necessary if the taxpayer tries to conceal a bank book in his pocket whilst the search is in progress.

32. It is proposed to introduce detailed rules for the conduct of the search, requiring the officer in charge of the search to give a copy of the warrant, endorsed with his name, to the occupier if he is present or to leave a copy of the warrant prominently displayed on the premises. The officer will be required to leave a list of things seized from the premises. The warrant will be required to be returned to the Court, to be retained there for 12 months and to be available for inspection by the occupier of the premises to which it relates. This last provision, in line with the corresponding provision for police searches, applies to England and Wales only.

33. It is proposed to introduce detailed rules, in line with those for police search powers, to allow the taxpayer access to documents seized in the course of a search. Where a copy of the things seized would be sufficient as evidence or for the investigation, the original will be returned to the taxpayer. The taxpayer will also be given a right of access to the property seized, and to take copies thereof, except where this would be prejudicial to the investigation or criminal proceedings.

Seizure of goods to meet a tax debt

34. It is proposed to update the Revenue's powers to seize goods to meet a tax debt. The main changes are designed to update the wording without changing its meaning. Changes are also proposed to the rules for break-open warrants and priority claims.

35. Break-open warrants, allowing forcible entry to premises, are, very occasionally, needed in order to seize goods to meet a tax debt. At present, the warrant has to be obtained from the General Commissioners. It is proposed to change the level of authority to a Justice of the Peace, so as to provide greater judicial oversight of the power.

36. Where a third-party has seized goods to meet a debt, the Revenue can, in some circumstances, claim up to one year's tax debts from him. It is proposed to restrict the Revenue's priority claim to tax debts for deductions of PAYE and from subcontractors in the construction industry made in the last 12 months. This is in line with the provisions in the 1985 Insolvency Act which reduced the Inland Revenue's preferential claims in an insolvency.

NOTES FOR EDITORS

The Keith Report

1. The Keith Committee on the enforcement powers of the Revenue Departments was set up in July 1980 to

/enquire into

quire into the tax enforcement powers of the Board of Inland Revenue and the Board of Customs and Excise. It was chaired by a Law Lord, Lord Keith of Kinkel PC. The Committee took evidence from bodies representing industry, trade, the professions and trade unions, as well as from individuals and from the Revenue Departments.

2. The Committee's Report is in four volumes. Volumes 1 and 2 were published (Cmnd 8822) on 23 March 1983 and covered income tax, corporation tax, capital gains tax and VAT.

3. Since publication, extensive consultations have been held with a number of representative bodies.

4. Proposals in response to the recommendations in Volumes 1 and 2 of the Report were published in a consultative document "The Inland Revenue and the Taxpayer" in December 1986. Measures based on these proposals were included in the Finance (No 2) Act 1987 and in the Finance Act 1988.

5. Further suggestions for implementing the remainder of the recommendations in Volumes 1 and 2 of the Report were published in a consultative paper "Keith: Further Proposals" in July 1988. This year's proposals are based on these further suggestions, modified in the light of responses to the consultative paper.

6. This year's proposals complete the Government's programme of legislation for implementing the recommendations of the Keith Committee for income tax, capital gains tax and corporation tax, except for the recommendations on the administration and conduct of appeals. The Government has announced that proposals for legislation in this area are being considered by the Inland Revenue and the Lord Chancellor's Department and will be the subject of a separate consultative document or documents.

Compliance cost assessments

7. Assessments of the compliance costs of proposals affecting businesses are available. A copy of the compliance cost assessment for this proposal can be obtained from:

Inland Revenue
Deregulation Unit
Room 77
New Wing
Somerset House
LONDON, WC2R 1LB

TAXES MANAGEMENT: MEASURES TO MODERNISE THE COMPLIANCE SYSTEM

NATURE OF THE REGULATION

1. What is the origin of the regulation? - eg EC proposal, UK statute, request from industry/trade/interest group/other?

The Chancellor proposes in his Budget to introduce a package of measures based on recommendations of the Keith Committee.

2. What is the problem requiring regulation? How serious is it?

The proposals are described in the Inland Revenue Press Release of 14 March 1989 (copy attached). The measures apply to the public in general, not only to businesses. The need to modernise and simplify the administrative structure of the compliance system for taxes, to provide a proper balance between the taxpayer's rights and obligations, and between the powers of the Revenue and safeguards for taxpayers was identified by the Keith Committee. These are issues of general importance which have attracted widespread interest from all parts of the taxpaying public.

3. What is the existing regulatory provision, if any?

There is a very extensive body of existing legislation on tax. These proposals do not, in the main, alter what businesses must do in order to comply with the tax law. In particular:-

- the changes to penalties, updating the penalties that can be charged where businesses fail to comply with existing

regulations, alter neither the regulations themselves nor the circumstances in which penalties arise;

- the extensions to the interest provisions and the information powers of the Revenue affect individuals rather than businesses; under the present law, interest would normally run on tax paid late because of an incorrect return of business profits, and businesses can generally be required to provide written answers to written questions of fact about their tax affairs;
- the restrictions on the time limits for recovery of tax from tax offenders by the Revenue, the extended rights for taxpayers to claim reliefs and the restrictions on the search powers of the Revenue provide greater safeguards for all taxpayers, including businesses;
- under the present rules, employers are required to make an end of year return by April 19 and penalties can be charged if they do not. A further month is to be allowed for the return to be made.

4. Are there alternatives to regulation, eg a code of conduct or voluntary agreement? Why have these been rejected?

The proposals are concerned with the statutory framework for administering the collection of tax, which can only be done by law.

5. What time table is proposed for the introduction of the new regulation? Must all measures be introduced at once or can these be introduced over a period?

Most of the proposals will take effect from the passing of the Finance Bill. The new due date of May 19 for employer's end of year returns will start in 1990, but the automatic penalties for late returns will not start until 1995, or possibly later. There will be a gradual tightening up of penalties for late returns over the period from 1990 to 1995. In the first year, penalties will not be taken for returns that are less than three months overdue, that is that are made by 19 August. This will be reduced progressively over the transitional period, to allow penalties to be taken for any late return from 1995 onwards.

6. Can the period of operation of the new regulation be limited?

No. It is right that these changes should be of a permanent nature.

7. How will the regulation be enforced? By central Government or through local authorities?

By central Government (the Inland Revenue).

8. What specific provisions for small firms have been considered; such as exempting them from the regulation's requirements or other measures?

The Government felt that it was important that all taxpayers comply with their statutory obligations. Specific provisions for small firms were considered but not thought to be appropriate having regard to the interests of taxpayers and the public generally. Most of the proposals affect the administrative framework within which the compliance systems for taxes operate and must apply in the same way to all taxpayers in

order to operate fairly. In particular a separate provision in respect of the end of year return for small employers would not be appropriate. The return is a summary of what has been done during the year, and the smaller the number of employees, the simpler the return is to complete.

9. What consultations have there been with business? Are there any concerns raised by business which have not been met? If so what are they?

There have been very extensive consultations with the public and with representatives of small and large businesses and of the professional bodies since the Keith Committee reported in 1983. Following consultations with the representative bodies, a consultative paper making detailed proposals for implementing the recommendations of the Keith Committee was published in 1986. Packages of proposals, which had been found generally acceptable in responses to the consultative paper, and modified in the light of those responses, were enacted in 1987 and 1988. Some of the other proposals were less well received. Following further discussions with the representative bodies, a second consultative paper making revised proposals for implementing the remainder of Keith was published in 1988. The revised proposals were well received and most respondents commended the overall balance and the changes made to take account of earlier criticisms. In particular, although comments on compliance costs were specifically invited, there was no criticism of the compliance costs of any of the measures which have been included in the present package.

IMPACT ON BUSINESS

10. Are certain sectors of industry or companies of a certain size likely to be particularly affected by the regulation? Please state the number of companies or establishments and employees which will be affected.

The proposals in this package do not, in the main, affect the regulations on businesses. About 1 million employers will, however, benefit from the deferment in the due date for the end of year return.

11. What will businesses have to do to comply with the regulation? How will this compare with their current practices?

The proposals in the package do not, in the main, affect the regulations on businesses. All employers will be required to make their end of year returns by May 19. In practice, most employers comply with the present requirement to make their return by April 19, and many of those who do not, do so by May 19. For the remainder, the gradual tightening up over the transitional period will help them to get up to date before the start of automatic penalties.

12. What additional resources or work will businesses be faced with in modifying their behaviour to comply with the regulation? What will this cost (a) a typical business and (b) industry as a whole.

The proposals in the package do not, in the main, require a change in the behaviour of businesses and will not add to their costs. Employers will, however, have additional time to make their end of year returns.

BENEFITS

13. What are the benefits to the UK economy as a whole, to Government objectives, to consumers, employees, traders or enforcement authorities? This should include tangible benefits eg savings on health and emergency services. Unquantifiable gains in efficiency and intangible benefits should also be mentioned.

The package of proposals is designed to improve the balance between taxpayer's rights and obligations and between the powers of the Revenue and safeguards for taxpayers. This will benefit the whole body of taxpayers. Prompt completion of end of year returns by employers, which the proposals will encourage, enables the Revenue to check that employers have paid the deductions they have made from employees' pay over to the Exchequer, and to check their employee's tax position, and to make prompt repayments to employees where appropriate.

MONITORING AND VALUATION

14. What steps are being taken to monitor the effectiveness of the new regulation in meeting its objectives? When will the regulations be reviewed?

These proposals are part of the wider modernisation and simplification of the compliance system following the Keith Committee's report. Their effects will not be separately identifiable in the information which the department collects and reports regularly about its collection and compliance activities.



22 February 1989

PS/FST

POST BUDGET PRESS BRIEFING

1. This note seeks agreement to a Revenue Press Briefing after the Budget.
2. For the last three years, with Ministers agreement, we have held a Budget Press Briefing on the Thursday of Budget week for Personal Finance Editors and other journalists with whom we have regular dealings. This gives them an opportunity to question specialists directly on the more technical aspects of the Budget, in time for weekend features. The event is well attended, and much appreciated by the Press.
3. Last year the FST briefed Personal Finance Editors on Thursday morning, with Revenue support, before they moved on to the more technical Revenue briefing. We have not heard whether the personal Finance Editors will be asking for a similar meeting with the FST this year. We are liaising with FP and either we or FP will minute the FST separately on this.
4. Are you content that we should arrange a Revenue Press briefing again this year, on Thursday 16th March?

F A MCFARLANE

cc PS/Chancellor

PS/CST
PS/EST
Mr Culpin
Mr Gieve IDT
Mr Gilhooly

Chairman
Mr Isaac
Mr Painter
Mr Beighton
Mr McGivern
Mr Corlett
Mr Houghton
Mr Lewis
Mr Pitts
Mr Johns
Mr Deacon
Mr Roberts
Mr Bush
Mr McManus
Ms McFarlane
Mr Willmer

PSLR



A handwritten signature in the top right corner of the page.

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

22 February 1989

Richard Gozney Esq
PS/Secretary of State
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

cc: PS/Financial Secretary
PS/Economic Secretary
Mr Culpin
Mr Riley
Mr Pickford
Mr Gilhooly
Mr Macpherson
Mr Flanagan
Miss Simpson
Mr M Ralph

A handwritten signature that reads 'Dear Richard'.

BUDGET DAY PRESS NOTICES

As you will be aware, the Chancellor will be giving his Budget Statement on Tuesday 14 March. In handling press notices, we propose to follow the arrangements of previous years under which all press notices, including those issued by Departments other than the Chancellor's, are collated by the Treasury and issued both to the press and the House.

Your Department and others will no doubt already be considering what press notices you wish to issue on Budget Day. I would be grateful to know your intentions by close on Monday 6 March and the subject matter of any notices which you will be producing. It would also be helpful if you could let Steven Flanagan here (270-5666) have by then a contact point (name and telephone number, together with a proxy) for any subsequent enquiry on each. All press notices should, of course, be cleared in draft with the appropriate public expenditure divisions in the Treasury as early as possible.

As you will appreciate, the Treasury will be photocopying and collating a large volume over the weekend before the Budget. As a consequence, I am afraid that we must ask for copies of press notices to be sent to us by no later than midday on Friday 10 March and preferably beforehand. We will require 1995 copies in all. These should be sent to Mr M C Ralph in our Committee Section (Rm 30/G, Treasury Chambers) split within the package into three sets numbering 1150, 670 and 175 copies respectively.

If you are issuing more than one press notice, it would ease our handling problems considerably if they could be packaged separately.



I am sending a copy of this letter to the Private Secretaries to all other Cabinet Ministers, Paul Gray (No.10), Trevor Woolley (Cabinet Office) and all Chief Press Officers.

Yours ever

J M G Taylor

J M G TAYLOR
Private Secretary



H.M. CUSTOMS AND EXCISE
 DEPARTMENTAL PLANNING UNIT
 NEW KING'S BEAM HOUSE, 22 UPPER GROUND
 LONDON SG1 9PJ
 01-620 1313

FROM: P R H ALLEN

DATE: 23 FEBRUARY 1989

CHANCELLOR

BUDGET DAY PRESS NOTICES

I attach a package of first drafts as requested by your Principal Private Secretary on 9 February.

2. There are two changes to the items on our provisional list of 13 February. One is the exclusion of recovery of VAT and Excise duty overpaid in error (starter 36) which, we understand, will (in its modified form) be a Finance Bill item only; the other is the addition of a notice on car tax relief for cars supplied to Motability for leasing (starter 43).

3. The items on changes in VAT registration and cancellation of registration thresholds and on simplification of VAT registration requirements (items D and E on the provisional list) are closely associated and we cover these in a single notice.

Circulation: Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton
 Mr Scholar
 Mr Culpin
 Mr Riley
 Mr Gilhooly
 Mr Matthews
 Mr Pickford
 Mr Macpherson
 Miss ~~Samson~~ Simpson
 Miss Wallace

CPS
 Mr Jefferson Smith
 Mr Wilmott
 Mr Finlinson
 Mr Vernon
 Ms French
 Mr Warr
 Miss Davenport

BUDGET SECRET

4. As proposed in my note of 13 February I am including an omnibus press notice encapsulating the VAT regulation and pro-business elements.

RA.

P R H ALLEN

FROM: S J FLANAGAN
DATE: 23 February 1989

1. MR CULPIN
2. CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Anson
Dame Anne Mueller
Mr Wicks
Mr Hardcastle
Mr Byatt
Mr Scholar
Mr Riley
Mr Sedgwick
Mr A C S Allan
Mr Gieve
Mr Gilhooly
Mr Macpherson
Miss Simpson
Miss Wallace
Mrs Chaplin
Mr Tyrie
Mr Call

It wd be helpful to settle

the order of press notices.

This list has been agreed

with Customs & the Revenue.

Are you content with it?

Rc
23/2

Sir Anthony Battishill)
Mr Beighton) IR
Mr Isaac)
Mr Painter)
Mr Unwin) C&E
Mr Jefferson Smith)

BUDGET DAY PRESS NOTICES

Revenue and Customs are separately submitting drafts of their press notices. This minute covers draft press notices by Treasury, DTp and Home Office, and suggests an order for the complete package of notices.

2. A list of all the press notices we expect to issue on Budget day, in the order in which we suggest they should be packaged, is at Annex A.

3. We have not attempted to group the press notices by theme - such as business - across departments. There is not much to choose between ordering by theme and ordering by type of tax, but splitting by department makes assembling the individual packages of press notices much more straightforward. We would propose to put an index to all the notices on top of the package.

4. The omission from the list is NICs. In 1985, when NICs were last changed in the Budget, there was a summary in a Treasury press notice on "The Budget and Employment" (which also covered training, legislative restraints on the labour market, and income tax changes), and a more detailed press notice from the DHSS. You may want to consider how to handle NICs press notices this year. A similar point arises on the pensioners' earnings limit.

5. A draft Treasury press notice on capital markets deregulation, prepared by FIM, is at Annex B, together with a Bank of England press notice on the same subject. Unlike other Government Departments' Budget day press notices, Treasury does not issue the Bank's notices on its behalf. We understand that there will also be a Bank notice on the ECU Treasury Bill tender, but we have not yet received a draft.

6. The draft DTp press notice on VED is at Annex C. A draft Home Office press notice on the ITV levy is at Annex D.

S J FLANAGAN

Inland Revenue

Income Tax

1. Budget 1989: Income Tax
2. Income tax rates and personal allowances for 1989-90: PAYE
3. Income tax: company cars
4. Simpler system of assessment for earnings
5. Payroll giving scheme for charities: tax relief limit to be doubled
6. Heritage and conservation charities: membership subscription paid by deed of covenant to qualify for tax relief
7. Income tax: gifts between husband and wife and other settlements
8. Relocation costs: changes in the tax treatment

Savings

9. Stamp duty on shares to be abolished
10. PEPs improved
11. Pensions: tax rules simplified
12. Life Assurance
13. Unit Trusts
14. Deep discounted and index linked bonds; changes in the tax rules
15. Improved tax reliefs for employee participation
16. Higher tax free limits for Approved Employee Share Schemes
17. Employee Share Ownership Plans
18. Employee's Material interest tests
19. Profit-related pay.

Business

20. Corporation Tax rates [and thresholds]
21. Abolition of close company apportionment
22. Trading losses and capital gains - new relief
23. Extended relief for pre-trading expenditure
24. Advance Corporation Tax
25. Sub-contractor tax scheme: consultation on reduced voucher requirements.
26. Business Expansion Scheme

27. Capital allowances
28. Foreign exchange gains and losses: consultation on tax treatment
29. Swaps: consultative document and extra-statutory concessions

Capital gains tax

30. Reform of CGT rules for gifts
31. Gifts to housing associations
32. Capital gains: non residents with branches and agencies and dual resident companies
33. Offshore Umbrella funds
34. Stock lending: extension to Lloyd's under writers
35. CGT: miscellaneous proposals.

Miscellaneous

36. Inheritance Tax
37. Taxes management: measures to modernise the compliance system.

Treasury

1. Capital markets deregulation.

Customs and Excise

1. Measures to promote unleaded petrol
2. Charities and the handicapped
3. Car tax relief for vehicles leased to the disabled
4. "Pro-business omnibus"
5. Changes in arrangements for bad debt relief
6. Simplification of VAT registration requirements plus increases in thresholds
7. Review of default surcharge
8. restriction of duty paid blending of made wine
9. Determination of original gravity of beer
10. Research and development cars.

Transport

1. Vehicle Excise Duty.

Home Office

1. ITV Levy.

DRAFT PRESS RELEASE**Capital Markets Deregulation**

In his Budget's speech today the Chancellor announced a number of measures to deregulate the sterling capital market:

- Abolition of the new issues queues for bonds and equities; from tonight it will no longer be necessary for issuers to obtain the Bank of England's consent to the timing of sterling issues.
- The establishment of a unified regime for sterling issues of up to 5 years, by bringing the short-term corporate bond regime into line with that for sterling commercial paper.
- An extension of the categories of institution that can issue sterling paper of less than 5 years, to include private companies, companies listed on non-UK Stock Exchanges, sovereign and parastatal bodies.
- A simplification of the tax regime for sterling corporate bonds, abolishing the distinction between qualifying and non-qualifying corporate bonds. In future all sterling corporate bonds will be exempt from capital gains tax.
- Extension of the tax regime for deep discount bond issues by companies to cover issues by the UK Government, overseas sovereigns and parastatals. This will mean that the tax treatment of deep discount bonds in the hands of the investor will be independent of type of issuer.

Take together these changes constitute a major liberalisation in the operation of London's capital markets, giving issuers greater flexibility, and giving investors wider choice, and more straightforward tax treatment.

Notes for Editors

Abolition of the queue will be achieved by a general consent under the Control of Borrowing Order 1958. This will also have the effect of removing restrictions on the issue of deep discount bonds by foreign sovereigns and parastatals. The tax changes outlined above will provide a coherent regime for such issues.

There are currently two separate regulatory regimes under the Banking Act for sterling commercial paper (less than 1 year maturity) and short-term corporate bonds (1-5 years maturity). The Chancellor proposes to lay new Banking Act Exemption Regulations creating a unified regime. Details of the new arrangements are set out in a Market Notice published today by the Bank of England. Issues of this type of securities are also subject to regulation under the Companies Act, which is due to be replaced later this year by regulations under Part V of the Financial Services Act. Until regulations under Part V are in place there will still, in practice, be some differences between the regime for instruments of under 1 year, and those of over one year.

Details of the tax changes on deep discount bonds and non-qualifying corporate bonds are set out in Inland Revenue Press Releases [titles]

HM Treasury
February 1989

STERLING ISSUES

Draft Press Notice

1 In his Budget speech earlier today, the Chancellor of the Exchequer announced that [a General Consent is being issued under the Control of Borrowing Order 1958]. With immediate effect, new issues in sterling, other than those by local authorities, no longer require timing consent from the Bank of England.

2 The Bank has been simultaneously reviewing the present arrangements for the issue of different types of sterling instruments and has decided to make a number of changes with a view to simplifying and liberalising the overall framework for such issues. The new arrangements, which take effect immediately, are set out in the attached notice.

3 The Bank's intention is to review further the arrangements for issues of up to 5 years' maturity, including that for short-term corporate bonds, once Part V of the Financial Services Act 1986 has been implemented.

STERLING ISSUES

Notice issued by the Bank of England, 14, March 1989

1 This notice sets out the arrangements which will apply to the issue of instruments in sterling. It replaces the following of the Bank's notices:

- (i) Sterling commercial paper (notice of 29 April 1986);
- (ii) Capital market issues in sterling (notice of 27 July 1987).

The separate frameworks for the issue of short-term corporate bonds (notice of 19 March 1985) and London Certificates of Deposit (notice of 26 November 1986) continue to apply.

2 The main effects of these new arrangements are:

- (i) to amend the terms of the exemption from the Banking Act 1987 to widen the range of potential issuers of sterling commercial paper;
- (ii) to remove the restrictions on banks and building societies issuing anything other than CDs in maturities of 5 years and below;
- (iii) to remove the minimum maturity of five years currently set for bond and FRN issues provided that, where necessary, they meet the [prospectus] requirements of the Companies Act 1985 and the deposit taking provisions of the Banking Act 1987; and
- (iv) to abolish the requirement to obtain timing consent and establish revised arrangements for capital market issues.

STERLING COMMERCIAL PAPER

3 The exemption from the Banking Act 1987 allowing issues of sterling commercial paper to be made without contravening the prohibition on deposit taking in Section 3 of that Act will be revised. As a result sterling commercial paper will be made available to a broader group of issuers, including a wider range of companies, as well as to banks and overseas public sector bodies.

4 Issues of sterling commercial paper may now be made by the following:

(a) Companies

Companies, both United Kingdom and overseas, which have:

- (i) net assets as defined in Section 264(2) of the Companies Act 1985 of at least £25 million [previously £50 million]; and
- (ii) shares (ordinary or preference) or debt [previously excluded] listed on either the International Stock Exchange or an overseas stock exchange where disclosure requirements equivalent to those existing on the International Stock Exchange are in place [as determined by the the Bank of England in consultation with the International Stock Exchange].

Private (limited) companies may also issue sterling commercial paper, so long as they meet the net assets requirement set out above, [and have made arrangements with the International Stock Exchange for the regular disclosure of similar information to that required if their shares or debt were listed].

(b) Banks and building societies

Banks authorised under the Banking Act 1987, and building societies incorporated under the Building Societies Act 1986. These issuers are not required to meet the net assets and listing/disclosure requirements set out in (a) above.

(c) Overseas public sector bodies

Overseas national or regional governments, supernationals or overseas government-owned or government guaranteed bodies whose debt is listed on a stock exchange as described under (a) above.

(d) Other

Issuers not falling into any of these groups may issue sterling commercial paper if it is guaranteed either by a company meeting the net assets and listing/disclosure requirements set out under (a) above or by a bank authorised under the Banking Act 1987 or by a building society incorporated under the Building Societies Act 1986.

5 The conditions of exemption from the Banking Act 1987 for such issues of sterling commercial paper are as follows:

(a) Description

The sterling commercial paper must carry:

- (i) if issued by a bank authorised under the Banking Act 1987 or a building society incorporated under the Building Societies Act 1986, a statement to that effect, giving the name of the issuer, and that the paper is sterling commercial paper issued in accordance with Section 3 of the Banking Act 1987;
or
- (ii) if issued by an institution not authorised under the Banking Act 1987 or incorporated under the Building Societies Act 1986 a statement to that effect, giving the name of the issuer, and that the paper is sterling commercial paper issued in accordance with regulations made under Section 4 of the Banking Act 1987.

If any issue of sterling commercial paper is guaranteed, it must carry a statement to that effect, giving the name of the guarantor and whether or not the guarantor is an institution authorised under the Banking Act 1987 or incorporated under the Building Societies Act 1986.

(b) Disclosure

Issuers of sterling commercial paper under paragraph 4 above must make a representation to the purchaser, in a statement reproduced on the securities, to the effect that the issuer or guarantor:

- (i) is in compliance with the relevant listing/disclosure obligations specified in paragraph 4(a) above; and
- (ii) since its last publication of information in compliance with these obligations, having made all reasonable enquiries, has not become aware of any change in its circumstances which could reasonably be regarded as significantly and adversely affecting its ability to meet its obligations on the paper as they fall due.

(c) Maturity and minimum amount

Sterling commercial paper must have a maturity of not less than 7 days, but not more than one year, and be issued and transferable in minimum amounts of £500,000.

(d) Monitoring

Issuers must notify the Bank of England:

- [(a) at the commencement or extension of any sterling commercial paper programme, of the total amount of paper they propose to issue under the programme, details of its maturity and as full as possible a description of the intended uses of the funds raised; and

- (b) within one week after the end of each calendar month, of the amount of sterling commercial paper outstanding as at that end-calendar month and of the amounts of paper issued and redeemed since the previous report, distinguishing in each case between paper issued by or guaranteed by a bank authorised under the Banking Act and paper not so guaranteed.]

Management of sterling commercial paper issues

6 Where an issuer engages an intermediary to manage the issue, the intermediary must be a firm with an established capacity to act in that role in the UK. It must either be fully authorised under the Financial Services Act 1986 or exempted from it by virtue of Section 43 of that Act. Intermediaries not meeting these conditions are invited to discuss with the Bank the terms on which they might manage issues of sterling commercial paper in the UK.

7 Enquiries on paragraphs 3-6 above of this Notice and on related matters should be addressed to the Wholesale Markets Supervision Division of the Bank (Telephones 01-601 or).

CAPITAL MARKET ISSUES IN STERLING

8 The following changes are being made to the Bank's existing guidelines for capital market issues in sterling, set out in the Bank's Notice of 27 July 1987, which is now withdrawn:

- (i) A General Consent will be issued by the Treasury under The Control of Borrowing Order 1958. New issues in sterling, except those by local authorities, will no longer require prior timing consent from the Bank, provided that:
- (a) The Bank is notified of the main details of any new issue in sterling [before/at the time] it is made; and
 - (b) the lead management structure meets the requirements set out in paragraph 9 below.

These requirements apply to all capital market issues in sterling (both debt and equities, including securities carrying a sterling option or a sterling-related element).

- (ii) There will no longer be any objection to issues of bonds or FRNs with a maturity of less than five years, provided that they observe relevant legal requirements including the deposit-taking provisions of the Banking Act 1987 and the provisions of Part III of the Companies Act 1985 [and Part IV of the Financial Services Act 1986]. Issues may carry calls or puts operative at any time during their life.
- (iii) The ceiling of £200 million per issue on the size of issues by foreign public sector borrowers was removed on 26 September 1988, as was the requirement for an interval to be observed between successive issues by a single foreign public sector borrower.
- (iv) There is no longer any objection to foreign public sector borrowers making issues of deep discount (including zero coupon) and index-linked stocks. The tax arrangements applying to such issues were announced by [the Inland Revenue on 14 March 1989]. It remains the position that approval will not be given for issues of this type by UK local authorities.

Lead Management

9 To promote the orderly development of the sterling capital market, all capital market issues in sterling must be managed in the UK, under the lead management of a UK-based firm approved by the Bank as having the capacity in the UK to act as an issuing house.

Foreign-owned firms with such a capacity will be eligible to lead manage sterling issues if in the Bank's view there are reciprocal opportunities in their domestic capital markets for UK-owned firms to lead manage issues. Firms who do not meet the guidelines for lead management are able to participate in sterling issues in a co-management position.

Notification of New Issues

10 Enquiries on paragraphs 8 and 9 above of this Notice and on related matters should be addressed to the Senior Manager (Sterling Capital Markets) in the Bank's Gilt-Edged Division (telephone numbers: 01-601 4766 and 01-601 4835), which stands ready to respond to any questions on these capital market guidelines and to give guidance on other matters which may arise in relation to capital market issues in sterling.

FOREIGN CURRENCY INSTRUMENTS

11 Instruments denominated in foreign currency and issued in the UK are not subject to market regulation by the Bank of England. Issuers of such instruments must satisfy themselves that they meet the deposit-taking provisions of the Banking Act 1987 and that they meet any requirements of the appropriate overseas authorities.

Bank of England
14 March 1989

PRESS NOTICE NO:

DATE: 14 MARCH 1989

THE BUDGET 1989: VEHICLE EXCISE DUTY

Paul Channon, Secretary of State for Transport, commenting on the Chancellor's statement this afternoon, said:-

"The Chancellor has proposed for the fourth year running that Vehicle Excise Duty (VED) rates for the vast majority of vehicles should be held at their present levels. Once again, owners of private cars and motorcycles as well as most goods vehicles will pay the same VED in 1989-90 as they did in 1986-87. And there will be some important measures to simplify the VED structure and make it more equitable".

The Chancellor's main proposals on VED are:

- Rates for cars, motor cycles and most goods vehicles unchanged;
- Rates for about 170,000 rigid goods vehicles over 12,000 kgs gross weight are increased by about 10% (£20-£200). This will bring the tax excess borne by these vehicles more in line with that of articulated vehicles of similar weight. There are consequential rises in VED for the heaviest "Farmers" and "Showman's" rigid vehicles. Rates of duty for the light vehicles have been amalgamated to simplify the tax structure.
- The rate for the new Special Types tax class introduced last year increases from £1600 to £3100, the maximum rate of duty paid by conventional heavy goods vehicles. The need for further increases will be kept under review.

- The number of tax bands for "Hackney Carriages" (taxis, buses and coaches) has been reduced to five from more than sixty, and there will be increases in rates of duty for taxis, which will now pay the same as a private car, and for buses and coaches to ensure that each new band covers its track costs.
- Trade Licences are increased from £85 to £100 for vehicles over 450 kg unladen weight and, from £17 to £20 for motorcycles thus completing the phased increases started in 1986.
- In keeping with the theme of simplification, Agricultural Machines, Digging Machines, Mobile Cranes, Works Trucks and Mowing Machines will now be grouped together as "Special Machines" and will have many of the existing restrictions on their use removed.

The Chancellor also proposed three other changes:-

- The term 'Registration book' is changed to 'Registration Document'.
- The uses to which recovery vehicles can be put are more clearly defined.
- From 30 September people convicted of failing to return a licence obtained with a dishonoured cheque will be required to pay a penalty equivalent to the duty payable for the time they held the licence.

NOTES TO EDITORS

1. Vehicle Excise Duty is administered by the Department of Transport, but decisions on duty rates are the responsibility of the Chancellor of the Exchequer.
2. Rates of VED for most lorry classes are unchanged in this Budget. All lorries will continue to more than cover their road track costs in VED and fuel duty in 1989/90.
3. The main annual rates of VED from 15 March 1989 are attached, with revised rates shaded. Full details of all the rates (including the concessionary and 6 monthly rates) are on form V149 available from Post Offices and Vehicle Registration Offices (Local Vehicle Licensing Offices in Northern Ireland) from tomorrow, 15 March.
4. The "Hackney Carriage" tax class comprises taxis, buses and coaches. The tax structure was cumbersome, with over sixty tax rates, and buses and coaches as a class did not cover their road track costs. The tax bands have been reduced to five and the increases will ensure that each band covers its track costs. Taxation continues for the present to be by seating capacity, as follows:

| Seating capacity | Under 9 | 9-16 | 17-35 | 36-60 | Over 60 |
|------------------|---------|------|-------|-------|---------|
| VED rate | £100 | £130 | £200 | £300 | £450 |
5. Vehicles licensed in 'Hackney Carriage' class will not be required to pay the new rates until their present licence expires. Renewal forms (V11) issued from 1 April will specify the new rates. Vehicles can be relicensed at the Post Office in the usual way.
6. Vehicles with more than 8 seats currently licensed PLG, but used wholly or partly for hire and reward, will have to change to the 'Hackney Carriage' tax class and pay the appropriate rate of

duty when their present licence falls due for renewal. Operators of these vehicles will have to relicence at a Vehicle Registration Office or Local Vehicle Licensing Office in Northern Ireland.

7. The increases for "Special Types" is in line with the Government's policy that all vehicles should cover from VED and fuel duty their road track costs. A survey in 1988 confirmed that "Special Types" have road costs at least as high as the heaviest conventional HGV. This increase brings them to the same rate of VED. The new rate will not be payable until present licences falls due for renewal. The Department of Transport will continue to monitor the track costs of these vehicles and consider the need for further increases.

8. Amalgamating the old Agricultural Machine, Digging Machine, Mobile Crane, Works Truck and Mowing Machine classes (470,000 vehicles) is a major simplification that will benefit operators immediately. It will allow use in any of the old classes without the need to relicence. Most restrictions on what can be carried or hauled have also been removed, though some remain on Digging Machines, Mobile Cranes and Works Trucks. The licence fee remains unchanged. Tractors used to cut grass and hedges on the public road, including many operated by Local Authorities will now be classed as Agricultural Machines, benefit from the lower licence fee and be able to run their vehicles on rebated diesel fuel. Operators of such vehicles can relicence in the new class immediately by applying to the nearest Vehicle Registration Office, using form V10.

9. On Recovery Vehicles, the change prohibits the carriage of any load not associated with a vehicle being recovered, other than necessary fuel or equipment.

PRESS ENQUIRIES: 0792 782318 Out of Hours: 01 276 5999

PUBLIC ENQUIRIES: Vehicle Enquiry Unit: 0792 72134

DRAFT HOME OFFICE PRESS NOTICE

ADDITIONAL PAYMENTS BY INDEPENDENT TELEVISION CONTRACTORS - THE
LEVY

The Chancellor of the Exchequer announced in his Budget Speech today that the levy on ITV contractors would be changed. The new legislation will take effect from 1 January 1990 and is expected to raise around £50 million a year more than present arrangements.

The new levy will be in two parts - a levy on net advertising revenue of [10.5 per cent] and one on profits of [22.5 per cent]. Both will allow a "free slice" not subject to levy - £15 million on revenue and £2 million on profits. The levy on profits will be assessed after allowing for payment of revenue levy.

Today's announcement follows the Home Secretary's statement on 13 December 1988 that:

"Following consultation with the IBA, we have decided that the levy for the period 1 January 1990 to 31 December 1992 will be raised from both the net advertising revenue and from the profits of the independent television contractors. It is intended that the overall yield of the levy during this period should be broadly of the same amount as would have arisen under the arrangements which existed prior to 1986. The structure of the new levy will be such that about three quarters of the total yield is expected to arise from net advertising revenue and the remainder from profits.

"The purpose behind these changes is to encourage cost-consciousness amongst the independent television contractors and to ensure an adequate return to the Government for use of a scarce resource during the contract extension period."

The decisions announced today give effect to those objectives.

[14 MARCH 1989]

BACKGROUND**Recent history**

Between 1964 and 1973 the levy was solely on net advertising revenue (NAR). In 1973 the free slice was £2 million (equivalent to £10 million at 1988-89 prices) and larger revenues were taxed progressively with those over £16 million paying 25 per cent.

In 1974 this levy was replaced by one on domestic profits at 66.7 per cent. The free slice was occasionally increased, reaching £650,000 in 1982. Since ITV companies also paid corporation tax on post-levy profits, this approach gave them little incentive to control costs.

In 1986 the rate on domestic profits was changed to 45 per cent and a new levy of 22.5 per cent introduced on overseas profits. The aim was to raise the same amount of tax while increasing the incentive to control costs. The free slice on both was raised to £850,000.

In 1988 the Public Accounts Committee, in its 43rd report of the 1987-88 Session, reported that the new system was failing to raise as much as the pre-1986 levy system would have done. Ministers subsequently announced that, for the 1990-92 contract extension period, the levy would be based three quarters on net advertising revenue and one quarter on profits, with the objectives both of securing broadly the same yield as would have arisen under the pre-1986 system and of continuing to encourage cost-consciousness.

Assumptions

To calculate what the yield of the levy under the pre-1986 system would have been the following assumptions have been made. Net advertising revenue increased by £370 million (35 per cent after allowing for inflation) between 1985 and 1987. A further 8.5 per cent real increase occurred in 1988. Smaller increases, of between 4.5 per cent and 2.5 per cent a year are expected in 1989 and subsequent years as competition from satellite television arrives.

Domestic costs increased by £225 million (14 per cent in real terms) between 1985 and 1987. Substantial one-off restructuring costs were incurred in 1988, though their exact size is not yet known. Further restructuring costs are expected in 1989.

Real terms increases of 3 per cent a year are assumed for underlying costs from 1987.

On this basis the pre-1986 system would have raised around £200 million a year in 1990-92. The new levy structure will do the same. This compares with a yield of around £100 million in 1987-88 and a forecast of £150 million a year for 1990-92 if the existing levy structure has been retained.

The performance of ITV companies' profits will depend on how well they control costs and maximise revenue. But on the basis of our assumptions, total post-levy annual profits will double in real terms between 1985 and 1990-92.

If net advertising revenue fails, contrary to expectations, to increase in line with inflation Ministers will review the proposed levy structure.

Fourth Channel subscription

Subscriptions to Channel 4 and SC4 will be taken into account when assessing revenue levy. They amount to around 17 per cent of NAR and will be treated as an additional free slice.

BUDGET CONFIDENTIAL

ec1.bk/meb/27a



A large, stylized handwritten signature in dark ink, likely belonging to R C M Satchwell.

MR MCFARLANE - IR

FROM: R C M SATCHWELL
DATE: 27 FEBRUARY 1989

cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Culpin
Mr Gieve
Mr Gilhooly

PS/IR

POST BUDGET PRESS BRIEFING

The Financial Secretary has seen your minute of 22 February. He is content for the Revenue to arrange a Press briefing for personal finance editors on the Thursday of Budget week. He would like, as last year, to see them himself beforehand.

R.C.M.S.
R C M SATCHWELL
PRIVATE SECRETARY



Inland Revenue

Pup

Savings and
Investment Division
Somerset House

FROM: A W KUCZYS
EXTN: 6487
27 FEBRUARY 1989

1. . MR ISAAC *ISAAC 182*
2. PRIVATE SECRETARY TO THE CHANCELLOR
(Mr Taylor)

PENSIONS: LETTER FROM THE GOVERNOR

1. You asked for urgent advice on the pensions section of the Governor's letter of 22 February to Sir Peter Middleton. This note offers comments on the points raised; I assume Sir Peter Middleton will not want to send a detailed reply.

Funded or Unfunded?

2. First, the Governor asks whether employers will set up pension funds to provide top-up pensions, or whether their liability will be unfunded (and excluded from their balance sheets)?
3. This will be entirely for employers to decide. The tax regime will cater for both possibilities, but will not try to influence employers one way or the other. Broadly, the tax result of each will be:

| | |
|------------------------|------------------|
| cc PS/Chief Secretary | Sir A Battishill |
| PS/Financial Secretary | Mr Isaac |
| PS/Paymaster General | Mr Corlett |
| PS/Economic Secretary | Mr Bush |
| Sir P Middleton | Mr Hinton |
| Sir T Burns | PS/IR |
| Dame A Mueller | Mr Kuczys |
| Mr Anson | |
| Mr Wicks | |
| Mr Scholar | |
| Mr Culpin | |
| Mr L Harris | |

- a. funded: employees will face a tax charge on money paid into a fund on their behalf;
- b. unfunded: employees will pay tax on the pensions they receive.

In each case the employer will get a tax deduction at about the same time as the employee pays tax.

4. It seems likely that in the early years after the Budget changes, when relatively few people will be affected by the £60,000 cap, employers may well choose the straightforward unfunded approach. The public sector, too, is likely to go down this route. In the longer term, however, if top-up pensions become more significant, funding may become more usual.

5. As a matter of accounting practice, it may not necessarily follow that an unfunded liability does not appear on the balance sheet. A properly quantified future liability for which a specific reserve is made might well affect the balance sheet.

6. The Governor asks whether the proposals are equitable between funded and unfunded schemes, and between contributory and non-contributory funded schemes? The treatment of funded and unfunded schemes is different (see paragraph 3), reflecting the different nature of the arrangements. But the degree of "fiscal privilege" (or lack of it) is the same in each case. And the treatment of contributory and non-contributory schemes is exactly the same: it makes no difference whether the employee contributes (out of taxed income) or the employer (in which case the employee pays tax as if he had received the money first).

Personal Pensions

7. For personal pensions, Ministers have agreed that the £60,000 earnings limit should apply to contributions paid from 6 April 1989. For the vast majority this will (if it has any effect at all) be outweighed by the more generous percentage limits for the over 35s. And neither change will apply to old retirement annuity contracts (so it is likely a number of people will voluntarily bring themselves within the £60,000 ceiling, by switching from retirement annuities to personal pensions, in order to benefit from the higher percentage limits).

8. The Governor is, of course, quite right to point out that "new scheme members" does not have much meaning for the self-employed, who are not members of an employer's scheme; and also that not to apply the £60,000 ceiling to personal pensions would leave a gaping loophole. That is why we have proposed a different approach to applying the £60,000 ceiling to personal pensions. This is not, however, an easy question, and the issues are discussed in more detail in the annex to this note.

The Earnings Cap

9. The Governor suggests a higher limit than £60,000 - say £100,000. He also notes, correctly, that price indexation means that "an increasing proportion of a growing number of people's earnings" will be affected: that, of course, is the intention.

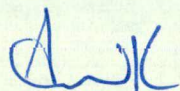
10. If the Chancellor were to set the cap at £100,000 then the numbers even potentially affected would be drastically cut: fewer than 10,000 people have earnings above this level. This would ensure that the cap remained "essentially presentational" for a long time. The overall impact of the pensions changes would shift from being broadly revenue-neutral (in the short to medium term) to having a cost (£5 million or so in the first year). Alternatively,

some of the simplifications and improvements, including the more generous personal pension contribution limits, would have to be jettisoned to keep the overall package balanced; but that would make its reception as a whole less favourable.

11. While it is true to say that existing (final salary) pension arrangements inhibit movement between firms, it is not the case that the Budget proposals, as a whole, discriminate against the movement of key personnel. On the contrary, "decoupling" (which the Governor does not mention) will open up new possibilities for firms to attract and reward key employees, without reference to Revenue limits (and without cost in additional tax relief).

Conclusion

12. The Governor does not raise any new points Ministers have not considered before. On the other hand, it is helpful to have an independent judgement of the sort of criticisms we are likely to encounter, and which will need to be reflected in briefing on and presentation of the Chancellor's proposals.



A W KUCZYS

Personal Pensions: Start date for changes

1. For the proposed changes to personal pensions, Ministers have agreed a different approach to the start date. The tax limits for personal pensions bite on contributions not on benefits, and need to apply for a whole tax year.

2. The two main changes to personal pensions contribution limits are:

- higher limits as a percentage of earnings for those over 35
- a cash ceiling based on earnings of £60,000

These will take effect from 6 April 1989.

3. In principle, someone already in a personal pension scheme on Budget Day might be able to argue that he was being treated unfairly compared to his opposite number in an occupational scheme who would have a "reserved right" to pension earnings above £60,000 so long as he remained in the same scheme. But this would only be the case if:

a. His earnings are or will rise well above £60,000. For example, if he earns £90,000 and is in his early 50s, then in 1988-89 he can contribute £18,000 (20 per cent of £90,000). In 1989-90 he will be able to contribute exactly the same, calculated as 30 per cent of £60,000. Only those earning more than this will be worse off overall.

b. He must be contributing at or near the maximum now, or be planning to in the future. Otherwise there is no real disadvantage. Most people contribute much less than the maximum.

c. He must have joined a personal pension scheme in the last 8 months, since they became available on 1 July. The changes will not apply to old retirement annuities, to which many people are still contributing. Indeed, there was a last-minute rush to take out retirement annuity contracts last summer, because the tax-free lump sum is marginally greater than for personal pensions.

4. All in all, we must be talking about a very small group of people. If, nevertheless, we gave these people a "reserved right" to the old regime

(no £60,000 ceiling, but the old percentage limits) then there would be two disadvantages:

1. This would be more generous than the transition for occupational scheme members. They lose their reserved right when they change employer and join a new pension scheme. With a personal pension, you can take it with you and thus keep your reserved right through any number of job changes.

2. Having two classes of personal pension member, with two different sets of rules, would be a significant added complication - not for the Revenue, but for personal pension providers, who would no doubt complain - out of all proportion to the harm it seeks to avoid.

5. Our recommendation remains, therefore, to apply the changes to personal pension contributions made from 6 April. For the vast majority this will represent an improvement (the higher percentage limits outweigh the £60,000 ceiling) or no change. There will be no question of retrospection, since personal pensions by definition carry no promise of future benefits or even contributions. But it will be important, in presentation, to be ready to answer possible criticism of applying a less generous rule than in the occupational pension regime.



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prof

| | |
|----------------|----------------------------------|
| CH/EXCHEQUER ✓ | |
| REC. | - 1 MAR 1989 |
| ACTION | <i>Mr. S. Flanagan</i> |
| COPIES TO | <i>PS/FST, PS/EST</i> |
| | <i>MR Culpin MR Riley</i> |
| | <i>MR Gilhooley</i> |
| | <i>MR Pickford MR Macpherson</i> |
| | <i>MISS Simpson</i> |
| | <i>MR M. Ralph (EOG)</i> |

1/3

RESTRICTED

J M G Taylor Esq
Private Secretary to the
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

28 February 1989

Dear Jonathan,

BUDGET DAY PRESS NOTICES

Thank you for your letter of 22 February. My Secretary of State has been accustomed to issuing a short statement, which is not prepared in advance, following the Chancellor's Budget Statement, and he intends to do the same this year. We will therefore not be involved in the arrangements explained in your letter for the collation and issue of Press Notices by the Treasury.

Yours sincerely,
David

DAVID CRAWLEY
Private Secretary



FROM: J ANNYS
DATE: 28 February 1989

1. MR PAINTER *28.2*
2. PAYMASTER GENERAL

PRP : BUDGET DAY PRESS RELEASE

1. The attached draft Press Release sets out the Budget proposals for PRP and includes in the package references to the earlier announcements of the abolition of the 5% test and the facility to make alterations to existing registered schemes. We propose, as with previous significant PRP Press Releases, to issue a copy to all on the PRPO mailing list.

2. The opening paragraph of the detailed section of the Release leaves blank the examples of the new maximum values of tax relief, since these figures must depend on decisions yet to be taken on post-Budget income tax rates.

3. You will see that no mention is made of changes to the material interest test. This will be the subject of a separate Press Release, which we do not propose to send to everybody on the mailing list. This Release will cover share schemes and close company loan interest and will apply, we think, to very few PRP schemes. It would be unnecessarily daunting to issue it to the PRP list. We

c PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Monck
Mr Culpin
Mr Gieve
Mr Burr
Mr Gilhooly

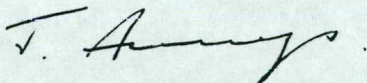
Mr Painter
Mr Lewis
Mr Bush
Mr Ridd
Mr Farmer
Mr Brannigan
Mr Tharby
Mr O'Hare
Ms McFarlane
Mr Denton
Ms Fairfield
Mr Annys
PS/IR

BUDGET CONFIDENTIAL

therefore propose simply to mention the matter on a covering letter to the PRPO's distribution of the PRP Release. The overt purpose (and perhaps a useful effect) of the letter will be to increase interest in the PRP relaxation package as a whole. A draft of this letter is attached.

4. Since we should need to arrange for 10,000 or so extra copies of the Press Release to be produced for separate distribution to all on the PRPO mailing list, may we invite your early approval of

- the draft PRP Press Release (leaving us to insert the new tax relief values as soon as we know what the post-Budget tax rates are to be);
- the issue of that Press Release to all those on the PRPO mailing list as soon as possible after Budget Day; and
- the draft letter to accompany the Press Release.



J ANNYS

Encl.

DRAFT BUDGET DAY PRESS RELEASE

[3x]

14 March 1989

IMPROVEMENTS TO THE RELIEF FOR PROFIT-RELATED PAY (PRP)

The Chancellor proposes in his Budget a range of improvements to the tax relief for PRP. These will

- increase the upper limit on PRP which can qualify for tax relief from £3,000 to £4,000;
- enable employers to set up schemes for central (eg headquarters) units with PRP based on the profits of the whole undertaking;
- abolish the requirement for PRP to equal at least 5% of employees' pay if profits remain the same;
- allow certain alterations to be made to registered PRP schemes without loss of tax relief;
- improve the operation and administration of tax relief for PRP.

These changes will have statutory effect from Royal Assent to the Finance Bill, but the increased limit will apply to all PRP payments made in respect of profit periods beginning on or after 1 April 1989.

/DETAILS OF THE PROPOSALS

DETAILS OF THE PROPOSALS

Increase in Tax Relief

1. Since half of PRP payable for any profit period under a registered scheme can be free from income tax, the current limit on the tax relief of the lower of 20% of pay or £3,000 enables PRP up to 10% of pay or £1,500 to be paid tax-free. For any payments made in respect of a full year profit period beginning on or after 1 April the increased cash limit of £4,000 will have the effect that 10% of pay or £2,000 if less can be free of tax. For a basic rate taxpayer tax relief for PRP can now be worth up to £[]; to a higher rate taxpayer it can be worth up to £[].

Headquarters units

2. An employer may choose the employment unit to which a PRP scheme relates. It may be either the whole or part of a business but the unit must be identified, it must be carried on with a view to profit and it has to be able to establish that profit in the form of a profit and loss account.

3. Where an employment unit covers the operation of only a part of a business, and that part is a general or central function, like a Head Office or Research and Development Division, the employer is likely to have to produce special figures for its profit and loss account. These figures may be both difficult and costly to produce and, given the nature of the activities, they may provide little more than a notional measure of profit.

4. The Chancellor now proposes that an employer who registers one or more conventional PRP schemes will be able also to register a separate scheme or schemes for general or central units with PRP based on the profits of the whole undertaking, not the profits of that particular unit. Such schemes will have to satisfy all the usual requirements, but in addition their registration will depend on

/the number of employees

the number of employees covered not exceeding 33% of the number of employees covered by the conventional schemes. These provisions will come into effect on Royal Assent to the Finance Bill.

The 5% test

5. The requirement that a PRP scheme must contain rules ensuring that PRP is at least 5% of employees' pay in the first profit period (if profits remain the same) will be abolished. This was announced on 3 February 1989, and by concession any schemes registered after that date have been able to disregard that requirement.

Alterations to registered schemes

6. The Finance Bill will also contain ^{provisions} ~~legislation~~ to allow certain changes to be made in the rules of schemes already registered without jeopardising their registration. This facility has, with Ministerial approval, been operating extra-statutorily since it was announced on 10 October 1988.

Other changes

Death of sole proprietor

7. If the sole proprietor of a business which has a registered PRP scheme dies, registration of the scheme has to be cancelled because the present legislation makes no provision for a substitute employer to take his place. The legal personal representatives of the deceased will now be given the option of continuing to run the scheme, to have it cancelled from the date of death, or, as previously, to have it cancelled from the start of the profit period during which death occurred. In the latter case any tax relief already given for that profit period will be recovered.

/Excluded employees' remuneration

Excluded employees' remuneration

8. Any employee who has a material interest in a company (that is, he owns it or a large part of it, taking into account the holdings of associates as well as his own), is excluded from receiving PRP under a registered scheme, and the remuneration of such an employee may not be deducted in arriving at the profit of the business for PRP purposes. The effect is to place this type of employee in the same position as a sole trader who cannot receive PRP and whose earnings are not deducted from profits before PRP for employees is calculated. The Finance Bill will make it clear that remuneration in this instance includes fees, percentages, any expense allowance which is charged to income tax, pension contributions and the estimated value of any non-cash benefits received.

Employer's National Insurance Contributions

9. To solve the problem of mutual deductibility of employers' National Insurance Contributions - ie the amount of PRP must be known before NIC can be calculated but NIC must also be known to enable PRP to be worked out - employers will be permitted, if they wish, to provide in their schemes for the exclusion of their own NIC liability on PRP payments from the calculation of profits on which PRP is based. This does not affect in any way the present NIC liability arising from payments of PRP.

Tax recovery powers

10. Present legislation places the responsibility for the operation of PRP relief on the scheme employer. If a scheme is cancelled action to recover any tax relief wrongly given is against the scheme employer, even if that employer is a parent company of a group and it is actually the subsidiaries who are operating the schemes. Where that group scheme employer is or becomes non-resident in the United Kingdom, recovery of any tax relief overpaid may not be possible. In these circumstances there will be a secondary right of recovery against the employer who operates the Pay As You Earn scheme.

Cost

11. The overall cost of the changes affecting PRP is expected to be £10 million in 1989/90 and £15 million in 1990/91.

Guidance

12. Advice on any aspect of PRP can be obtained from:

Profit-Related Pay Office
Inland Revenue
St Mungo's Road
Cumbernauld
GLASGOW
G67 1YZ

Telephone: 0236 736121

NOTES FOR EDITORS

1. Profit-Related Pay is the element in employees' pay which varies in relation to the movement in the profits of the business in which they work. Subject to certain limits, half of an employee's PRP can be exempt from income tax, provided it is paid under a scheme which has been registered with the Inland Revenue.

2. To qualify for tax relief PRP must be paid under a scheme registered with the Inland Revenue before the date on which the scheme is due to start. Application for registration must be made on a prescribed form and accompanied by a report from an independent accountant that the scheme complies with the legislation.

3. Legislation governing the provision of tax relief for PRP is contained in Sections 169 to 184 and Schedule 8 of the Income and Corporation Taxes Act 1988.

BUDGET CONFIDENTIAL

4. Announcements concerning alterations to scheme rules and the 5% test were published in Inland Revenue Press Releases dated 10 October 1988 and 3 February 1989 respectively.

BUDGET CONFIDENTIAL

PROFIT-RELATED PAY

I enclose a copy of an Inland Revenue Press Release about the ^{proposed} changes to Profit-Related Pay (PRP), which the Chancellor announced in his Budget.

The Chancellor also ~~announced~~ ^{proposes} a relaxation of the "material interest" test which can affect an employee's eligibility to participate in a PRP scheme. The change only affects employees who may benefit from a Trust Fund which holds ordinary shares of the employing company. Under the present rules such employees may not be entitled to participate in a registered PRP scheme; but the Chancellor proposes changes which will enable employees in these circumstances to join a PRP scheme. If you would like more details we will send you a copy of the Press Release explaining the change.



FROM: M J G ELLIOTT

DATE: 1 MARCH 1989

- 1. MR MCGIVERN
- 2. MR ISAAC
- 3. FINANCIAL SECRETARY

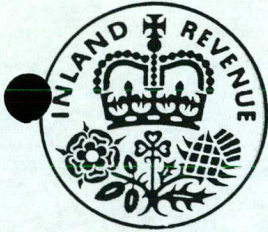
BUDGET DAY PRESS RELEASE: STARTER 213: PRE-TRADING EXPENDITURE

I attach, for your approval, a draft Press Release announcing the proposed extension of relief for pre-trading expenditure from three to five years before trading begins. This version is only slightly different from the one circulated a week ago: the main change is to the wording of the first sentence of the Notes for Editors.

M J G ELLIOTT

cc PS/Chancellor
 PS/Chief Secretary
 PS/Economic Secretary
 PS/Paymaster General
 Mrs Chaplin
 Mr Tyrie
 Miss Hay

Mr Isaac
 Mr McGivern
 Mr Moule
 Mr Elliott
 Mr Denton
 Miss Brand
 Mr Willmer
 PS/IR



BUDGET CONFIDENTIAL

**INLAND
REVENUE**

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB

PHONE: 01-438 6692 OR 6706

[3X]

14 March 1989

EXTENDED RELIEF FOR PRE-TRADING EXPENDITURE

The Chancellor proposes in his Budget to extend the period for which businesses can claim relief for certain pre-trading expenditure from 3 to 5 years.

The proposal recognises that the existing 3 year period may not be long enough to cater for the long lead times needed for some businesses.

The new five year period will apply to individuals, partnerships or companies who start to trade on or after 1 April 1989.

DETAILS

1. At present, a business can claim tax relief for revenue expenditure incurred in the three years before the start of a trade, profession or vocation, provided the expenditure would be allowable as a business expense if the trade had actually started. The relief is given when trading begins, and is available, for example, for the cost of taking on employees, or rent or rates.

2. A time limit on the expenditure qualifying for relief is necessary to make sure that relief is restricted to expenditure directly related to the setting up of a trade.

/ NOTES FOR EDITORS

NOTES FOR EDITORS

1. Expenditure incurred before the start of a trade does not satisfy the normal rules for tax relief for business expenditure. However, Section 401 of the Income and Corporation Taxes Act 1988 allows businesses to claim relief for pre-trading revenue expenditure. When this relief was first introduced in 1980, it was restricted to expenditure incurred by traders in the year before trading started. In 1982 this was extended to 3 years because the one year limit was thought to be insufficient to cater for some pre-trading research, especially in high technology areas.

2. The proposal only applies to revenue expenditure. Pre-trading capital expenditure has to be dealt with under the capital allowances code, which provides that capital expenditure incurred by a person about to carry on a trade is to be treated as incurred on the first day of trading.



Inland Revenue

BUDGET CONFIDENTIAL

Business Tax Division
Somerset House

FROM: G A A ELMER

DATE: 1 MARCH 1989

1. MR ISAAC *13*
2. FINANCIAL SECRETARY

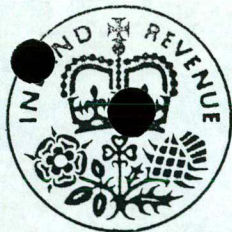
CAPITAL ALLOWANCES: BUDGET DAY PRESS RELEASE

I attach for your approval a draft of the proposed Budget Day Press Release covering Starters 206 (Safety at Sports Grounds) and Starter 209 (Miscellaneous amendments).

Starter 209 is wide-ranging and coverage has therefore been confined to the more significant items.

G A A ELMER

cc. PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Gilhooly
Mrs Chaplin
Mr Call
Mr Tyrie
Mr Gieve
Mr Isaac
Mr McGivern
Mr Bush
Mr Deacon
Mr Pearson
Mr Keith
Mr Hinson
Mrs Morrison
Mr Elmer
Mr Croall
Mr Denton
Ms McFarlane
PS/IR



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x]

14 March 1989

CAPITAL ALLOWANCES

The Chancellor proposes in his Budget minor changes to the capital allowance rules. These changes will:

- correct defects and anomalies in advance of consolidation of the capital allowance legislation into a single Act; and
- extend the existing relief for safety expenditure on certain sports grounds to regulated stands at undesignated grounds.

DETAILS OF THE PROPOSALS

1. Pre-consolidation changes

(a) Exclusion of double allowances

The principal change proposed is to replace the various existing rules with one simple rule. Claimants whose expenditure qualifies under more than one head of the capital allowance code will be able to make an irrevocable choice of the type of capital allowance they prefer.

(b) Contributions to expenditure

The existing rules which govern the treatment for capital allowance purposes of contributions made towards another person's capital expenditure are to be amended. The main effects will be to

- i. allow relief for contributions where the contributor or the recipient is engaged in a profession or vocation (at present, a contributor can only claim allowances where a contribution of capital is made for the purpose of a trade carried on by the contributor or a tenant of the contributor);

/ii. confine the

- ii. confine the relief due to the recipient of a contribution to the recipient's net expenditure where the contributor can claim the contribution as a trading expense or is exempt from tax.

(c) Patent Rights

Where a person purchases patent rights from a person with whom he is regarded as "connected" for tax purposes, the amount of the expenditure on which allowances are computed is limited to the amount of the disposal value brought into account in the vendor's capital allowance computation. It is proposed to adapt this rule to deal with the situation where no disposal value is brought to account by the vendor.

The effect of the changes will be that, where the vendor receives a capital sum which is chargeable to tax, that sum will be taken as the purchaser's qualifying expenditure. In any other case, the qualifying expenditure will be the smallest of

- i. the purchaser's capital expenditure
- ii. the market value of the rights when the purchaser acquired them
- iii. where capital expenditure was incurred by the vendor, or a person connected with the vendor, on acquiring the rights, the amount of that expenditure.

(d) Other changes

A number of other minor changes are also proposed, including giving statutory cover for a range of extra-statutory concessions and practices.

2. Safety at Sports Grounds

The rules governing capital allowances for safety expenditure at sports grounds are to be extended to take account of changes to the Safety of Sports Grounds Act 1975. They will provide relief for safety expenditure on regulated stands at undesignated sports grounds. This relief will apply to expenditure incurred on and after 1 January 1989 in complying with safety certificate requirements of a local authority.

NOTES FOR EDITORS

1. Pre-consolidation amendments

Consolidation of statute law is the responsibility of the Law Commission. Capital allowance legislation was last consolidated in 1968 since when extensive changes to the system have been made in annual Finance Acts. A Consolidation Bill to bring together all the current legislation on capital allowances is expected to be introduced later this year.

2. A consolidating Act does not involve any change in the law; but amendments necessary to tidy up the legislation and so facilitate consolidation may be included in a Finance Act. The capital allowance changes now proposed fall into two main categories. In the first there will be a number of minor changes to close gaps and correct anomalies in existing legislation while also providing cover for a range of existing extra-statutory concessions and practices in the taxpayer's favour. The second will consist of changes to facilitate the consolidation itself.

3. Safety at Sports Grounds

Section 49 Finance (No.2) Act 1975 (as extended by Section 40 Finance Act 1978 and Section 93 Finance Act 1988) provides that, if relief is not otherwise available, a trader may claim capital allowances at 25 per cent (reducing balance basis) on capital expenditure incurred in complying with safety certification requirements for designated sports grounds under the provisions of the Safety of Sports Grounds Act 1975, as amended.

The Fire Safety and Safety at Places of Sports Act 1987 Act provided that safety certification procedures should also apply to "regulated stands" (normally, stands which provide covered accommodation for 500 or more spectators) at undesignated sports grounds. That change came into effect on 1 January 1989.

The existing capital allowance rules are to be extended so that the relief will apply to capital expenditure on safety work on a regulated stand.



FROM: CHIEF SECRETARY
DATE: 2 March 1989

CHANCELLOR

0345

Handwritten notes in red ink:
CST's suggestions - n-c X-
IR OK on Law on employment for an hour
all of wages (8m) NICs do-
x 1 suspect the all NICs do-
preliminary are done
(uncertain) but, who will
LOR also that
poll. low
of correct
Talker 6-10
NICs?
with
11
5 of
a we
- non
Mr.

- cc: Financial Secretary *with copy*
- Paymaster General
- Economic Secretary
- Mr Culpin *with copy*
- Mr McIntyre
- Mr Saunders
- Mr Gieve
- Mr Walker
- Miss Simpson
- Mr McPherson
- Mr Flanagan
- Mr Tyrie
- Mrs Chaplin
- Mr Call

- Mr Denton IR
- Mr Kuczys IR* *with copy*
- Mr Mace IR

BUDGET DAY PRESS NOTICES

I have considered the press notices for the subjects in my responsibility. On NICs and the earnings rule, we do not yet have draft notices. Mr McIntyre is preparing these, in consultation with the Department of Social Security and I will minute further when I have seen them. The NICs press release will need to bring out the trap abolition point, as well as the gains in take home pay. We also need to think about the read across with the Inland Revenue main income tax press release which provides tables showing the combined effect of the increase in allowances and the NICS measure. These tables are rather buried in the income tax press release - I wonder whether the heading should be changed to 'The Budget 1989: Income Tax and NICS'.

2. The Inland Revenue pensions press release is commendably clear and seems to me very good. It brings out the simplification and deregulation themes effectively. Following your meeting yesterday I have deleted paragraph 2 and amended page 1 to make clear that the changes do not apply to existing employees. I enclose a copy, as approved.

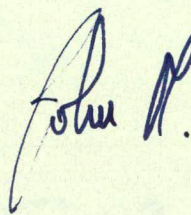
behind ("11")

not to all

BUDGET SECRET

3. The age allowance changes are satisfactorily covered in the main income tax press release. These bring out the reduction in the withdrawal rate and table 5B shows the substantial increase in net income for those between 75 and 80 (£1.73 single, £2.54 a week married). I am content with this.

4. There is no press release on private health insurance. I think on balance that we do need one, although this is not a new measure. The only public statement so far has been your written answer and in response to Questions we have indicated that details will be provided in the Budget. I have commissioned a press release from Mr Walker in the Revenue.



JOHN MAJOR

BUDGET CONFIDENTIAL

fst.jf/Robert/2.3.1



A handwritten signature in black ink, appearing to be "R C M Satchwell".

MR MASSINGALE - IR

FROM: R C M SATCHWELL
DATE: 2 March 1989

cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Culpin
Mr Gilhooly
Miss Hay

Mr Painter - IR
PS/IR

PRESS RELEASES: CAR SCALES AND RELOCATION PAYMENTS

The Financial Secretary was grateful for your minute of 2 March.

The Economic Secretary will be reviewing the draft Press Release on car scales. On the one on relocation payments, the Financial Secretary would like the sections reordered so that those dealing with the withdrawal of the relief for additional housing cost payments always come before those covering the putting of the removal expenses ESC onto a statutory basis (ie. amend the order of the indents on page 1; and put paras 9-14 before paras 4-8).

He also had a number of detailed drafting amendments:-

para 1: line 3 - "tended to inhibit employers from relocating ..."
line 4 - "exacerbated" rather than "contributed"
line 5 - delete "already" and the d in "high-priced".

para 3: line 5 - include "to put it onto a statutory basis" after "provisions"

para 4: line 8 - "all his" instead of "any"

para 7: line 3 - "on the sale of" instead of just "on"

BUDGET CONFIDENTIAL

para 10: include "or" after the first indent, and replace
"provided that" in the second indent with "and".

R. C. M. S.

~~R C M SATCHWELL~~
Private Secretary



Inland Revenue

BUDGET CONFIDENTIAL

Oil and Financial Division
Somerset House

FROM: A G NIELD

DATE: 2 MARCH 1989

1. MR JOHNS *MAY 2/3*
2. FINANCIAL SECRETARY

UNIT TRUSTS - PRESS RELEASE

1. You mentioned you would like a meeting to discuss the press release for this Budget proposal. I attach a draft (together with a draft Compliance Cost Assessment). We need to settle the text by Wednesday 8 March, in order to meet the printing timetables for Press Releases generally.

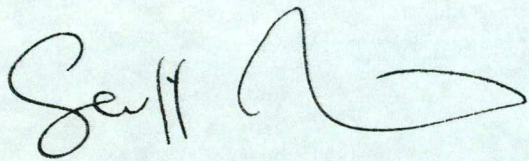
2. In the Finance Bill debates, you will undoubtedly come under pressure to give concessions to unit trusts that are not UCITS, and investment trusts. One answer will be the need to act now to meet European competition on UCITS. But as discussed previously, you will also want to acknowledge that the tax treatment of these other vehicles needs to be considered. Mr Beighton has had a

cc PS/Chancellor
Sir Peter Middleton
Mr Scholar
Mr Culpin
Mrs Lomax
Mr Ilett
Mr Nielson
Mr Gilhooly
Mrs Chaplin
Mr Tyrie
Mr Gieve

Mr Beighton
Mr Johns
Mr Nield
Mr M R Williams
PS/IR

BUDGET CONFIDENTIAL

preliminary word with Mr Scholar about the work that need to be put in hand after the budget on this. I have therefore included a sentence in the Press Notice (para 6) suggesting that the position of these other vehicles will be considered for action in the future. You will no doubt want to consider whether tactically you want to have this in the Press Notice, or whether you would prefer to reserve the point for use in debates.

A handwritten signature in black ink, appearing to read "Geoff" followed by a stylized, cursive flourish that ends in a long horizontal stroke.

GEOFF NIELD



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x]

14 March 1989

UNIT TRUSTS: REMOVAL OF TAX DISADVANTAGES

The Chancellor proposes in his Budget to introduce from 1 January 1990 a new tax regime for unit trusts which are freely marketable within the European Community. This will enable them to compete more effectively with their continental counterparts.

The new system builds on the existing corporation tax regime for most authorised unit trusts. Its main features are:

- Reduction of the corporation tax rate to the basic rate of income tax. This will remove any UK tax charge on a trust which cannot be credited to unitholders.
- Relief for management expenses and interest on borrowings permitted under SIB regulations.

The changes will cost about £20m a year. The main beneficiaries will be unit trusts which invest primarily in bonds.

MAIN CHANGES

1. At present -

most unit trusts pay tax at the main rate of corporation tax (35%) and get relief for their management expenses and interest paid.

some unit trusts pay tax at the basic rate of income tax (25%) but get no relief for their management expenses or interest paid.

2. As from 1 January 1990 -

all unit trusts which are UCITS (see below) will pay corporation tax at a rate equal to the basic rate of income tax [x%] and get relief for their management expenses and interest paid.

3. The UCITS directive

Under a European Community directive, collective investment vehicles that are UCITS (Undertakings for Collective Investment in Transferable Securities) will be able to market their units or

/ shares throughout the whole

shares throughout the whole of the Community from 1 October 1989, subject only to compliance with local marketing regulations. Most UK authorised unit trusts will be UCITS.

DETAILS

4. Lower rate of corporation tax

The income of unit trusts that are UCITS will be charged to corporation tax at a rate equal to the basic rate of income tax as from 1 January 1990. This means that all UK tax payable by the trust will be fully offsettable (by repayment or credit) against the unitholders' tax liability. The main beneficiaries will be trusts investing a proportion of their money in bonds or fixed interest securities where before the Budget the trust paid tax at 35% on the income but the unitholder only received a credit of 25%.

5. Corporate unitholders

Companies investing in unit trusts will be liable to corporation tax on the income they receive, but they will get credit at the basic rate of income tax for the tax paid by the trust. The main corporate investors in unit trusts are life assurance companies. Their rate of corporation tax will also fall to the same as the basic rate of income tax from 1 January 1990. So their tax liability on unit trust income will be wholly covered by the tax credited. Small companies paying the reduced rate of corporation tax will be in the same position. Other companies will have to pay the difference between the full rate of corporation tax and the basic rate of income tax credited on the unit trust income.

6. Coverage

All unit trusts that are UCITS will be covered by the new tax system. This means gilt trusts that are UCITS will cease to be dealt with under an income tax regime. The switch will take place for the first distribution period of the trust starting after 31 December 1989. As a result of this switch gilt trusts will then be entitled to tax relief for management expenses and for interest paid on borrowings allowed under SIB regulations.

The UCITS directive applies to authorised unit trusts investing in transferable securities. It does not cover other authorised unit trusts such as those investing in property, futures and options or deposits (ie money funds). They cannot be marketed in Europe and comparable European vehicles cannot be marketed to the public in the UK. [The proposed change is restricted to trusts that can be marketed throughout Europe, but the tax position of other unit trusts [and investment trusts] will be considered in the coming year] [The immediate change is intended to deal with imminent competition for vehicles that can be marketed throughout Europe] [although the Government recognises that there are questions to be considered in the coming year about the tax treatment of other types of unit trust.]

7. Start Date

The new system will start from 1 January 1990 to tie in with the commencement of the proposed new regime for life assurance

/ companies. This is to

companies. This is to avoid the need for administratively costly transitional provisions in the very short period between 1 October 1989 and 1 January 1990.

NOTES FOR EDITORS

1. Present tax arrangements

Authorised unit trusts other than gilt trusts (which invest only in UK interest bearing securities) are taxed like companies. They pay corporation tax on the income they receive, and advance corporation tax on income available for distribution. The unitholder gets a dividend to which a tax credit is attached. The trust deducts management expenses and interest paid in arriving at its taxable income.

Gilt trusts pay income tax at the basic rate on their income, but get no relief for management expenses or interest paid. Amounts available for distribution are treated as received by unitholders as income on which basic rate tax has already been paid.

2. Most European countries apply a "transparent" regime for collective investment schemes. The taxpayer is taxed as if he held a pro rata share of the underlying asset, but does effectively get tax relief for management expenses. The proposed tax regime effectively achieves the same result, but avoids the complexities of transparency. In particular, it avoids the need for unit trusts to identify the extent to which distributions are derived from different types of income and provide details to each unitholder.

3. The UCITS directive is the European Communities Council directive of 20 December 1985 (85/611/EEC) as amended by directive 88/220/EEC of 22 March 1988.

4. Compliance Cost Assessment

Assessments of the compliance costs of proposals affecting businesses are available. A copy of the Compliance Cost Assessment for this proposal can be obtained from:

Inland Revenue
Deregulation Unit
Room 77
New Wing
Somerset House
LONDON
WC2R 1LB

3. All unit trusts that are UCITS to be covered

This means gilt trusts that are UCITS will cease to be dealt with under an income tax regime. The switch will take place for the first distribution period of the trust starting after 31 December 1989. As a result of this switch gilt trusts will be able to get tax relief for expenses of management and for interest paid.

2. Authorised unit trusts that are not UCITS and investment trusts are not included in the new regime since they cannot be marketed in Europe and because comparable European vehicles cannot be marketed in the UK by virtue of the UCITS directive.



14 March 1989

COMPLIANCE COST ASSESSMENT

REMOVAL OF TAX DISADVANTAGES FOR UNIT TRUSTS

NATURE OF THE REGULATION

1. What is the origin of the regulation - eg EC proposal, UK statute, request from industry/trade/interest group/other?

The proposed changes are in response to representations from the unit trust industry. Under a European Community directive, collective investment vehicles that are UCITS (Undertakings for Collective Investment in Transferable Securities) will be able to market their units or shares throughout the whole of the Community from 1 October 1989. Most UK authorised unit trusts will be UCITS.

2. What is the problem requiring regulation? How severe is it?

Many European countries do not tax the continental counterparts of unit trusts that are UCITS but tax investors in them as if they hold pro rata shares of the underlying assets.

Without the legislation unit trusts that are UCITS - around 1300 - would be at a competitive disadvantage with their continental counterparts since they suffer a UK tax charge at trust level that is not wholly passed on to unitholders. This charge will be lifted.

3. What is the existing regulatory provision, if any?

Existing legislation provides a tax regime for gilt trusts (which can invest only in UK interest bearing securities). This will be superseded by the new regime. Details are set out in the attached press release of 14 March 1989.

The present regime for authorised unit trusts will remain in force for unit trusts that are not covered by the UCITS directive. There are about 20 of these.

4. Are there alternatives to regulation eg a code of conduct or voluntary agreement? Why have these been rejected?

The existing provisions are in legislation and can only be amended by new legislation.

5. What timetable is proposed for the introduction of the new regulation? Must all measures be introduced at once or can these be introduced over a period?

New tax regime for unit trusts that are UCITS applies from 1 January 1990 (though gilt trusts will not come within the regime until the start of their first distribution period after that date). The new life assurance tax regime will start on the same date.

The alignment of the dates avoids the need for transitional provisions that would have imposed compliance burdens on unit trusts and unitholders.

6. Can the period of operation of the new regulation be limited?

Continues unless and until changed by primary legislation.

7. How will the regulation be enforced? By central government or through local authorities?

By central Government, Inland Revenue.

8. What specific provisions for small firms have been considered; such as exempting them from the regulation's requirements or other measures?

Small firms will not be affected by the legislation, which only affects a certain type of unit trust.

9. What consultations have there been with business? Are there any concerns raised by business which have not been met? If so what are they?

Discussion with the Unit Trust Association (representing over 90% of unit trusts that will be UCITS from 1 October 1989) before the new legislation was prepared.

IMPACT ON BUSINESS

10. Are certain sectors of industry or companies of a certain size likely to be particularly affected by the regulation? Please state the numbers of companies or establishments and employees which will be affected.

The legislation applies to around 1300 authorised unit trusts that will be UCITS.

The vast majority of unitholders are either individuals or life assurance companies. They (and companies paying tax at the small companies rate) are not affected by the change.

11. What will businesses have to do to comply with the regulation? How will this compare with their current practices?

For vast bulk of unit trusts, only change is change in rate so no change in procedures. Less than 30 gilt trusts will change from income tax to corporation tax regime, requiring initial adjustments to procedures. But these will be familiar to their managers through management of other authorised unit trusts, and will be simpler after transition because procedures will be the same as for other authorised unit trusts.

12. What additional resources or work will businesses be faced with in modifying their behaviour to comply with the regulation. What will this cost (a) a typical business and (b) industry as a whole.

No significant costs

The tax regime avoids the need for unit trusts (a) to identify the extent to which their distributions are derived from different types of income and (b) to provide appropriate details to each unitholder. This would be necessary if the approach adopted by many European countries were to be adopted.

BENEFITS

13. What will be the benefits to the UK economy as a whole, to Government objectives, to consumers, employees, traders or enforcement authorities? This should include tangible benefits eg savings on health and emergency services. Unquantifiable gains in efficiency and intangible benefits should also be mentioned.

Meets objective of enabling UK unit trusts that are UCITS to compete more effectively with their continental counterparts in the European Single Market. In particular the legislation

- deals with the tax disadvantages suffered by trusts that invest in gilts and bonds
- facilitates the establishment of these types of funds which are popular on the continent
- thereby creates export opportunities as well as meeting competition at home.

MONITORING AND EVALUATION

14. What steps are being taken to measure the effectiveness of the new regulation in meeting its objectives? When will the regulations be reviewed?

The operation of the new legislation will be monitored by the Revenue.

BUDGET CONFIDENTIAL

fst.jf/Robert/2.3



MR ELMER - IR

FROM: R C M SATCHWELL
DATE: 2 March 1989

cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Gieve
Mr Gilhooly
Mrs Chaplin
Mr Tyrie
Mr Call

Mr Isaac - IR
PS/IR

CAPITAL ALLOWANCES: BUDGET DAY PRESS RELEASE

The Financial Secretary was grateful for your minute of 1 March. He is content with the content of the draft Press Release; but feels the layout could be improved. In particular, he would like the Safety at Sports Grounds sections put first, and the number of indents reduced on the Pre-consolidation Changes part.

R.C.M.S.

R C M SATCHWELL
Private Secretary

fst.jf/SUSAN/2.3



MR M J G ELLIOTT - IR

FROM: MISS S J FEEST
DATE: 2 MARCH 1989

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Paymaster General
Mrs Chaplin
Mr Tyrie
Miss Hay

PS/IR

BUDGET DAY PRESS RELEASE: STARTER 213; PRE-TRADING EXPENDITURE

The Financial Secretary was grateful for your minute of 1 March 1989 and approves the press release as drafted.

A handwritten signature in black ink, appearing to read "S J Feest".

MISS S J FEEST
(Assistant Private Secretary)



Inland Revenue

Personal Tax Division
Somerset HouseFROM: R MASSINGALE
DATE: 2 MARCH 1989

1. MR PAINTER
2. FINANCIAL SECRETARY

There is, clearly, scope for toning down the reference to the minimal relevance of business mileage in para 2, (particularly since this is 'Revenue Press Release') leaving the point to be put more strongly in debate.

PRESS RELEASES: CAR SCALES AND RELOCATION PAYMENTS

2.3

1. Attached for approval are final drafts of Press Releases on the changes in car benefit scales and the tax treatment of relocation payments.
2. I should draw your attention to paragraphs 1 and 2 of the company car press release which seeks to make the point, quite strongly, that the value of the private use of a company car to the employee does not really vary with the business mileage. This follows the Chancellor's suggestion (Mr Taylor's note of 23 February) that it would be of the "first importance" to get this over in presenting the car scale changes this year. The difficulty, of course, is that there is an inherent contradiction between this view and the 50 per cent discount and surcharge which are related to business, not private, mileage. We have sought to gloss over this in paragraph 3. But it seems inescapable that the more firmly this point is made the more it will suggest to some people that the Government are at least considering changing

cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Culpin
Mr Gilhooly
Miss Hay

Mr Painter
Mr Lewis
Mr Massingale
Mr Stewart - Stats
Mr Denton
Mr Willmer
PS/IR

BUDGET CONFIDENTIAL

the business mileage surcharge and discount. This point about the relationship between business and private mileage is not altogether new - the Paymaster made it clearly in debate last year - but representations suggest that most people have not taken it on board.

3. The compliance cost assessment for the relocation payment changes is also attached.



R MASSINGALE



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x]

14 March 1989

INCOME TAX: COMPANY CARS

The Chancellor proposes in his Budget to increase the scale charges for taxing employees on the private use of company cars by one third. This is a further step in reducing the undervaluation of the benefit of company cars for tax purposes. The changes will take effect from 6 April 1989.

The increase will affect approximately 1.4 million directors and employees. It will yield £160 million in 1989/90 and £200 million in 1990/91.

No increase is proposed in the separate scales for fuel provided for private motoring in company cars.

DETAILS

1. Company cars are provided for directors and employees in a wide variety of circumstances. In some circumstances there is little or no business use and the car is provided essentially as part of the employee's remuneration. In other cases - more commonly - there is some significant business use, and many company cars cover a very large business mileage.

2. The car scales charge directors and employees earning over £8,500 a year on the benefit of having a car provided by their employer available for private use. While the car scales at present take broad account of the number of business miles for which the car is used, they are essentially concerned with the private use of the car, not its business use. They are a means of putting a figure for tax purposes on the value to the employee of having the car available for private use. The need for a car to cover a substantial business mileage does not reduce the value to the employee of its use for private purposes. The average private use of company cars does not vary significantly whether the business mileage is high or low.

Implementation

3. The new rates will take effect from 6 April 1989. The necessary legislation will be included in the Finance Bill.

/ All PAYE codes

[BUDGET CONFIDENTIAL]

All PAYE codes containing an adjustment for car benefits will be reviewed and amended individually to reflect the proposed scale charges. Employers and employees will be notified of the revised codes which will generally take effect on the first pay day after 17 May 1989, at the same time as the increases in personal allowances and thresholds are implemented.

4. The Chancellor has decided on this year's level of increase bearing in mind both personal tax changes and the proposed restructuring of Class I National Insurance Contributions for employees which will come into effect in October 1989. For the great majority of company car users the increased tax on car benefits for 1989/90 as a whole will be more than matched by reductions in tax through changes in personal allowances and the basic rate limit taken together with National Insurance Contribution savings from October 1989 to April 1990.

**A CAR BENEFIT SCALE CHARGES AND TAX INCREASES PROPOSED FOR 1989-90
FOR CARS UNDER 4 YEARS OLD**

| Original Market Value | Engine Size | Standard Scale Charge | Tax Increase for 1989/90 (Basic Rate Taxpayer) | | |
|-----------------------------|----------------|-----------------------------|---|--------------------------------|-------------------------------|
| | | | High Business Mileage(2) | Average Business Mileage | Low Business Mileage(3) |
| £ | cc | £ | £ | £ | £ |
| Up to 19,250 | 0-1400 | 1,400 | 43.75 | 87.50 | 131.25 |
| | 1401-2000 | 1,850 | 56.25 | 112.50 | 168.75 |
| | 2001 + | 2,950 | 93.75 | 187.50 | 281.25 |
| 19,251 to 29,000 | All | 3,850 | 118.75 | 237.50 | 356.25 |
| Over 29,000 | All | 6,150 | 193.75 | 387.50 | 581.25 |

**B CAR BENEFIT SCALE CHARGES AND TAX INCREASES PROPOSED FOR 1989-90
FOR CARS OVER 4 YEARS OLD**

| Original Market Value | Engine Size(1) | Standard Scale Charge | Tax Increase for 1989/90 (Basic Rate Taxpayer) | | |
|-----------------------------|-------------------|-----------------------------|---|--------------------------------|-------------------------------|
| | | | High Business Mileage(2) | Average Business Mileage | Low Business Mileage(3) |
| £ | cc | £ | £ | £ | £ |
| Up to 19,250 | 0-1400 | 950 | 31.25 | 62.50 | 93.75 |
| | 1401-2000 | 1,250 | 38.75 | 77.50 | 116.25 |
| | 2001+ | 1,950 | 62.50 | 125.00 | 187.50 |
| 19,251-29,000 | All | 2,600 | 82.50 | 165.00 | 247.50 |
| Over 29,000 | All | 4,100 | 130.00 | 260.00 | 390.00 |

/TABLE C

CAR FUEL SCALE CHARGES IN 1989-90 (UNCHANGED)

| Engine Size(1) cc | Scale Charge(2) £ |
|----------------------|----------------------|
| 0-1400 | 480 |
| 1401-2000 | 600 |
| 2001+ | 900 |

(1) Separate scale charges apply, for both car benefits and fuel, to cars with unconventional engines as follows:-

| <u>Original Market Value</u> | <u>Conventional Car Equivalent</u> |
|------------------------------|------------------------------------|
| less than £6,000 | 0-1400cc |
| £6,000 to £8,499 | 1401-2000cc |
| £8,500 to £19,250 | 2001cc + |

(2) The car scale charges and the car fuel scale charge are reduced by half for a car used for 18,000 or more business miles a year.

(3) The car scale charges, but not the fuel scale charges, are increased by half for a second car or a car used for under 2,500 business miles a year.

NOTES FOR EDITORS

1. The Income and Corporation Taxes Act 1988 contains special rules (in Chapter II, Part V) for taxing benefits and expenses payments provided for directors and employees earning at a rate of £8,500 a year or more, including expenses and benefits. Under these rules the value of the benefit (its "cash equivalent") is added to his income and taxed at the taxpayer's marginal rate.

2. The car scales give the amounts of the "cash equivalents" - the amount on which the employee will pay tax - in respect of the benefit of having a company car available for private use in 1989/90. A typical company motorist (driving a 1600cc car less than 4 years old) will pay about £8.89 a week in tax for the car compared with £6.73 in 1988/89. (A further £2.88 a week will be payable if fuel is provided for private motoring.)

/3. Both the car

3. Both the car and car fuel scales are halved for the motorist who does 18,000 business miles or more in the tax year. The car scale (but not the fuel scale) is increased by 50 per cent if the car is a second company car or is driven for less than 2,500 business miles in the tax year.
 4. The car scales (which were introduced in 1977/78) are reduced pound for pound for contributions which the employee is required to make for the private use of the car. The car fuel scale is reduced to Nil if the employee makes good the cost of all the fuel used for private journeys. Journeys between home and place of work are regarded as private motoring.
 5. Since April 1987, the car fuel scale has been used to assess VAT due on fuel provided out of business resources for private motoring by registered traders and their employees as well as to determine the amount on which income tax is payable on free private fuel for company cars. The Chancellor's decision not to increase the car fuel scale charges in 1989/90 means that they will not have been increased since 1986/87.
-



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB

PHONE: 01-438 6692 OR 6706

[3X]

14 March 1989

CHANGES IN THE TAX TREATMENT OF RELOCATION PAYMENTS TO EMPLOYEES

The Chancellor proposes in his Budget changes to the tax reliefs currently available under two Extra-Statutory Concessions for the expenses of employees who have to move home with their jobs.

These are:

- to provide, on broadly the same basis as the present extra-statutory concession, a statutory relief for removal expenses which employers either pay or reimburse.
- to withdraw relief for additional housing cost payments made by employers for moves to more expensive housing areas.

Subject to certain transitional arrangements, the changes take effect from 6 April 1989.

DETAILS OF THE CHANGES

Background to the Chancellor's proposals

1. The withdrawal of the relief for additional housing cost payments reflects the Chancellor's concern that the relief has tended to reduce market pressures on employers to relocate to areas where housing costs are lower and has contributed to house price increases in already high-priced areas, such as the South East.

2. Tax relief for removal expenses paid by employers for job related moves will, on the other hand, continue to play an important role in encouraging job mobility and job relocation. For this reason the Chancellor believes it should be retained.

/3. The relief for

3. The relief for removal expenses has existed for over 40 years, but many more employees now benefit from it than in earlier years. Consequently, although generally well known, it is no longer appropriate that the relief should continue on an extra-statutory basis. Appropriate provisions will therefore be included in the Finance Bill.

Relief for removal expenses

4. Under the terms of Extra Statutory Concession A5 (a) and (b) employees are not taxed on certain removal expenses which an employer pays or reimburses if they have to change residence either as a result of a job transfer with the existing employer or to take up a new employment. Relief is available only where it would be unreasonable to expect the employee to work at the new location without moving nearer to it and provided the employee has disposed of any interest in the home at the old location.

Finance Bill proposals

5. The Chancellor proposes that these conditions and the reliefs for removal expenses currently available under Extra-Statutory Concession A5 (a) and (b) should be broadly matched in the statutory relief. The detailed provisions in the Finance Bill will take effect in relation to qualifying expenditure paid or reimbursed by employers on or after 6 April 1989.

6. The categories of removal expenses to be covered by the proposed statutory relief are:

- the costs of selling the old, and purchasing the new, home. For example, legal fees, stamp duty, estate agents fees.
- the costs of removing furniture and effects
- travelling and subsistence costs incurred in connection with the move, for example, by employees and their families in finding a home at the new location and the cost of temporary accommodation at the new location before a permanent move.
- bridging loan interest. The relief will remove any beneficial loan charge arising under Section 160 Income and Corporation Taxes Act 1988 in relation to the provision by the employer of cheap or interest free bridging loan finance.
- costs relating to the provision of replacement items such as carpets and curtains which are not suitable for removal to the new home.

/7. In some instances,

7. In some instances, for example in relation to payments in certain limited circumstances for capital losses incurred by employees on their old homes, employers' removal schemes may provide for the reimbursement or payment of costs which tax offices have in the past accepted as within the scope of the concession, but which will not, in future, be covered by the statutory relief. Under transitional arrangements, however, reimbursement of any such costs on or after 6 April 1989 will continue to qualify for extra statutory tax relief provided

- the employee has entered into a commitment to move before 6 April and
- the job in the new location is started before 1 July 1989

8. An employer making payments on or after 6 April 1989 which are not exempt under the proposed statutory relief, or under the transitional arrangements, should deduct tax from them under PAYE. All reimbursed expenses (except those covered by a dispensation) and taxable benefits must continue to be detailed on form P11D after the end of the year. This should include details of any taxable benefits provided indirectly by, for instance, a relocation company.

Withdrawal of relief for additional housing cost payments

9. Extra Statutory Concession A67 exempts from tax certain payments to employees as contributions to the additional housing costs (eg increased mortgage interest or rent) incurred as a result of moving with their jobs to more expensive housing areas. Tax relief is available only when payments are payable for a limited period, reduce year by year and provided that in total they do not exceed a prescribed maximum. The maximum has varied from time to time in line with changes to the amount payable to civil servants under their Additional Housing Costs Allowance. The present maximum, which has applied since 1 February 1989, is £21210.

10. At the Chancellor's request, the Board of Inland Revenue will withdraw this Extra-Statutory Concession for payments made on or after 6 April 1989. Under transitional arrangements, however, tax relief will not be withdrawn from those employees who before 6 April 1989:

- already receive payments qualifying for tax relief under the extra statutory concession.
- have entered into a commitment to move with their jobs to a more expensive housing area provided that the job at the new location is started before 1 July 1989.

11. Payments will only qualify for relief under these transitional arrangements if the conditions of ESC A67, as published in the 1988 edition of the Inland Revenue booklet IRI, are satisfied. However, the limit on the maximum amount payable

/ tax free will no

tax free will no longer be linked to future changes in the maximum payable in the Civil Service. Instead, the tax free limit will be frozen at the limit applying on 6 April 1989. As before, payments to civil servants will be taxed on the same basis as payments to employees generally.

12. Employers should deduct tax under PAYE from payments to employees who commit themselves to moves on or after 6 April 1989, or who do not satisfy the transitional arrangements.

13. Since the present tax relief for additional housing cost payments is an extra-statutory concession, Finance Bill legislation is not required for this change.

14. This change will provide a yield of £5 million in 1989/90 and £30 million in 1990/91. In the longer term, as the transitional relief runs out, the annual yield will build up to about £100 million.

Notes for Editors

1. Full details of both Extra-Statutory Concessions A5 and A67 are available in the 1988 edition of the Inland Revenue's booklet IRI - 'Inland Revenue Extra-Statutory Concessions'. Copies of the booklet are available from the Inland Revenue, Public Enquiry Room, West Wing, Somerset House, London WC2R 1LB.

Compliance Cost Assessment

2. Assessments of the compliance costs of proposals affecting businesses are available. A copy of the Compliance Cost Assessment for this proposal can be obtained from:

Inland Revenue
Deregulation Unit
Room 77
New Wing
Somerset House
London WC2R 1LB



14 MARCH 1989

COMPLIANCE COST ASSESSMENT - CHANGES IN THE TAX TREATMENT
OF RELOCATION PAYMENTS - BUDGET ANNOUNCEMENT ON 14 MARCH
1989

NATURE OF THE REGULATION

1. What is the origin of the regulation - eg EC proposal, UK statute, request for industry/trade/interest group/other?
 - a. The Chancellor proposed in his Budget to withdraw the extra-statutory tax relief for additional housing cost subsidies paid by employers to employees who move to more expensive housing areas.
 - b. The Chancellor also proposes to provide in the Finance Bill a new statutory relief to replace the separate, extra-statutory tax relief for removal expenses incurred by employees who move house with their jobs and which are either reimbursed, or paid for, by employers. The statutory relief will broadly reflect the current concessionary exemption.
2. What is the problem requiring regulation? How severe is it?
 - a. The Government believes that the extra-statutory relief for additional housing cost subsidies has blunted the market forces which should be leading employers to consider relocating to lower cost areas and contributed to house price increases in high-priced areas (eg the South East). It does not believe this is desirable.
 - b. The tax relief for removal expenses is one of the factors which encourages employees to take up jobs, with either new or existing employers, in all parts of the UK - not just those where housing is more expensive. It provides a stimulus for job mobility and the Government believes it should be retained.
 - c. Rather less than 1% of employees move home with their jobs each year and have their removal costs paid for by their employers. The Government believes it is no longer appropriate to continue tax relief for such payments on an extra-statutory basis.

3. What is the existing regulatory provision, if any?

Extra-statutory concessions give taxpayers a reduction in tax liability which is not due under the law. Withdrawal of the concessionary relief for housing costs subsidies will, in practice, restore the charge to tax under Section 19(1) Income and Corporation Taxes Act 1988.

4. Are there alternatives to regulation eg a code of conduct or voluntary agreement? Why have these been rejected?

- a. Since the present tax relief for additional housing cost subsidies is extra-statutory Finance Bill legislation is not required to give effect to its withdrawal.
- b. Legislating the new relief for removal expenses can only be achieved by primary legislation in the Finance Bill.

5. What timetable is proposed for the introduction of the new regulation? Must all measures be introduced at once or can these be introduced over a period?

- a. Withdrawal of the relief for additional housing cost subsidies will take effect in respect of payments made on or after 6 April 1989. But relief will be retained on a transitional basis for employees already in receipt of qualifying payments; and for employees who commit themselves to a move before 6 April and take up their jobs in the new area before 1 July 1989.
- b. The new statutory relief for removal expenses will apply to qualifying expenditure paid for or reimbursed by employers on or after 6 April 1989. The concession will continue to apply up to that date. Employees who, before 6 April 1989 have entered into a commitment to move and start their new jobs by 1 July 1989 will also continue to receive concessionary relief for payments received after 6 April which the Revenue have in the past regarded as within the concession, but which are not covered by the statutory relief.
- c. It is simpler for the Revenue, employers and employees if tax changes are introduced from the start of the tax year.

6. Can the period of operation of the new regulation be limited?

The qualifying period in relation to which the concessionary arrangements will continue to apply on a transitional basis could be reduced, but this is not considered to be desirable. The period of operation of the new statutory relief for removal expenses could only be limited by express legislative provision. This is not contemplated.

7. How will the regulation be enforced? By central government or through local authorities?

By Central Government (Inland Revenue).

8. What specific provisions for small firms have been considered; such as exempting them from the regulation's requirements or other measures?

The changes affect the tax liability of individuals, not businesses. It would be inappropriate to vary tax treatment according to the size of the business for which an employee works. Not all businesses pay for their employees' removal expenses; only a minority of those that do are likely to be small firms.

9. What consultations have there been with business? Are there any concerns raised by business which have not been met? If so what are they?

This is a Budgetary measure and consultation would have been inappropriate.

IMPACT ON BUSINESS

10. Are certain sectors of industry or companies of a certain size likely to be particularly affected by the regulation? Please state the numbers of companies or establishments and employees which will be affected?

These changes affect the tax liability of employees not employers. Under 1% of employees move with their jobs each year and receive assistance from their employers. Many of these are employed by larger employers with business networks throughout the UK, eg banks and insurance companies; building societies; and public sector employers.

11. What will businesses have to do to comply with the regulation? How will this compare with their current practices?

Employers will need to deduct tax under PAYE from those removal payments (primarily additional housing cost subsidies) which after 6 April 1989 are not covered by either the transitional arrangements or the new statutory relief. The statutory relief for removal expenses will be broadly the same as the previous concessionary relief. So if employers retain their existing relocation arrangements most removal expenses will continue to be payable tax free if they were before.

12. What additional resources or work will businesses be faced with in modifying their behaviour to comply with the regulation. What will this cost (a) a typical business and (b) industry as a whole.

The requirement to deduct PAYE after 6 April 1989 from some payments should involve the small number of employers affected in minimal additional compliance costs. Payments affected will need to be added to the end of year return of pay for each employee. All reimbursed expenses (except those covered by a dispensation) and taxable benefits (including those provided indirectly by, for instance, a relocation company) must continue to be included on form P11D after the end of year.

BENEFITS

13. What will be the benefits to the UK economy as a whole, to Government objectives, to consumers, employees, traders or enforcement authorities? This should include tangible benefits eg savings on health and emergency services. Unquantifiable gains in efficiency and intangible benefits should also be mentioned.

Withdrawal of the concession for additional housing cost subsidies will remove a distortion in the market pressures which influence employers' decisions to relocate to cheaper housing areas. The statutory relief for removal expenses will continue to provide a tax-based stimulus for job mobility to all parts of the country.

MONITORING AND EVALUATION

14. What steps are being taken to measure the effectiveness of the new regulation in meeting its objectives? When will the regulations be reviewed?

The legislation for reimbursed removal expenses will largely mirror the concessionary relief it replaces. In practice, therefore, the intended scope of the relief is already well known and established and further specific measurement is unnecessary. The legislation will be reviewed by Ministers as part of the usual Budgetary cycle.



Inland Revenue

Savings and
Investment Division
Somerset House

FROM: MRS E FLETCHER
DATE: 2 MARCH 1989

1. MR CORLETT *2/3*
2. MR ISAAC *2.1*
3. FINANCIAL SECRETARY

PAYROLL GIVING: BUDGET DAY PRESS RELEASE

1. May we have your approval please to the attached Press Release, announcing the doubling of the limit for donations made under the payroll giving scheme?

2. We originally intended to give publicity in the Press Release to various relaxations in administrative arrangements which have been agreed with the approved agencies; but on reflection we do not think that these are appropriate for inclusion in a Budget Press Release. Apart from obscuring the main message - that the limit is to be doubled - the administrative details are of more concern to the agencies, who already know about them, than to the Press and the general public, at whom the Press Release is aimed.

E Fletcher

MRS E FLETCHER

| | | |
|----|-------------------|------------------|
| cc | Chancellor | Sir A Battishill |
| | Paymaster General | Mr Isaac |
| | Mr Phillips | Mr Bush |
| | Mr Scholar | Mr Corlett |
| | Mr Culpin | Mr Stewart |
| | Mrs Chaplin | Mr Davenport |
| | Mr Tyrie | Mr Willmer |
| | Mr Call | Miss Sprowl |
| | | Mrs Fletcher |
| | | PS/IR |



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x]

14 March 1989

PAYROLL GIVING: TAX RELIEF LIMIT TO BE DOUBLED

The Chancellor proposes in his Budget to double the limit on charitable donations qualifying for tax relief under the payroll giving scheme, from £240 a year (£20 a month) to £480 a year (£40 a month).

The increase is designed to:

- encourage new people to join in payroll giving schemes; and
- enable those employees already giving the maximum to give more if they wish.

The new limit will apply from 6 April 1989.

NOTES FOR EDITORS

1. The payroll giving scheme is voluntary for employers and for employees. Over 3400 schemes have been set up by employers and more than 100,000 employees have joined in.
 2. The indications are that in some schemes a significant proportion of new donors are contributing the present maximum.
 3. Briefly the scheme operates as follows -
 - Employers who wish to set up a scheme for their employees enter into a contract with an agency which has been approved by the Inland Revenue.
 - Employees who wish to join the scheme authorise their employer to deduct the gifts from their pay and nominate the charities which they wish to receive their gifts.
 - Employers give their employees tax relief by deducting gifts from pay before calculating the PAYE tax due; then employers pay the gifts over to the agency.
 - The agency acts as a clearing house, distributing the gifts to the individual charities which have been nominated by the employees.
-



Inland Revenue

Oil and Financial Division
Somerset House

FROM: A G NIELD

DATE: 2 MARCH 1989

AG

*This incorporates a few
small changes to the version*

- 1. MR JOHNS *submitted for the last version*
- 1A *Mr Beighton* *4/17 2/3*
- 2. FINANCIAL SECRETARY

may 2/3

LLOYDS STOCK LENDING: BUDGET DAY PRESS RELEASE

I attach a draft Press Release for your approval.

Geoff

GEOFF NIELD

- cc. **PS/Chancellor**
- PS/Chief Secretary
- PS/Economic Secretary
- Mr Odling-Smee
- Mr Culpin
- Mr Gieve
- Mr Tyrie
- Mr Call
- Mrs Chaplin
- Mr Gieve*

- Mr Beighton
- Mr Johns
- Mr Skinner
- Mr Templeman
- Mr Nield
- Mr Calder
- Mr Williams
- Miss McFarlane
- PS/IR.



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x]

14 March 1989

STOCK LENDING: EXTENSION TO LLOYD'S UNDERWRITERS

The Chancellor proposes in his Budget to change the law so that Lloyd's underwriters can be approved to lend stock to market makers without tax penalty.

The change will give Lloyd's members the opportunity to earn fees by stock lending. This will improve the liquidity of the market in some stocks (particularly the gilts market) by providing a new source of stock available for borrowing by market makers.

DETAILS

Stock lending

1. If market makers in securities do not themselves hold enough stock to meet the demands of purchasers they may need to borrow from an institutional holder. They would return equivalent securities to the institution, later.

2. If there were no special rules, the transfer of the securities from the institutional holder to the market maker and the later return of them would be disposals for tax purposes and give rise to a capital gains tax charge (or a corporation tax charge on profits in the case of a financial trader). However, the Board of Inland Revenue may approve arrangements for lending stock under which the transfers are ignored for capital gains tax and corporation tax on profits.

Application to Lloyd's

3. It has not, hitherto, been possible to approve arrangements in which Lloyd's underwriters lend stock to market makers. This is because of the way the present tax rules apply to their capital gains tax and accrued income scheme liabilities. Under these rules, to match the

/administrative arrangements

administrative arrangements of Lloyd's, all securities held by a syndicate in a premiums trust fund are treated for the purposes of capital gains tax and the accrued income scheme as disposed of at the end of each accounting period (the calendar year). But stock which had been lent to a market maker would no longer itself be held in the premiums trust fund and would therefore be outside this deemed disposal for capital gains tax and accrued income scheme. If arrangements for stock lending were approved the rules for calculating gains on stock lent out over the end of the year would not work properly.

4. The Chancellor therefore proposes to include stock lent under approved lending arrangements within the deemed disposal rules for Lloyd's underwriters. There will be no charge on the stock when it is lent or returned but there will be a charge on it at the end of the year. Any fee received by the underwriter will be taxable. This will enable stock lending arrangements involving Lloyd's to be approved which will in turn make it possible for Lloyd's underwriters to take part in stock lending business.

5. The mechanism under which the Board of Inland Revenue can approve arrangements for stock lending will shortly be formalised by regulations to be made under powers contained in Section 61 of the Finance Act 1986. The Board will be able to consider applications to approve lending arrangements by Lloyd's when the regulations have been made. The new rules proposed by the Chancellor will then apply to stock which is on loan under approved arrangements at the end of the 1989 and subsequent underwriting years.

6. The Chancellor also proposes to make a couple of minor changes in the legislation empowering the Inland Revenue to make regulations about the administrative arrangements for taxing Lloyd's, so as to enable them to achieve their originally intended effects.



Inland Revenue

The Board Room
Somerset House
London WC2R 1LB

*Many thanks.
I am content with this approach.
I agree with the suggested proposals.
I accept X (para 5)
I can confirm the assumption in para 6.
Grateful if you will post-proceed along these lines, with FST as a no loss.*

Copy No 1 of 4

FROM: A J G ISAAC
2 March 1989

CHANCELLOR OF THE EXCHEQUER

BUDGET: STAMP DUTY

1. I promised to let you have this further note, when I had had a chance to talk with the experts here.

2. I can now confirm the proposal that I floated last night. That is:

- We should (as previously envisaged) take regulation-making powers in the 1989 Finance Bill.
- These should (as before) cover both the removal of double taxation and collection/compliance powers, but will not be able to deal with the black holes.
- They should (again) be presented as an interim measure with a limited shelf life. It would be for consideration whether a statutory time limit should be built in, so that the Regulations would expire on 5 August 1990 (the latest date for Royal Assent to the 1990 Finance Bill).

cc Mr Culpin

Sir A Battishill
Mr Isaac
Mr Corlett
Miss Hill
PSTIR

3. There are likely to be a few rough edges. It is one thing to use temporary regulation-making powers to "bridge" the gap before abolition of the duty. It is another and a little more difficult thing to use such powers to bridge the gap before substantive legislation, to perpetuate the duty. We may have to face marginal problems in the way of black holes (on the one hand) and ESCs (on the other). On some aspects (I return to this in a moment) we may need quite firm Ministerial support. But we believe the thing can be done.

4. As I said yesterday evening, the presentation would need some care. Our first thoughts are that you would not need (or want) to say anything in the Budget Statement itself, but that a low-key Budget day press release might be advisable to explain the need for a Resolution permitting the inclusion in the Bill of Regulation-making powers. The line might be that it is no more than a commonsense business-like approach to use temporary regulation; to "bridge" the period until the 1990 Finance Bill.
Thus:

- it would be premature to ask Parliament to consider legislation at a time when neither Government nor Parliament itself can know the shape of the new Stock Exchange systems with which it will need to deal;
- and indeed any such legislation, passed at this stage, carries a risk that it might unnecessarily constrain the development of the Stock Exchange's systems, and prevent them developing in the most efficient and cheapest way;
- and the rules for the half-way houses, such as the pilots and semi-paperless systems, will probably need to be different from those appropriate to the eventual permanent dematerialised system.

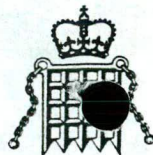
5. I mentioned that the decision would have a resource cost. We were looking to save some 70 staff from abolition - with perhaps a further bonus coming from the restructuring of Stamps Branch. We shall now have to plan for an increased staff requirement. The crucial issue here will be how to enforce payment of tax on potentially very large numbers of small share transactions not passed through the central system. To keep our costs down to any manageable size, we shall need to fix liability to account for tax on the Stock Exchange itself, or on those "players" fairly high in the chain, and not on hundreds of thousands of small shareholders. We shall do our best to reach agreement with the markets on a system that makes sense for everyone; but I fear that the thing may in the final event need an input at the political level (if only because it may have implications for the final TAURUS timetable).

6. One final point. We are assuming that you still propose to go ahead with abolition of life assurance stamp duty, as part of the life assurance package. But this is a freestanding issue, which you can decide one way or the other as you think best.

cler.

A J G ISAAC

RA/65
89



H.M. CUSTOMS AND EXCISE
DEPARTMENTAL PLANNING UNIT
NEW KING'S BEAM HOUSE, 22 UPPER GROUND
LONDON SG1 9PJ
01-620 1313

FROM: P R H ALLEN
Departmental Planning Unit

DATE: 2 March 1989

PS/ECONOMIC SECRETARY

PRESS NOTICE FOR RELEASE ON BUDGET DAY

I attach a further press notice to be released on Budget Day, covering the use of unleaded petrol in Customs and Excise official cars.

Although this press notice will not form part of the package of Budget press notices, we felt that it should be released on Budget Day itself, because of the obvious link with the Chancellor's proposals on unleaded petrol.

I would be grateful for the Minister's approval by close on Monday, 6 March.

P R H ALLEN

Circulation:

PS/Chancellor
Mr Culpin
Mr Gieve
Mr Michie

CPS
Ms French
Miss Davenport

No 13/89

14 March 1989

CUSTOMS & EXCISE TO USE UNLEADED PETROL IN OFFICIAL CARS

HM Customs & Excise, the Department responsible for collecting taxes on fuel, will use unleaded petrol in its vehicles wherever possible, Mr Brian Unwin, Chairman of Customs and Excise, announced today.

"There are strong reasons in favour of the use of unleaded petrol. There is less risk of damage to the environment and it is right that the Department should encourage the use of this fuel whenever possible. There will also be savings now that the price of unleaded petrol is significantly cheaper than leaded fuel," he said.

"I have therefore decided that wherever possible Customs & Excise will in future purchase cars that will run on unleaded petrol. Many vehicles have already been adjusted so that they can run on unleaded fuel and wherever practicable these adjustments will continue to be carried out. Some older cars cannot be adjusted but these are generally going to be replaced in the next 2/3 years."

BACKGROUND NOTE

In the 1988 Budget the tax differential between leaded and unleaded petrol was increased to over 2p a litre (nearly 11p a gallon). The Chancellor today proposed a further increase in the tax differential to over 3p a litre (over 14p a gallon). This should increase the price differential at the pump from over 1p a litre (6p a gallon) to around 2p a litre (nearly 10p a gallon).

**ISSUED BY: HM CUSTOMS AND EXCISE, PRESS AND INFORMATION OFFICE
NEW KING'S BEAM HOUSE, 22 UPPER GROUND, LONDON SE1 9PJ**

TELEPHONE: 01 382 5468/5469/5471



VAT ADMINISTRATION DIVISION G
H.M. CUSTOMS AND EXCISE
NEW KING'S BEAM HOUSE, 22 UPPER GROUND
LONDON SE1 9PJ
01-620 1313 Extn 5387

Proposed in to P3/135

Economic Secretary

From: D E Barrett
Date: 2 March 1989

*1 Jan ✓
unsubsid X
of them ✓
for ✓
or about,
it will be
simple matter
to put a limit
on.*

CHARITY FUND-RAISING EVENTS: VAT EXEMPTION

The minutes of the Chancellor's meeting on 23 January recorded decisions on a package of Budget VAT measures for charities, and in particular on an exemption for fund-raising events for charities and certain other non-profit-making bodies. The Chancellor invited Customs to consider whether any overall turnover limit was necessary for this relief.

Our original recommendation of a turnover limit (of 10 times the VAT registration limit) was due to caution rather than to any specific evidence of likely abuse or revenue loss. This is a new relief; to introduce it without any kind of turnover limit would place a great deal of weight on the definition of the term 'event', and there is a danger that 'events' might become so frequent or so commercial that ordinary commercial operators might justifiably complain about distortion of trade.

On the other hand, it cannot be denied that having no turnover limit has its advantages. It means that large scale events like the Live Aid concert can benefit from VAT relief without the administrative complications of having to specify an 'donation' element in ticket prices. It is also more equitable as between charities who keep a tight central control over fund-raising events and those who leave fund-raising to autonomous local branches (each of whom can claim relief for events up to the turnover limit).

- cc **Chancellor**
- Mr Culpin
- Mr Gilhooly
- Mr Michie
- Mr Call

- CPS
- Mr Jefferson Smith
- Mr Wilmott
- Mr Allen
- Mr Holloway
- Mr Monk
- Mr Garcia

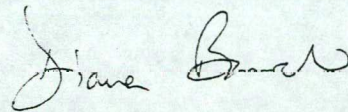
Presentationally the advantage appears to lie in having some overall limit on the relief.

The Charities VAT and Tax Reform Group expect one (and they will regard the figure of 10 times the registration limit, which was suggested in their Budget representations, as a distinct advance on the proposal of double the limit which we put forward in our original working discussions with them). A set limit also leaves open the opportunity for further concessions in future Budgets, whereas, if all is given away now and there subsequently proves to be abuse, the problem of legislating to tackle it will be considerably more difficult.

To sum up, our preference remains is for the turnover limit we originally recommended. There are, however, good arguments for having no limit, and it is an arrangement we believe we could probably live with.

I am sorry not to have put forward this submission before but we had interpreted what was said at the Chancellor's meeting as an instruction to prepare legislation which contained no overall turnover limit. It is not too late to rectify this, but I am afraid that, because of the exigencies of the printing timetable for Budget publicity material, we must have a decision by lunch-time tomorrow. I am very sorry for the short notice.

[Why? My minutes
"Charities (iii)" behind are
perfectly clear!]



D E BARRETT



Inland Revenue

Savings and
Investment Division
Somerset House

FROM: R GOLDING
DATE: 3 MARCH 1989

- 1. MR CORLETT *10/56*
- 2. MR ISAAC *3/3*
- 3. FINANCIAL SECRETARY

Blk
Smith
Prindle

TRUSTS (STARTER 118): PRESS RELEASE

- 1. On 6 February you agreed that there should be legislation in the 1989 Finance Bill to stop outright gifts between husband and wife being caught by the Settlements Legislation. You also authorised certain other changes to that legislation, which are intended to harmonise it with the introduction of Independent Taxation and last year's removal of the tax advantages of non-charitable covenants.
- 2. I attach, for your approval, a draft Budget Day Press Release on these topics.

R Golding

R GOLDING

cc Chancellor
 Chief Secretary
 Paymaster General
 Economic Secretary
 Mr Culpin
 Mr Gilhooly
 Mr J Dixon
 Mrs Chaplin
 Mr Tyrie
 Mr Jenkins (OPC)
 R GIEVE

Mr Battishill
 Mr Isaac
 Mr Painter
 Mr Corlett
 Mr Lewis
 Mr Bush
 Mr Davenport
 Mr Stewart
 Mr Mace
 Mr Denton
 Miss McFarlane
 Mr Golding
 PS/IR



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB

PHONE: 01-438 6692 OR 6706

[3x]

14 March 1989

INCOME TAX: GIFTS BETWEEN HUSBAND AND WIFE AND OTHER SETTLEMENTS

The Chancellor proposes in his Budget to make changes in the income tax rules for gifts between husband and wife and for some other settlements. These follow the personal tax reforms in last year's Budget. They will make the rules for settlements operate in a way which is consistent with the Government's objectives for Independent Taxation of husband and wife and with the removal of tax advantages from non-charitable covenants.

The changes will ensure that when Independent Taxation begins in April 1990 income from simple outright gifts of assets between husband and wife and certain pensions allocated between them will be taxed as the income of the recipient, and not as the income of the person making the gift or allocation.

There will also be a change in the income tax treatment of some trusts where the person who made the trust, or the husband or wife of that person, is able to benefit from the trust income or capital. Beneficiaries of the trusts affected will not be able to claim repayment of the basic rate tax suffered by the trustees. This will stop trusts being used to obtain the tax advantages which are no longer available through covenants. The change will take effect immediately for trusts made on or after today. Some existing trusts will be affected when Independent Taxation begins.

DETAIL

Transfers between husband and wife

1. Under Independent Taxation the income arising from a gift of an asset between husband and wife will be treated as the recipient's for tax purposes only if it is an unconditional gift of both the asset and the income arising from it. The income will generally be treated as the donor's for tax purposes if, for example:-

- the donor has the right to get the asset back in the future, or to decide what the recipient should do with it; or

- the donor uses a trust to give the income to his or her partner while retaining control over the capital, or passing the capital to a third party.

Allocation of pensions

2. Some statutory pension schemes allow a pensioner to give up part of his or her pension so that a pension can be paid to the pensioner's husband or wife before the death of the pensioner. The proposal ensures that the allocated pension will be treated as the partner's income under Independent Taxation.

Trusts

3. The proposals on trusts will alter the effect of Section 683 Income and Corporation Taxes Act 1988. At present income to which that section applies is treated as the income of the person making the trust (the settlor) only for higher rate. For basic rate the income continues to be treated as belonging to the beneficiary to whom it is paid. If that beneficiary has unused personal allowances to set against that income, he or she can reclaim basic rate tax suffered by the trustees.

4. The present rules allow trusts to be used to obtain the tax advantages that used to be available through non-charitable covenants. For example, a parent can make a trust under which the income is paid to a student child and the capital passes back to the parent at the end of the student's education. The trustees pay basic rate tax on the trust income. If the student has unused personal allowances he can claim back the tax paid by the trustees. Under Independent Taxation, trusts could be used in a similar way to take advantage of the unused personal allowances of a husband or wife.

5. The Chancellor's proposal will remove that advantage by treating such trust income as the settlor's for all tax purposes. Most income from trusts where the settlor, or the husband or wife of the settlor, is able to benefit from the income or capital is already treated in that way.

6. For trusts made on or after today the change will take effect immediately. Existing trusts will only be affected by the proposal if trust income goes to the husband or wife of the settlor. In those cases the new rules will apply to that income when Independent Taxation is introduced in 1990-91.

NOTES FOR EDITORS

During the debates on last year's Finance Bill, the Financial Secretary promised to look at the provisions relating to settlements in the light of the planned introduction of Independent Taxation and the ending of tax relief on most non-charitable covenants.



Inland Revenue

Capital and
Valuation Division
Somerset House

FROM: L E JAUNDOO

DATE: 3 MARCH 1989

1. MR PITTS *DP 3/3*
2. MR PAINTER *DP 3/3*
3. FINANCIAL SECRETARY

BUDGET DAY PRESS RELEASE - INHERITANCE TAX

1. I attach a draft press release covering the inheritance tax changes to the threshold and the instruments of variation rules.
2. I would be grateful for your approval of the draft.

L E JAUNDOO

cc Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Mr Scholar
Mr Culpin
Mr Gilhooly
Mr Riley
Mrs Chaplin
Mr Tyrie
Mr Gieve

Mr Painter
Mr Pitts
Mr Bush
Mr Calder
Mr Gonzalez
Mr Thompson
Mr Jaundoo
Mrs Evans
Mr Ashcroft
Mr Denton
Mr Willmer
PS/IR