

PO-CH/NL/0492  
PART A

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PART. A

**SECRET**

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1989 BUDGET  
FINANCE BILL

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REGISTRY SYSTEM

PO CH/NL/0492  
PART. A



Inland Revenue

Policy Division  
Somerset House

*Handwritten notes:*  
Autumn's Main Points.  
I have given a margin of para 28.  
No split on salary count down again  
v. Gov. to scheme (a) because it would  
& universal provision that self-employed  
60 yr olds worse than those in work  
in all-employee scheme  
Re X, I think it  
will do to be difficult  
to put in the non-employee  
of relief to all-employee  
scheme via insurance.  
Mr.

COPY NO 1 OF 15.  
FROM: P LEWIS  
EXT: 6371  
DATE: 22 JULY 1988

CHANCELLOR

NHS REVIEW: TAX RELIEFS

1. In working up the tax package for the Autumn announcements we will need Ministers' guidance on a number of points. This note discusses

- how the rules should apply to those people who may be within the scope of both reliefs ie people over 60 who are in employment
- at what rate relief should be given under the two schemes
- how the "similar terms" condition for the benefits relief should work
- how the "all employee" condition should apply to groups.

It would be helpful to have at least preliminary views on these points before the holidays.

2. Later notes will need to cover other points. Two we have already identified are the possible extension of relief to employers who provide medical benefits other than through insurance, and the starting date (or dates).

cc Chief Secretary  
Financial Secretary  
Sir P Middleton  
Mr H Phillips  
Mr R Culpin

Chairman  
Mr Isaac  
Mr Painter  
Mr Corlett  
Mr Lewis  
Mr Kuczys  
Mrs Marshall  
Mr Evershed

PSLR

*Handwritten notes on green sticker:*  
LEWIS  
→  
CHB  
22/7

Interaction between the two reliefs

3. You have decided that there should be two routes to tax relief

- premiums paid by (or for) the over 60s (through a MIRAS type arrangement)
- premiums paid for employees covered by "all employee" company schemes (through a benefits-in-kind exemption)

4. It follows that

- anyone over 60 and not in employment can have access only to the "over 60s" scheme
- anyone under 60 and in employment can have access only to the "all employee" scheme.

5. For someone over 60 in employment the position is a little more complicated. Clearly he can be in either scheme - either paying premiums himself or by working for a company which has a qualifying "all employee" scheme. That causes no problems. But there are other circumstances in which the question arises of whether relief should be given, and if so, how much.

6. An employee over 60

- may be in an employer scheme which insures him under a "qualifying policy", but which is not eligible for relief because it is not an "all employee" scheme
- may be in a (rather restricted) "all employee" scheme, but his employer provides him with extra medical insurance cover, still within the qualifying rules  
*(over 60s)*
- may enter into an "over 60s" qualifying policy, but instead of paying the premium himself, the company pays it for him

- may pay contributions to his employer to obtain extra cover for himself, or cover for his wife, again within the qualifying rules.

7. In the first three cases there would normally be a benefits-in-kind charge on the employee. But it would seem reasonable to regard them as within the concept of the "over 60s" relief and to give relief against the benefits charge accordingly.\* Similarly, the last case, there is a good argument that "over 60s" relief should be given where the employee pays for qualifying insurance via his employer.

8. Since the rationale of relief in these cases would be that they are within the concept of the "over 60s" relief, it would seem to follow that they should get relief at the rate applicable to the "over 60s" scheme rather than to the "all employee" scheme. This point is discussed in more detail in paragraph 17.

#### Rate of relief

9. There are good arguments for restricting a relief applying only to the elderly to the basic rate. But a basic rate relief for employer schemes would be troublesome and inefficient for employers, employees and the Revenue alike. Now that we are to have both reliefs, the question arises of the rate at which they should be given.

\* The position is a little more complicated where an employer helps an over 60 employee with his own qualifying premium. He may either pay it on the employee's behalf, or reimburse the cost if he pays it himself. Employers will be outside the MIRAS arrangements because they will already get tax relief for their own premium payments as a business expense in the normal way. So if the employer pays the employee's premium he will pay it gross and tax relief would be given by exempting the employee from the corresponding benefits charge. That is the position envisaged in paragraph 6. But if the employee pays the net premium, and the employer then reimburses his net expenditure, there will be no exemption for the employee because tax relief would already have been given (by deduction) and the employee in effect simply receives additional cash pay. There would be double relief if that benefit were exempted.

10. The options are

- basic rate for both the reliefs
- marginal rate for both the reliefs
- basic rate for the elderly and marginal rate for the company schemes.

a. Basic rate relief

11. If relief were restricted to the basic rate then the MIRAS scheme would take care of the elderly and other individuals paying premiums in respect of the over 60s. But on the benefits side it would mean that we would continue to need to receive from employers full P11D returns even where there was an "all employee" scheme in place (or the employer paid premiums for over 60s) to enable us to identify higher rate taxpayers and to collect from them tax at (presently) 15% on the value of their medical benefits.

12. In these deregulation/efficiency conscious days, the compliance costs for employers, employees and the Revenue are likely to seem quite disproportionate to the tax yield. That is not likely to be more than about £3m. Employers would be likely to react particularly strongly since the P11D system is already widely regarded as a significant burden.

b. Marginal rate relief

13. If you give relief at marginal rates, all the compliance/administrative difficulties on the benefits side disappear. There would then be a complete exemption so where employers had a qualifying "all employee" scheme there would be no need to return exempt medical benefits, and no action for the tax office to take on those cases. This would mean employers would no longer have to return, and we would no longer have to consider, about 250,000 medical benefit cases (assuming no extra taxable medical benefits were provided in those cases - see paragraph 23).

14. But on the relief for the elderly, there would, of course, be additional work to do in giving higher rate relief, individually, to those higher rate taxpayers paying qualifying premiums. In addition, there are the general policy arguments against higher rate relief for the elderly previously identified

- worse "value for money" since a relatively high proportion of the high income elderly are already insured
- anti-avoidance provisions would be needed (if feasible) to prevent relief to low income elderly being channelled through high income children
- danger of the measure appearing to be another "perk" for high income people who had already done well from the Budget.

c. Different rates

15. The third option would be to go for basic rate relief for premiums paid under over 60s schemes and for marginal rate relief for employer schemes. That would have all the advantages administratively, would be less costly (in revenue and staff) than giving higher rate relief across the board, and would avoid the policy disadvantages of higher rate relief for the elderly.

16. How could this at first sight odd approach be justified? Clearly the compliance and administrative arguments are important. More generally it might be argued that the intention in both cases is to encourage the spread of private health provision at all income levels, not just among those who are already very well off - partly to get maximum value for money and partly to avoid the impression that this is a further "perk" for those who have already seen large tax reductions this year. For employers, this is the justification for the "all employee" rule. For the over 60s, it is the reason for holding relief to the basic rate. The techniques are different because the

practicalities (for employers as well as the Inland Revenue) are different. But the objectives are consistent.

#### Employer "over 60" cases

17. The discussion above largely ignores the group of cases mentioned in paragraph 6 in which qualifying insurance is provided for employees over 60 by the employer in various ways which are outside an "all employee" scheme. It was suggested (paragraph 7) that in principle they should qualify for relief at the "over 60s" rate. That would cause no problem if you went for option b - relief at the marginal rate - because these benefits would then simply be exempt.

18. But both the other options give only basic rate relief for the "over 60s"; and the result would be that higher rate taxpayers would be left with the residual (15%) charge on their benefits. Although the numbers would be fairly small, raising these charges would be troublesome for all concerned. If you went for option c - the split rate - this could be avoided by letting the relief follow the "all employee" rate rather than the "over 60s" rate. This might be justified on the broad grounds that one rate of relief applied in all cases where the employer was involved; and another where it was a question of individual insurance.

#### Summary of the Options

19. The following table summarises broad estimates of the revenue costs and the staff costs of the three options. None of these figures makes any allowance for behavioural changes.



<u>Revenue cost</u> (£m 1988/89)					<u>Employer</u>	<u>Staff</u>
	Individuals	All	Individuals	Total	<u>compliance</u>	<u>cost</u>
	60+ paying own insurance	employee schemes	60+: Employer insurance/ employee contributions (para 6 cases)	rounded		
All relief at basic rate	25	18	6	50	[Bad]	+15
All relief at higher rate	31	20	8	60	[Good]	+10
Elderly at basic rate/ employer schemes at higher rate	25	20	8	<del>50</del> <sup>55</sup>	[Good]	- 5

20. Although it seems at first sight somewhat unconventional, we see considerable advantages in a split rate scheme (coupled with giving relief in the paragraph 6 cases at the "all employee" rate). Otherwise, our preference would be for giving both reliefs at marginal rate rather than restricting both reliefs to basic rate.

#### Similar terms

21. As you will recall, the share scheme reliefs and PRP have the concept that all employees within a qualifying scheme must be given benefits on "similar terms". It is not possible to gain tax relief for schemes which in substance give the lion's share of the benefits to the directors and senior management by giving some minimal benefits to all the other employees.

22. This can be a less than straightforward concept. For example, in the share scheme legislation there are good management reasons why variations are allowed to take account of

differing levels of remuneration and length of service. And in some proposals discussed earlier this year (to make "executive" share option schemes conditional on there being an "all employee" share scheme) we considered with Ministers the additional problem of deciding what degree of generosity in practice with an all employee scheme would justify a particular level of share option grant under an executive scheme. But here, the basic concept seems much simpler. Are all employees covered by a "qualifying" health insurance policy giving the same benefits to all of them?

23. In practice, for a variety of reasons, some employers are likely to want to provide - or continue to provide - a better level of cover for senior people, and possibly other groups. There may be good reasons why they should in some cases go well beyond the level of qualifying provision which they decide is sensible for employees generally, and there is no obvious justification for trying to stop employers continuing to do this in the future. It would, therefore, be unreasonably restrictive to interpret the "similar terms" approach as meaning that no-one could have tax relief if everyone did not get precisely the same benefit. We think the best answer would be to allow exemption for the cost of the level of medical insurance which is provided to all employees, and to continue to tax the extra cost in any cases where better cover or more extensive cover (eg for the family) is provided. This would give employers maximum flexibility, would encourage the widest spread of private health insurance, and would avoid tax offices having to judge how much difference was permissible in the treatment of different employees.

24. We also need to give further thought to whether the employer might exclude (if he wished to do so) certain types of employee from "all employee" schemes, for example, part-timers, casuals and, for a period, new recruits. (There are let-outs of this kind in the PRP relief.) But we do not anticipate any particular difficulty on this point.

Groups

25. Where - as will frequently be the case - a business operates through a number of separate companies, the "all employee" approach would enable one company in a group to bring in a scheme and to qualify for tax relief, whether or not the others did so. There seems no objection to this, and indeed it would be very restrictive if the whole of (the UK members of) a group had to have a scheme before any of the constituent companies could qualify.

26. But we do need to look at the group as a whole in guarding against the creation of "baby syndicates" ie companies in which groups provide directorships and other posts for favoured senior employees. These would count as a separate employer for the purposes of the "all employee" scheme and would thus enable them, if nothing else were done, to gain tax relief on an "all employee" basis without giving similar benefits to any of the rest of the workforce. Any such cases would soon bring the whole relief into disrepute.

27. We think the solution probably lies in adapting provisions which are already used in the share scheme legislation which disqualify schemes if their effect would be to give benefits wholly or mainly to directors (of the group) or employees of group companies who receive the higher or highest levels of remuneration.

Points for decision

28. (a) Do you agree that relief should be given in the four types of case in paragraph 6 where either the employer gives an over 60 employee help with qualifying medical insurance (but outside an "all employee" scheme) or the employee contributes via his employer to qualifying insurance?

(b) Should the rate of tax relief be:

i. marginal rate for benefits and basic rate for the elderly?

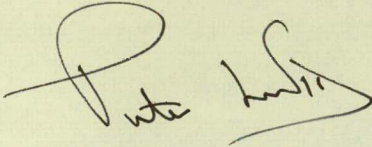
*yes* ii. marginal rate throughout?

*no* iii. basic rate throughout?

*n.a.* (c) If you favour split rates ((b)(i)), do you agree that the cases in paragraph 6 should get relief at marginal rate to avoid having to assess higher rate taxpayers at 15% on their benefits? (This point does not arise if you favour b(ii) or (iii)).

*yes* (d) Where basic insurance cover is provided for all employees, but the higher paid get better/more extensive cover, do you agree that the cost of everyone's basic cover should qualify for relief, but the extra cost of the better/more extensive cover should continue to be taxable?

*yes* (e) Are you content with the approach to groups outlined in paragraph 27?



P LEWIS



FROM: J M G TAYLOR

DATE: 25 July 1988

*JMG*  
*BF to*  
*M*  
*5/9*

MR LEWIS - Inland Revenue

cc Chief Secretary  
Financial Secretary  
Sir P Middleton  
Mr R Culpin

Mr Battishill - IR  
Mr Isaac - IR  
Mr Painter - IR  
Mr Corlett - IR  
Mr Kuczys - IR  
Mrs Marshall - IR  
Mr Evershed - IR  
PS/IR

**NHS REVIEW: TAX RELIEFS**

The Chancellor was most grateful for your minute of 22 July. His answers to your "points for decision" are:

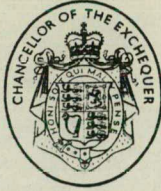
- he agrees that relief should be given in the four types of case in your paragraph 6, where either the employer gives an over 60 employee help with qualifying medical insurance (but outside an "all employee" scheme) or the employee contributes via his employer to qualifying insurance;
- the rate of tax relief should be the marginal rate throughout;
- he agrees that, where basic insurance cover is provided for all employees but the higher paid get better/more extensive cover, the cost of everyone's basic cover should qualify for relief, but the extra cost of the better/more extensive cover should continue to be taxable;
- he is content with the approach to groups outlined in paragraph 27.

*JMG*  
*Lewis*  
*25/7*

He has commented that he has, on balance, come down against the split scheme:

- (a) because it is not very easy to present; and

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(b) because it would unnecessarily treat self-employed 60 year olds worse than those in all-employee schemes.

2. He has noted that you have already identified the possible extension of relief to employers who provide medical benefits other than through insurance ~~as~~ another point to be looked at. He has commented that he thinks it would be difficult to justify not extending relief to all-employee schemes not provided via insurance.

A handwritten signature, likely of J. M. G. Taylor, consisting of stylized initials.

J M G TAYLOR



*MP*  
*P/IKG/1*

FROM: R C M SATCHWELL

DATE: 31 August 1988

MR HUTTON - IR

cc PS/Chancellor  
PS/Chief Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Mr Scholar  
Mr Cropper

PS/IR

PROTECTION OF TAXPAYER INFORMATION AFTER REFORM OF  
SECTION 2 OF THE OFFICIAL SECRETS ACT 1911

The Financial Secretary was grateful for your minute of 23 August. He is content for you to begin the work outlined in paragraph 5 of your minute.

*R.C.M.S.*

R C M SATCHWELL  
Private Secretary

BEST  
HUTTON  
3/8

*BF 26/8*



INLAND REVENUE  
MANAGEMENT DIVISION  
SOMERSET HOUSE

FROM: R A HUTTON  
23 AUGUST 1988

- 1. MR P B G JONES
- 2. FINANCIAL SECRETARY

*y.  
24/8/88*

*Did P.B.G. ever  
respond?*

*M.*

**PROTECTION OF TAXPAYER INFORMATION AFTER REFORM OF  
SECTION 2 OFFICIAL SECRETS ACT 1911**

1. The White Paper on Reform of the Official Secrets Act introduced into Parliament by the Home Secretary on the 29 June has implications for Revenue taxpayer information. It proposes to limit the protection of the Official Secrets Acts to information relating to National Security and Intelligence, Defence and International Relations and information received in confidence from other Governments or international organisations. Information received in confidence from companies and individuals would be excluded, as in the main the Civil Service disciplinary code should provide adequate sanction against unauthorised disclosure. But if in certain instances this would not offer enough of a deterrent specific legislation should be considered. The White Paper makes particular reference in this context to information supplied to the Revenue authorities.

cc PS/Chancellor  
PS/Chief Secretary  
PS/Paymaster General  
Mr Scholar  
Mr Cropper

Chairman  
Mr Isaac  
Mr Rogers  
Mr Painter  
Mr Beighton  
Mr Fallows  
Mr Miller  
Mr Jones  
PS/IR  
*Mr Hutton*

*Hutton  
FST  
23/8*



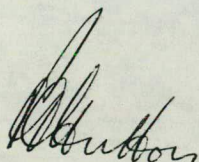
2. We have been consulted throughout in the discussions leading up to the production of the White Paper and the reference to our particular interest springs from our concern to ensure that we will be able to maintain, and where necessary enforce, the confidentiality of information supplied by taxpayers. That we should be able to do so is not only of vital importance to us but has long received wide public acceptance. The Franks Committee concluded there is no argument about the need to protect information of this sort and expressed the view there are proper reasons for maintaining the protection of criminal sanctions. People have a right to expect their confidence to be safeguarded when information is given willingly and frankly on the assurance it will be kept confidential. Operationally the day-to-day work of the Revenue depends crucially upon the co-operation of the general public. They supply information about their private financial circumstances confident in the knowledge the Department will use it solely for Revenue purposes and not disclose it to any other body or person for any other purpose. As long as this level of co-operation exists, most of the information we hold is supplied voluntarily. If the public was to lose confidence in our ability to maintain proper standards of confidentiality and we had to fall back on statutory powers to obtain information, operation of the tax system would be laborious and very seriously impaired.

3. While in reality the scrupulous and almost universal observance of their confidentiality obligation by Revenue officers has more to do with traditional values than with the threat posed by Section 2 of the Official Secrets Act, it could well be perceived by the taxpayer that his protection would be gone were Section 2 to be removed and nothing put in its place to protect his interests. We are

in no doubt that if public confidence in the status of Revenue standards of confidentiality is to be preserved we must have the means to enforce it. The public interest in maintaining it is so important that the sanction available to us must provide an effective deterrent to cover the truly bad case where civil service disciplinary measures are either inapplicable or not sufficiently severe.

4. Our interest is of course shared also by our colleagues in Customs and Excise. Jointly we believe that consideration should be given to the introduction of legislation via a Finance Act that will provide for a criminal offence to be committed if confidential taxpayer information is wrongfully disclosed by Revenue employees, etc. The measure would be concerned specifically with information about an individual taxpayer's private affairs. We should not be seeking the protection of the criminal law for policy or management discussions (including Budget matters). To spread our net that wide would we believe be contrary to the philosophy outlined in the White Paper.

5. The purpose of this note is to seek your approval for work to begin, in consultation as necessary with Customs and Excise, to draw up detailed proposals for the necessary legislation. We understand that it is intended to put the legislation for reform of the Official Secrets Act before Parliament this Autumn. Subject to what emerges from debate on that front we would anticipate that the measure to protect Revenue information should be a candidate for the starters list for Finance Bill 1989.



R A HUTTON

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FROM: IAN RICH  
 DATE: 17 November 1988

1. ~~MISS O'MARA~~ *WTR*  
 2. ECONOMIC SECRETARY

cc Chancellor  
 Sir P Middleton  
 Sir G Littler  
 Mr Scholar  
 Mr Peretz  
 Mrs Brown  
 Mr Grice  
 Mr Bent  
 Miss Anderson  
 Mrs Chaplin  
 Mr Patterson (DNS)  
 File: NSNL EH7

*I was initially strongly in favour of removing the upper tier interest rate but have been persuaded that the probable staffing implications rule it out for 1989. The last thing we want is to jeopardise the launch of the Capital Fund. We await your reactions to the wider question of the future of the Ordinary Account before considering whether more radical action is required on terms next 1989*  
*non 17/11*

### NATIONAL SAVINGS: TERMS FOR THE ORDINARY ACCOUNT IN 1989

#### Introduction

*below, separately*

1. Miss O'Mara's submission of 17 November reports that we can no longer expect to make a quick approach to a privatised Girobank about purchasing the Ordinary Account, and lists other options. Even if a buyer can be found, it seems likely to take at least 2-3 years before the legislation and other processes are completed.

2. In the meantime we need to decide and announce as soon as possible the terms which are to apply to the Ordinary Account in 1989. Conventionally, we set terms for a full calendar year. This submission, which has been agreed with the DNS, sets out options and makes recommendations.

#### Present position

3. Since 1983, Ordinary Account has been in managed decline. Staff numbers have been reduced from 2400 to 1850 (23%), through new technology and increased efficiency; and the number of transactions has been reduced from nearly 39 million to under 31 million (21%). However, Ordinary Account has not shown a

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significant net outflow, because accrued interest has largely offset the withdrawals. The total stock has been reduced by only 5% from £1.76 billion to £1.67 billion.

4. The annual cost of maintaining the Ordinary Account is about £150 million (9% of existing stock). The elements are:

- (a) interest - about £67 million (4% of existing stock);
- (b) tax forgone - £15 to £20 million (1% of existing stock);
- (c) administration (transactions over Post Office counters and work at DNS, Glasgow) - £65 million (4% of existing stock).

Two thirds of the deposits (£1 billion) are held in 0.8 million accounts over £500 earning 5% interest; the holders are mainly higher rate taxpayers. This group of accounts has few transactions, and the administrative costs are low. The remaining £0.67 billion is held in 14 million small active accounts and 40 million inactive accounts. The active accounts generate most of the 31 million transactions and some correspondence, and give rise to the bulk of the administrative costs.

5. Many customers still find Ordinary Account very convenient, despite the low interest rates. But the development of Girobank services at Post Office counters means that Ordinary Account no longer serves a unique social purpose. Neither does Ordinary Account have any funding priority. Although Ordinary Account deposits count technically as funding, it is questionable whether such liquid assets should be scored as funding.

6. In these circumstances, there is no call for an instant access facility in the National Savings product range. But, whatever the outcome of our consideration of the privatisation options, no early action can be envisaged and it seems clear that 1989 will have to be a further year of managed decline for the Ordinary Account. Meanwhile, it is important to secure economies

Average  
£1250  
but tax costs  
high.

Average  
£12.40!

on Ordinary Account administration; we have said publicly that the resources to administer the Capital Bond (to be launched on 4 January) will be found in this way. Some more will come from simplifying death claims work, and in the longer term further resources should become available as Deposit Bond work runs down.

7. It has already been decided (but not yet announced) that the minimum deposit should be increased from £1 to £5 on 1 January 1989. This will be the main immediate source for redeploying resources to Capital Bond work. DNS have proposed that this should be the only change to Ordinary Account terms in 1989. But other options are available in principle to hasten managed decline, on which you will want to take a view.

#### Interest Rates

8. The two tier structure was introduced in 1983. Rates have varied, but at present stand at 2½% (the statutory minimum under the National Savings Bank Act 1971) and 5% where the balance is £500 or more. The first £70 of interest is tax free. Of the total annual interest cost of £67 million, £50 million is attributable to upper tier accounts. Ordinary Account rates have always tended to be low compared with rates available elsewhere on instant access money. Nowadays, even higher rate taxpayers (who comprise the majority of upper tier account holders) can do better in a building society. And the introduction of interest bearing current accounts by the clearing banks will make Ordinary Account less attractive to many depositors.

9. Since Ordinary Account no longer has a social or funding role, Treasury officials see a strong case in principle for abolishing the upper tier, and setting the interest rate for 1989 at 2½% for all depositors. This would reduce interest costs by at least £25 million - and if, as seems likely, most higher rate taxpayers closed their accounts, there would be further interest cost saving and a decline in the amount of stock. There would, however, be little saving on administration, since so few accounts are in this category and the number of transactions is tiny.

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Nevertheless, this approach would be consistent with the policy of managed decline.

10. Such action would, of course, make the Ordinary Account a less attractive proposition to a potential purchaser. The Treasury also note that deposit rates in the economy generally have risen during 1988. So simply maintaining Ordinary Account rates at 1988 levels would make them less attractive by comparison with other instant access facilities available or being developed.

11. DNS are strongly opposed to abolition of the upper tier. In their view it would remove the one constructive element - agreed with the then Economic Secretary in late 1982 largely for management reasons - which has enabled them to run down the Ordinary Account since 1983 without administrative upheaval. To offer 2½% on all amounts from £1 to £10,000 when Girobank offer 6% up to £500 and the clearing banks, led by Lloyds, are about to open their bidding at around 4% for £1 would, they believe, be a clear signal of a Government intention to dismantle the Ordinary Account. DNS would expect all the 0.8 million customers now earning the 5% to withdraw their accounts, or at least write to complain. Even if the possibility of staff disruption is ignored, DNS could not cope with the huge extra volume of work entailed in closing off 800,000 accounts in a short period. At present they are staffed to handle only 320,000 account closures and crossed warrant withdrawals in a year. Given the increase in the minimum deposit from £1 to £5 and the advent of the Capital Bond without extra resources, they would see 1989 as the worst possible year for changing the interest rate structure.

12. In the light of all these considerations, the Treasury recommend on balance that the two tier interest rate structure should remain in place for 1989 and that the rates should remain unchanged at 2½% and 5%. The position should be kept under review. If a policy of managed decline rather than privatisation is adopted, we should consider in the course of 1989 whether there is still a place for an upper tier of interest, and if so, what the qualifying terms might be.

Tax exemption

13. If you decide to privatise Ordinary Account in some way, we shall need to remove the tax break, by means of Finance Bill legislation. It would be possible to do so in advance, with the aim of shaking out higher rate taxpayers, thereby saving some of the tax at present forgone and achieving a rundown in the stock. This could have equally major administrative consequences. In any event, in the vast majority of cases the tax becoming due would be virtually uncollectable - it would be payable on tiny amounts of interest on small deposits held by people who never receive tax returns. Moreover, Ministers would come under great pressure to increase the rates themselves, particularly as they are already so low. If so, removing the tax break would yield little or no advantage.

14. If Ordinary Account is privatised, it would then be for the new owner to decide what interest rates (net of CRT) to offer depositors. But while Ordinary Account remains Government property, we recommend that the present tax treatment should be left as it is. (The exact timing of withdrawal in relation to a possible sale and the staffing implications would need to be given more thought.)

Other Ordinary Account Services

15. The DNS corporate plan (submitted in June) notes DNS' intention of abolishing, from 1 January 1989, some associated services - free standing orders, paybill (billpaying over Post Office counters) and special savings facilities for the Forces (mainly voluntary deductions from pay). These are marginal activities, with hardly measurable savings. But DNS see them as undesirable, particularly since they are akin in some ways to clearing bank services.

16. Subsequently, DNS argued against proceeding with these changes, for fear that they might be interpreted as steps towards abolition. The Treasury believe these fears are unfounded, and urge the abolition of these services as originally planned. The

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moves would be fully compatible with the need for resource economies on Ordinary Account - however small in themselves - to staff the Capital Bond operation adequately. In further discussion, DNS have indicated willingness to proceed with their earlier proposals, if it is recognised that they represent a further move away from current account banking at the Post Office.

Later Action

17. This will depend on the outcome of your consideration of the future of the Ordinary Account. If you should decide to continue with a policy of managed decline, this could be accelerated by such measures as a further increase in minimum deposit to (say) £10, which DNS would wish to present in the context of a general review of National Savings minimum holding limits; some form of transaction charge; or restricting accounts to personal customers only. A further possibility would be to stop new accounts after a stipulated date. But DNS would see this as tantamount to abolition.

Conclusions and recommendations

18. Ordinary Account is no longer a social or funding priority for the Government. It has declined steadily since 1983 both in terms of staff and numbers of transactions. But the amount of deposits outstanding remains high, and the operation is costly. Early privatisation is not likely, but the option of some form of privatisation is still under consideration. For 1989 at least, the existing policy of managed decline will have to continue. If this policy is later adopted for the longer term future of the Ordinary Account too, we shall need to keep under regular review all the options for hastening the decline. In the light of the considerations discussed in this submission, the Treasury and DNS recommend the following action for 1989:

- (a) confirm the decision to increase minimum deposit from £1 to £5 from 1 January 1989;



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(b) retain the 2 tier interest rate system for 1989 at the present levels of 2½% and 5%;

(c) no change in the tax position;

(d) DNS to proceed with their Corporate Plan proposals to abolish free standing orders, paybill, and special savings facilities for the Forces from 1 January 1989.

19. Only items (a), (b) and (d) need to be announced. For items (a) and (b) a statutory instrument will need to be laid by early December. Subject to your agreement, we and DNS will set in hand the necessary arrangements, consulting you about the timing and presentation of a public announcement. We are, of course, ready to discuss these matters with you if you wish.

Ian Rich

IAN RICH

*Handwritten notes in red ink:*  
Hit with card,  
as para 5 assets,  
That no ord a/c  
Shown in wage purpose  
of an kind, & that small  
accounts are a part, then  
but for 5 a) X so need  
That no initial @ all  
be paid on last-17m  
accounts (sum < 7500).  
I.C. [initials], that there is  
all-style annual  
accounts.

MP



FROM: MISS M P WALLACE

DATE: 22 November 1988

PS/ECONOMIC SECRETARY

cc Sir P Middleton  
Sir G Littler  
Mr Scholar  
Mr Peretz  
Mrs Brown  
Miss O'Mara  
Mr Grice  
Mr Bent  
Mr Rich  
Miss Anderson  
Mrs Chaplin  
  
Mr Patterson (DNS)

**NATIONAL SAVINGS: TERMS FOR THE ORDINARY ACCOUNT IN 1989**

The Chancellor has seen Mr Rich's minute of 17 November.

2. He has commented that, in view of what Mr Rich's paragraph 4 reveals about the large number of very small accounts below the £500 level, he wonders whether it might be worth considering the option of amending the National Savings Bank Act so that no interest at all need be paid on lower tier accounts, ie they would be treated as old style current accounts.

A handwritten signature in cursive script, appearing to read 'M P Wallace'.

MOIRA WALLACE

C O N F I D E N T I A L

MP



FROM: S M A JAMES  
DATE: 22 November 1988

MR RICH

cc: PS/Chancellor  
Sir P Middleton  
Sir G Littler  
Mr Scholar  
Mr Peretz  
Mrs Brown  
Miss O'Mara  
Mr Grice  
Mr Bent  
Miss Anderson  
Mrs Chaplin  
  
Mr Patterson - DNS

**NATIONAL SAVINGS : TERMS FOR THE ORDINARY ACCOUNT IN 1989**

The Economic Secretary was grateful for your minute of 17 November.

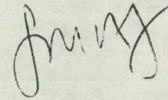
2. He is content with your first three recommendations for action in 1989:

- (i) confirm the decision to increase minimum deposit from £1 to £5 from 1 January 1989;
- (ii) retain the 2 tier interest rate system for 1989 at the present levels of  $2\frac{1}{2}$  per cent and 5 per cent.
- (iii) no change in the tax position.

3. He is content that DNS should proceed with their Corporate Plan proposals to abolish free standing orders, paybill and special savings facilities for the Forces from 1 January 1989. But he wonders whether we should also restrict accounts to personal

**C O N F I D E N T I A L**

customers only. As we discussed, the Economic Secretary would be grateful for advice on this additional point.



**S M A JAMES**  
**PRIVATE SECRETARY**

CONFIDENTIAL

BF to m  
12/12  
16/12

FROM: J A PATTERSON  
DATE: 23 NOVEMBER 1988

ch/ last para a (very) initial response to your suggestion that 2 1/2% tier should be 0%.

cc: PS/Chancellor  
Sir P Middleton  
Sir G Littler  
Mr Scholar  
Mr Peretz  
Miss O'Mara  
Mr Rich  
  
Mr Wilson  
Mr Hickman Robertson  
Mrs Cullum  
Mr Kellaway

8/12

✓ quality  
✓ BST's  
✓ Mrs.

mpw.

ECONOMIC SECRETARY

**ORDINARY ACCOUNT (AND OTHER NATIONAL SAVINGS)  
MINIMUM LIMITS**

1. I was very glad to see from your Private Secretary's minute of 22 November that you have accepted the joint MG/DNS advice on Ordinary Account terms for 1989 in Mr Rich's submission of 17 November.
2. The main purpose of this submission is to consider the public handling of the long-decided increase from £1 to £5 in the Ordinary Account minimum deposit.

Personal holders only

3. But I note in passing that we would be very glad to restrict Ordinary Accounts to personal holders. The only snag is the need for legislation, on which Mr Rich will submit separate advice. If the legislative problem can be solved we would want to limit the Investment Account in the same way. We are making separate arrangements to phase in the same restrictions for Savings Certificates - when we have new Issues - and Income Bonds. These can be done when we issue new prospectuses - no legislation is needed except for the National Savings Bank products. If we manage to make the changes for Ordinary Account and Investment Account as well as for Savings Certificates and Income Bonds all of our products would have a consistent 'personal savers'

eligibility rule (Yearly Plan, Premium Bonds and Capital Bonds are 'personal saver' already).

#### Minimum deposit for Ordinary Account

4. Greater consistency across our products range is the theme of the rest of this minute, and I quote first from para 17 of Mr Rich's minute:

'..... such measures as a further increase in minimum deposit to (say) £10, which DNS would wish to present in the context of a general review of National Savings minimum holding limits...'

5. The main point of this minute - and the only one calling for a decision from you at this stage - is that this is exactly how I should like to present the increase from £1 to £5 as well. This increase is liable to produce a more emotional response from sub-postmasters etc than any of the ideas floated later in this minute, because it signals so clearly the end of the 'small saver/children's pocket money' role of the Ordinary Account which goes back to 1861. So the sort of context in which I should like to present the change would be:

(i) we have been reviewing the limits for minimum deposit/purchase for National Savings products which we do from time to time

(ii) the only one we are increasing for the time being is the Ordinary Account, which was last changed in 1982 (from 25p to £1)

(iii) the £1 is out of line with all the other limits, and it will go up to £5 from 1 January so that both the National Savings Bank limits will then be in line

(iv) the National Savings Bank and other National Savings minimum limits will be kept under regular review.

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6. In answering questions from the press we could also stress that this will help us to make economies in Glasgow to make room for the new Capital Bond. But I think that the key themes should be

- bringing into line with something else
- regular review

7. My reason for this emphasis will be clearer if I summarise our limits as they will stand in January 1989, and then lift a corner off my 1989 corporate plan:

Ordinary Account	£5
Investment Account	£5
Gift Tokens	£5
Premium Bonds	£10
Savings Certificates	£25
Capital Bonds	£100
[Yearly Plan	£20 a month]
[Income Bonds	£2,000]

8. The Yearly Plan and Income Bonds are special cases, and they are not on sale at Post Office counters. But this scatter of figures shows that there is plenty of scope for a more 'departmental' approach. The biggest staff 'saving' (for release to the Capital Bond) comes from the Ordinary Account £1 - £5 (up to 70 staff). None of the subsequent suggestions would release more than a handful (though even a few handfuls would be welcome).

9. The position I should like to reach by say April 1990 (the hypothetical date for a move to Executive Agency status) would be:

Savings Certificates and Capital Bonds  
minimum £100

## CONFIDENTIAL

Ordinary Account

Investment Account

Gift Tokens

Premium Bonds

minimum £10

10. Savings Certificate changes would depend on the timing of new Issues (we announced the change from £10 to £25 for future Issues on 21 October 1981, for the 23rd Issue, on sale from 9 November 1981; but it took us nearly three years to make the change for index-linked Issues because 3rd Issue did not go on sale until 1 July 1985). An incidental benefit of the £100 figure is that we could launch a new Issue several days sooner - as we are doing for Capital Bonds - by starting with press advertisement plus prospectus (at present we have to wait until the prospectus is available in post offices, because of the worry that Durham might get flooded out with £25 applications).

11. The National Savings Bank would be relatively relaxed about the change from £5 to £10 for Ordinary Account and Investment Account, on say 1 April 1990. Its main benefit would be in cutting out transactions at post offices. This should be a valuable bargaining point with Post Office Counters Ltd for 1990-91 and beyond.

12. If counters staff had only two figures to remember (£10 and £100) one by-product should be fewer mistakes at the counter (Glasgow are still bothered by Investment Account deposits between £1 and £5 accepted by counter clerks though the £5 minimum dates back to April 1985).

### Recommendation

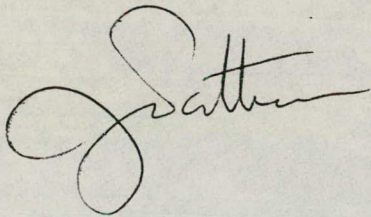
13. The points in the preceding paragraphs about possible future changes are for information only (I have mentioned them informally to MG). My recommendation is that we should present the £1 - £5 change as part of a regular and continuing review, not least to pave the way for more changes over the next year or so.



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Footnote on Minimum Interest Rate

14. I understand that the Chancellor has raised the question of primary legislation to abolish the statutory 2½% minimum rate of interest. This is not the sort of money we want to keep (and a lot of it may be very insensitive to interest rates). My worry here is on timing and workload. With the clearing banks now following building societies and Girobank to offer much more than 2½% on current accounts I would worry that such a change in 1989 would achieve such a 'managed decline' in account closures that our Glasgow machine could not cope. This is not however meant to be a negative comment. If workload is ignored I see more of a case for looking at the 2½% than the 5%. But savings accounts do normally pay interest, and 2½% is very uncompetitive.



J A PATTERSON



Inland Revenue

SECRET

Savings and Investment Division  
Somerset House

BF 25/11 pl.  
30/11

This note is mostly for information. In particular, we are not asking for decisions now on

From: A J WALKER  
Date: 24 November 1988

- 1. MR KUCZYS
- 2. CHANCELLOR

paragraphs 13 to 17.  
 But it would be helpful to know whether you are content with the general approach we are adopting, including the suggested start date, so that we can get on with provisional instructions to Counsel

NHS REVIEW: PRIVATE MEDICAL INSURANCE  
(FINANCE BILL STARTERS 102 AND 154)

AJK  
24/11

1. This note:-

- records the position we have reached on these two starters;
- seeks your confirmation of the starting date for the new tax relief and benefit-in-kind exemption;
- sets out the general approach we are suggesting to the necessary legislation, and in the remaining areas for decision; and
- proposes that we instruct Parliamentary Counsel (in outline at least) as soon as possible.

WALKER  
CHEX  
24/11

- c.c Chief Secretary
- Financial Secretary
- Sir P Middleton
- Mr Culpin
- Mr Phillips
- Mr Saunders
- Mr Griffiths
- Mr MacPherson
- Mr Call
- Mr Jenkins OPC

- Mr Isaac
- Mr Painter
- Mr Corlett
- Mr Lewis
- Mr Bush
- Mr Deacon
- Mr Kuczys
- Mr Massingale
- Mr M Hodgson
- Mr Newstead
- Mr Walker
- Mr Evershed
- PS/IR

Present position

2. As part of the review of the NHS, you have decided that the following reliefs will be given:-

a. Elderly (Starter 154; Official in lead: Mr Kuczys)

- income tax relief at marginal rate on premiums paid by individuals aged 60 and over;
- income tax relief on premiums paid for individuals aged 60 and over (eg by their children).

b. Employees (Starter 102; Official in lead: Mr Massingale)

- benefit-in-kind exemption for private medical benefits provided by employers on similar terms for employees in all-employee schemes;
- benefit-in-kind exemption for private medical benefits provided by employers for employees aged 60 and over (without the "similar terms" and "all-employee" requirements).

3. The measures are to be announced in, or at the same time as, Mr Clark's Health White Paper (to be issued on present plans around the end of January), rather than in the Budget. The legislation would be in the 1989 Finance Bill.

4. In the light of these decisions we have been working, in consultation with Treasury and Department of Health officials, on some of the scheme's requirements. But until a public announcement is made and we can talk to the insurance providers, there will be some aspects about which we will remain uncertain, as none of the Departments involved has a thorough knowledge of the current medical insurance market.

Timing

5. This is the first issue on which we seek your decision.

6. In earlier papers we have said that, while it would not make sense to introduce the benefit-in-kind exemption at any time other than the beginning of a tax year, the relief for the elderly could, if desired, be introduced at any time during the year. What we had in mind was that, with an announcement in October or November 1988 and legislation in the 1989 Finance Bill, the earliest practicable starting date for benefits exemption would be April 1990; but we envisaged that it might be possible to introduce the relief for the elderly at an earlier stage, eg in late Autumn 1989.

7. With no announcement until some time in the New Year, however, the earlier start-date for the over-60s is no longer feasible. Assuming that we can begin to consult insurance providers following an announcement in, say, late January, we envisage a timetable along the following lines:-

February 1989 onwards:	Consultation with insurance providers;
Mid-March 1989:	Last effective opportunity for instructions to Parliamentary Counsel on legislation to appear in Finance Bill as published;
April-June 1989:	Draft secondary legislation;
June-July 1989:	Invite industry's comments on draft secondary legislation;
End July 1989:	Finance Bill Royal Assent;
August-September 1989:	Finalise and lay Regulations, giving medical insurers, employers and Revenue 6 months to gear up for giving tax relief;
April 1990	Tax relief introduced.

8. We have provisionally allowed 6 months in the timetable for insurers to set up their systems to give tax relief at source, and to pep up their marketing effort (although we cannot be certain that this is sufficient time until we have talked to them). We also need to bear in mind the time employers will need to set up qualifying schemes. As a consequence, the part of the timetable allowed for primary and secondary legislation and gearing up our own computer systems is pretty tight. But we think we could just do it, if we get the go-ahead now to start drafting.

9. The Financial Secretary is, however, looking at possible ways of shortening the 1989 Finance Bill by postponing some measures until the 1990 Bill. These two starters could be candidates for postponement. If they were postponed, the start date would have to be put back.

10. We should be grateful for your view on whether we should work towards an April 1990 start date for both the relief and the benefits exemption, unless the legislation is postponed until 1990 and the start date put back.

#### Form of legislation

11. We have been considering what form the legislation might take. Our initial thinking - subject to Parliamentary Counsel's view - is that the primary legislation in the Finance Bill might be fairly short, with the bulk of the administrative and procedural provisions in secondary legislation. Depending on how the qualification provisions are set out, it might also be desirable for lists of qualifying or non-qualifying treatments and benefits to be in secondary legislation.

12. The advantage of this approach would be that Parliamentary Counsel would not have to draft the rules in detail before the Finance Bill was published, although the enabling powers would

have to be sufficiently detailed to make the scope of the scheme clear, and to provide the necessary vires for the regulations etc. The detailed provisions would then be worked out in consultation with the insurance industry in advance of the regulations. Moreover, the approach would allow a measure of flexibility (eg to cover new treatments or to deal with abuse) in subsequent years.

#### Remaining areas for decision

13. Apart from the questions of timing, and form of legislation, we will need Ministers' decisions in due course on a number of other aspects. We are not seeking your views on these points of detail now. If you are content, we will put papers on these more detailed issues to the Financial Secretary shortly.

14. First, the maximum extent of cover which should qualify for relief or exemption. At present, we are working on the basis that Ministers will wish as far as possible to ensure that present medical insurance policies will qualify. The medical benefits offered under most of the widely-available policies are well within the Government's objectives in giving relief; but many policies also offer a cash benefit where the insured individual decides to take free treatment in an NHS bed rather than private treatment in a private bed. This feature may serve to act against the objective of the scheme to get people out of NHS care and thus reduce pressure on the NHS. We presume Ministers would not want such non-medical benefits to be allowed to feature in tax-advantaged insurance policies.

15. The details of the extent of insurance cover which should be tax-advantaged (including which types of treatment would be allowable) are still under discussion with the Department of Health at official level. Decisions will be needed in due course.

16. There are a number of other detailed and technical issues on which we will need guidance.

a. Elderly

- In what circumstances, if any, tax relief should be given where a policy covers the elderly and non-elderly (eg a 65-year-old couple whose grandchildren living with them are covered on the same policy; or a couple with a joint policy, only one of whom is over 60);
- the rate of tax relief where medical insurance is paid by someone else, eg a son or daughter: there would be scope for abuse if the payer had a higher marginal tax rate than the insured elderly person. A simple way round the problem might be to give higher rate relief only where the elderly insured person (who is a higher rate payer) makes a claim.

b. Employer-provided benefits

- the detailed definitions of "all employees" and "similar terms".
- following your preliminary view that it would be difficult to justify not excluding the benefits-in-kind exemption to non-insured or self-insured all-employee schemes, should these be included, and if so, how?

17. In addition, there will be a number of administrative issues needing resolution, including whether self-certification of policies might be a possible approach, or whether a scheme along the lines of the present life assurance policy approval arrangements would be more realistic. And we will need to look at the international dimension - eg the questions of non-resident insurance companies offering medical insurance, and the extent to which relief should be given where either the claimant or the insured is non-resident.

## Instructions to Parliamentary Counsel

18. Parliamentary Counsel is naturally anxious to make a start on Finance Bill starters as early as possible. Although there are a number of detailed decisions yet to be taken, we could usefully make a start on instructing him on a provisional basis.

### Summary

19. We should be grateful to know whether you are content:-
- with the proposed timetable for introduction of both reliefs in April 1990;
  - that the scope of the reliefs should be outlined in the Finance Bill, but that administrative and procedural provisions should be in secondary legislation;
  - that we should put papers to the Financial Secretary on the remaining areas for decision; and
  - for us to instruct Parliamentary Counsel in outline on a provisional basis as soon as possible.



A J WALKER



SECRET

cc Mr Culpin



FROM: FINANCIAL SECRETARY  
DATE: 28 NOVEMBER 1988

**CHANCELLOR**

cc Chief Secretary  
Sir P Middleton  
Mr Phillips  
Mr Scholar  
Mr Saunders  
Mr MacPherson  
Mr Call  
Mr Jenkins (OPC)

*OK*  
*Ch. Agree FST's conclusions?*  
*25/11*

Mr Isaac IR  
Mr Kuczys IR  
Mr Walker IR

PS/IR

**NHS REVIEW: PRIVATE MEDICAL INSURANCE  
(FINANCE BILL STARTERS 102 AND 154)**

I have seen Mr Walker's minute of 24 November in which he proposes a timetable for these starters with primary legislation in the 1989 Finance Bill.

I have reviewed the list of starters for next year's Bill in order to see whether any of them can be dropped, and have minuted you separately on this. But the gist of that minute is that the Bill is already exceedingly long (even before we include necessary items as yet unknown); and that we therefore need to reduce it as much as possible if Parliamentary Counsel are to have any chance of meeting all their deadlines for drafting legislation. These two starters do seem to be ones we could defer until the 1990 Bill. The DoH White Paper is unlikely to be published before the end of January; and we cannot begin to start talking to insurance providers before then. I very much agree with John Isaac that two months leaves little time for working up a viable scheme before we have to legislate.

Would it not be better to announce the scheme in the White Paper with a start date in April 1990; but at the same time say that the necessary legislation will be enacted in the 1990 Finance Bill? That will allow time for full consultation on both the scheme and the draft legislation, and will considerably ease the burden on the draftsmen.

NORMAN LAMONT

FST  
✓  
CHEV  
28/11

*cc Mr Culpin*



FROM: J M G TAYLOR  
DATE: 30 November 1988

*BF -> mpw 2/12* *[Signature]*

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary  
Sir P Middleton  
Mr Phillips  
Mr Scholar  
Mr Saunders  
Mr MacPherson  
Mr Call  
Mr Jenkins - OPC

Mr Isaac - IR  
Mr Kuczys - IR  
Mr Walker - IR  
PS/IR

*JMGT*  
*PS/ST*  
*30/11*

**NHS REVIEW: PRIVATE MEDICAL INSURANCE  
(FINANCE BILL STARTERS 102 AND 154)**

The Chancellor has seen the Financial Secretary's note of 28 November. He is content to proceed along the lines proposed by the Financial Secretary, ie to announce the scheme in the White Paper with a start date in April 1990; and at the same time to say that the necessary legislation will be enacted in the 1990 Finance Bill.

*[Handwritten signature]*

J M G TAYLOR

BF-8/12

SECRET



Inland Revenue

cc Mr Culpin

Savings and Investment Division  
Somerset House  
FROM: A W KUCZYS  
2 DECEMBER 1988

- 1. MR ISAAC *Not Seen* →
- 2. FINANCIAL SECRETARY

*Ch/We were unaware of X-Prayers? g' mpm*

*KUCZYS  
FST  
2/12*

NHS REVIEW: FINANCE BILL STARTERS 102 AND 154

1. I am afraid that a misunderstanding has arisen over the effect on the start date of postponing legislation on these two starters until the 1990 Finance Bill (your note of 28 November to the Chancellor, and Jonathan Taylor's of 30 November). It is best to consider each measure in turn.

Starter 102: Company schemes: benefit in kind

2. A benefit in kind exemption, in practice, has to apply for a whole tax year. (Strictly, it would be possible to exempt benefits received for part of a year; but the effect on PAYE codes would be spread over the whole year). If the necessary legislation were in the 1990 Finance Act, there would be two options for implementation:

- cc PS/Chancellor
- PS/Chief Secretary
- Sir P Middleton
- Mr Phillips
- Mr Scholar
- Mr Saunders
- Mr Macpherson
- Mr Call
- Mr Jenkins (OPC)

- Mr Isaac
- Mr Painter
- Mr Corlett
- Mr Lewis
- Mr Massingale
- Mr M Hodgson
- Mr Kuczys
- Mr Walker
- PS/IR

*Told PS/FST (+TAM AWK)*

*X is correct: it follows a related law with an FST over 30/11. I see for practice for PS/IRs. What is this submission. It may have a copy.*

a. Introduce exemption from April 1990.

Procedurally this would involve adjusting PAYE codes in Autumn 1990 after Royal Assent to the Finance Act when employers would notify tax offices of employees who were members of "all-employee" insurance schemes. The new tax exemption would be automatically backdated to April 1990 through the changed code.

b. Introduce exemption from April 1991

In this case the necessary procedures could take place as part of the annual review of codings, in Winter 1990-91, with effect from the start of the following tax year (ie from April 1991).

3. Of these two options, b. would be slightly more straightforward, as it would not involve a special coding exercise. But there would not be a lot in it. The first option would be likely to result in few new employers being attracted into providing 'all employee' cover until the uncertainties inherent in draft legislation or the Bill were enacted. Thus, there might in practice be little difference to the actual take up of the new exemption between an April 1990 and April 1991 date.

Starter 154: Over 60s: relief at source

4. A tax relief at source scheme does not have to run for a whole tax year (although it is tidier if it does). On the other hand it would not be straightforward to backdate a relief at source. So, with legislation in the 1990 Bill, the options are:

a. Introduce the relief from Autumn 1990

After Royal Assent it will be necessary to fill in detailed rules through Regulations, and to process applications from providers (like BUPA) for their

insurance products to be certified as qualifying for tax relief. The earliest possible start date would probably be October 1990.

b. Introduce relief from April 1991

Alternatively, the introduction of relief at source could be postponed until April 1991, to coincide with the start of the tax year.

Choice of Options

eh?

X) 5. We understand that you and the Chancellor favour legislating for Starter 154 (the over 60s) in 1989, with an April 1990 start date; and for Starter 102 (benefits in kind) in 1990, with exemption backdated to April 1990. Although this would have the advantage of keeping the (effective) start dates in line, we should point out two disadvantages:

1. Tax relief for private medical insurance is likely to prove contentious. The legislation for it will provide an opportunity (unless the Chairman of Standing Committee is stricter than in recent years) for the Opposition to raise more general NHS questions. Do you want to offer the Opposition two opportunities, in successive years?
2. The difficulties of having legislation ready two months (at most) after announcement apply just as much even if only half the package is legislated in 1989. The issues on which we badly need to talk to insurance providers are those concerning exactly what policies are on the market, and which should qualify for tax relief. These issues are common to both starters. So there would not be a lot to be gained by postponing legislation on one starter.

6. In response to the first point you have said that one possibility would be to introduce the legislation, say, at

Committee Stage. It might be necessary to do this. Nonetheless, there would be clear advantages in postponing legislation on both fronts until 1990. We would make good use of the extra time to open discussions on the details with the insurance providers, once an announcement has been made. The result should be more satisfactory legislation, with the reliefs getting off to a better start. Both reliefs could come into operation in Autumn 1990; but while benefit-in-kind exemption would be effectively backdated to April 1990, the over 60s' relief would not.

7. If this is not acceptable, it might be possible to achieve backdating of the over 60s relief; but this would be dependant on the providers. In effect, they would have to accept net of tax subscriptions from April 1990; but we would only pay over the tax relief (backdated) in the Autumn, when we had legislative cover. Not only would the providers suffer a cash-flow disadvantage, but they would be taking a risk that the legislation would safely reach the statute book. This is something we could explore with BUPA and the rest after the proposal is announced.

#### Conclusion

8. We should be grateful for Ministers' decision, for each of the two proposals, on:

a. whether the legislation should be in 1989 or 1990;

b. if 1990, when the change should come into operation (Autumn 1990 or April 1991); and

c. if the operative date is Autumn 1990, whether the change should be backdated to April. (In the case of the over 60s proposal, this will depend on the insurance providers' willingness).

*AWK*

A W KUCZYS

CONFIDENTIAL

FROM: IAN RICH  
DATE: 6 December 1988

I agree it would be sensible  
to proceed with both the states  
proposed

1. MISS O'MARA  
2. ECONOMIC SECRETARY

cc

PS/Chancellor  
Sir P Middleton  
Sir G Littler  
Mr Scholar  
Mr Peretz  
Mrs Brown  
Mr Grice  
Mr Bush  
Mr MacPherson  
Mr Michie  
Miss Anderson  
Mrs Chaplin  
Mr Patterson (DNS)  
Mr Jenkins (TSol)

*Wt Shw*  
*Central*  
*2 1/2 % minimum*  
*rate*  
*the 1989 FB.*

### NATIONAL SAVINGS: TERMS FOR THE ORDINARY ACCOUNT IN 1989

This submission deals with the mechanics of announcing the changes you have approved; your question about restricting accounts to personal customers only (Miss James' minute of 22 November); and the Chancellor's question about amending the National Savings Bank Act so that no interest at all need be paid on lower tier accounts (Miss Wallace's minute of 22 November). I apologise for the delay in responding, but it took a little time to secure the necessary legal advice.

#### Announcing the 1989 Terms

2. DNS would like to issue a press release announcing the terms at noon on Thursday 8 December. The announcement will in the main be low-key. There are to be no changes in the interest rates or structure, or in tax treatment. In other words, 1988 terms are to be extended for another year. But there is also to be an increase in the minimum deposit from £1 to £5, and this could attract some adverse reactions - eg from sub-Postmasters. Mr Patterson's minute of 23 November explains why he wants to present this as part of a general review of National Savings minimum holding

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limits. You have agreed to this, provided DNS also emphasise the disproportionate cost of small transactions and the need to release manpower for the Capital Bond. A draft of the proposed Press Notice is attached, together with a draft of the customary Private Secretary letter to No 10. DNS are preparing Question and Answer briefing, and we will submit this separately.

X 3. We think it would be best to keep this announcement separate from an announcement of increases in gross product rates, if you accept the recommendations in Mr Peretz's minute of 2 December. A Statutory Instrument on Ordinary Account terms has to be laid by the end of this week, and there is no scope for deferring the announcement of the 1989 terms. But you may wish to consider the precise timing of an announcement about gross product rates in relation to the Ordinary Account timetable.

#### Personal Holders

4. You asked whether we might also restrict accounts to personal holders. Under existing legislation, both Ordinary and Investment Account deposits may be made by individuals (also jointly), trustees, charities, voluntary bodies, registered companies or other corporate bodies. The way in which the legislation is framed means that it applies both to the Ordinary Account and the Investment Account. Any change would therefore entail amendment to Section 16 of the National Savings Bank Act 1971, and regulations 11 and 12 of the more detailed National Savings Bank Regulations 1972 which stem from it.

5. Both we and DNS support the concept of restricting both kinds of accounts to personal holders. This would be consistent with practice or plans for all other National Savings products, for which the prospectus rather than legislation stipulates what Ministers have decided on terms. (You will recall that Capital Bond is to be restricted to personal holders and trustees on behalf of personal holders.) Treasury Solicitor and Parliamentary Counsel have confirmed that this could be done in a Finance Bill.



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6. We recommend that provision to restrict Ordinary and Investment Account to personal holders should accordingly be made in the 1989 Finance Bill. FP have confirmed that there would be room in the Bill for this amendment, and if you are content, we will register it as a Budget starter. The change could not be made in advance, so it seems unnecessary to announce any intention at this stage.

#### Lower Tier of Interest

7. The Chancellor asked if it might be worth considering the option of amending the National Savings Bank Act 1971 so that no interest need be paid at all on lower tier accounts.

8. Section 5(5) of the Act says that the Treasury may, by order, alter the rate of interest payable on ordinary deposits

"but not so as to reduce it to a rate of less than 2½ per cent per annum."

Parliamentary Counsel has told Treasury Solicitor that the House Authorities agree that an amendment to the Act to delete the minimum rate of interest would be within the scope of a Finance Bill. If we were to do this, it would give us a range of options in future, including the one mentioned by the Chancellor.

9. Ordinary Account is by far the oldest of the National Savings products. It dates from 1861, and stood alone for some 55 years, so it is not surprising that it is governed in detail by specific primary legislation. Nowadays, National Savings offers a wide range of products to meet the various needs of personal savers. Broad legislative authority is given by the National Loans Act 1968, under which some rather more detailed Regulations are made. Normal practice is to set out in each prospectus the terms agreed by Ministers, including the basis for varying interest rates. In no case is a maximum or minimum rate stipulated. Against this background, it would be possible to present a change in the National Savings Bank Act as a rationalisation of National Savings administrative procedures.

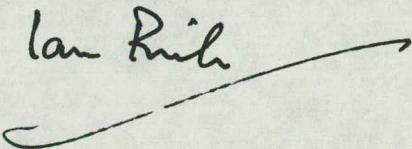
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10. Such an approach would lose credibility if, at the earliest subsequent opportunity, we reduced the 2½ per cent tier to nil at a stroke. Moreover, that would be likely to provoke a much heavier stream of account closures than would abolition of the 5 per cent tier (see paragraph 11 of my submission of 17 November), and this work would overwhelm DNS. An alternative approach would be to acquire a discretionary power in the Finance Bill which could be used to reduce the rate gradually over a period of years. DNS note however that 2½% is already uncompetitive.

11. Since we set Ordinary Account rates for a full calendar year and the revised legislation is not yet in place, we should not in any case be able to make any reduction in 1989. We also need to bear in mind the possible read across to privatisation of the Ordinary Account. If the privatisation route proved impossible and Ministers decided instead to hasten the policy of managed decline of the Ordinary Account, a reduction and eventual elimination of the 2½ per cent rate could help to achieve this. We shall be in a better position to judge, once the Girobank sale is settled.

12. Nevertheless, there is a good case for amending the National Savings Bank Act sooner rather than later, and we recommend that provision should be included in the 1989 Finance Bill. FP have confirmed that there would be room in the Bill for this amendment, and if you are content we will register it as a Budget Starter.

13. The recommendations in this submission have been agreed with DNS.



IAN RICH

## DRAFT PRESS NOTICE

NATIONAL SAVINGS ORDINARY ACCOUNT - <sup>TERMS FOR 1989</sup> ~~INTRODUCTION OF £5 MINIMUM~~

Rates of interest

~~DEPOSIT~~

No changes will be made in the existing interest rates, which will be paid for the whole of 1989.

Minimum Deposit

From 1 January the minimum for each deposit into a National Savings Ordinary Account, including the amount required to open an account, will be increased from £1 to £5.

This change is the outcome of a continuing review by National Savings of the minimum purchases or deposits for all its products. The increase brings the Ordinary Account into line with the Investment Account, which already has a £5 minimum for the amount that may be deposited.

The resulting reduction in the number of small transactions will enable staff at the National Savings Bank and Capital Bond Office in Glasgow to be released for work on National Savings' new Capital Bond, which is to be introduced in January. It will also make the Ordinary Account less expensive to run, as small transactions cost the same to process both in post offices and at the National Savings Bank as big ones and bring in very little money.

The last increase in the Ordinary Account minimum deposit was in 1982.

(Note

In discussion, Mr Patterson agreed that this notice should also include reference to the interest rate, as Treasury officials strongly preferred. Hence the amendment above

(R 4/12/88)

**DRAFT LETTER TO:**

Paul Gray Esq  
10 Downing Street  
London  
SW1

December 1988

**NATIONAL SAVINGS**

This is to let you know that the Department for National Savings will announce at noon on Thursday 8 December the terms for the Ordinary Account in 1989.

It is usual to set these terms for a full calendar year. On this occasion, no change is being made in the interest rates which remain at 5% when the account balance is £500 or more, and 2½% for accounts with lower balances. As hitherto, the first £70 of interest will be tax free. To secure some economies in the cost of administration, the minimum deposit is to be increased from £1 to £5.

**S M A JAMES**

SECRET

cc Mr Culpin!



FROM: FINANCIAL SECRETARY

DATE: 7 December 1988

*Good. Thanks.*

**CHANCELLOR**

cc

- Chief Secretary
- Sir P Middleton
- Mr Phillips
- Mr Scholar
- Mr Saunders
- Mr MacPherson
- Mr Call
- Mr Jenkins (OPC)

- Mr Isaac )
- Mr Kuczys ) IR
- Mr Massingale )
- PS/IR

FST  
→  
CHEX  
7/12

*Ch/ I gather you discussed this with RPC this morning. Amazingly IR left him off copy list!*

*Your opportunity to say yr piece on this @ No 10 may come on 16th or 22nd. In the meantime DoH want a para for White Paper draft. Hayden + Robert will produce a "flat" draft, slip*

**NHS REVIEW: STARTERS 102 AND 154**

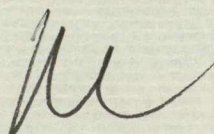
*us a copy for any comments and then put in as an "official" paragraph rather than yrs.*

I have discussed Mr Kuczys' note of 2 December with officials.

The Revenue accept that it would be possible to do the legislative option we prefer; namely include the relief for the over 60s (Starter 154) <sup>m</sup> until the 1989 Finance Bill but leave that for benefits in kind (Starter 102) until the 1990 Finance Bill. For the latter, the exemption could be backdated to start in April 1990 by way of an adjustment to the PAYE codes in the autumn of that year, following Royal Assent of the Bill. For the former, the start date would be as soon after Royal Assent plus enactment of the detailed Regulations as the insurance providers can design new products and have them approved by the Revenue. In practice, this is likely to mean April 1990 as well.

I believe we should go ahead on that basis. It doesn't leave us much time for Starter 154, because the Revenue can't talk to the providers about the detailed operation of their products until the White Paper on the review of the NHS is announced at the end of January. That may mean that Parliamentary Counsel is not able to draft the necessary clauses before the Finance Bill is published. But we should be in a position to introduce them at Committee Stage if that proves necessary.

There should be no problem with the drafting of the legislation of the other Starter. An announcement of our intentions in the White Paper will leave over a year to get the details agreed and prepared.

A handwritten signature in black ink, appearing to be 'N. Lamont', written in a cursive style.

NORMAN LAMONT

*M P*



FROM: MISS M P WALLACE  
DATE: 8 December 1988

PS/ECONOMIC SECRETARY

cc Sir P Middleton  
Sir G Littler  
Mr Scholar  
Mr Peretz  
Miss O'Mara  
Mrs Brown  
Mr Grice  
Mr Bush  
Mr MacPherson  
Mr Michie  
Mr Rich  
Miss Anderson  
Mrs Chaplin  
Mr Patterson (DNS)  
Mr Jenkins (TSol)

**NATIONAL SAVINGS: TERMS FOR THE ORDINARY ACCOUNT IN 1989**

The Chancellor has seen Mr Rich's minute of 6 December. He agrees that we should certainly abolish the 2½ per cent minimum rate of interest in the 1989 Finance Bill.

*M P*

MOIRA WALLACE



FROM: MISS C EVANS  
DATE: 23 December 1988

PS/FINANCIAL SECRETARY

cc: PS/Chancellor -2  
PS/Paymaster General  
PS/Economic Secretary

FINANCE BILL STANDING COMMITTEE

I attach a letter I have received from the Cabinet Office seeking the Chief Secretary's views on moving Standing Committee from the afternoon to the morning. The Chief Secretary prefers no change and I propose to reply as in the attached draft. Could I have any comments by 6 January please.

*The CSO understands the case. (Two all-day sessions & we (we is who is) would make the impromptu for (for Mon) who have other things to do. I think the Finance Bill, which is a unique case in the history of Parliament. I think the House of Lords.*

MISS C EVANS  
Private Secretary



**DRAFT LETTER**

M W Townley Esq  
Cabinet Office  
70 Whitehall  
London  
SW1A 2AS

**January 1989**

**FINANCE BILL STANDING COMMITTEE**

Thank you for your letter of 16 December.

The Chief Secretary would prefer to stick with the present arrangements. He feels that to change to morning sessions would give the Opposition a greater opportunity than now to extend the proceedings by making it possible for them to extend morning sessions into the afternoon and the evening.

**MISS C EVANS**  
**Private Secretary**



CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-270 0351

Miss G C Evans  
Private Secretary to the Chief Secretary  
to the Treasury  
HM Treasury  
Parliament Street  
London

16 December 1988

*Dear Miss Evans.*

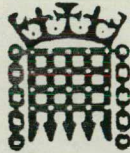
Please see the attached letter from Mr Stan Crowther, on which the Lord President's Office has asked for advice.

I would be grateful if you would kindly let me know if the Treasury wishes to comment on the proposal made in Mr Crowther's letter.

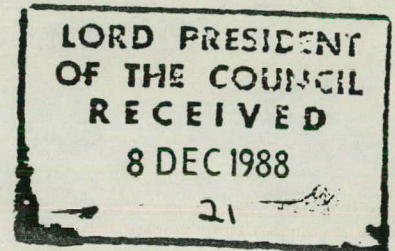
I have also sought Murdo Maclean's views in the Chief Whip's Office.

*Yours sincerely,  
M W Townley.*

M W TOWNLEY



HOUSE OF COMMONS  
LONDON SW1A 0AA



Rt Hon John Wakeham MP,  
Lord President of the Council,  
& Leader of the House of Commons.

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5 December 1988

I should welcome your views on a matter concerning the Finance Bill Standing Committee, which I expect to chair later this Session.

As you know, it has been the custom, ever since the House adopted the practice of referring part of the Finance Bill to a standing committee, that the committee meets only in the afternoon, whereas the committee stage of every other Bill begins with morning sittings. No-one nowadays seems to be able to recall just what the reason was for this unique procedure.

Since we all know that the Government, whichever Party is in power, will have the Bill out of committee by the date of its choice, even if it means several all-night sittings, my own view is that it would be greatly for the convenience (and comfort) of the members of the Standing Committee if it followed the normal pattern and met in the morning.

I am writing in similar terms to Frank Dobson.

Stan Crowther



FROM: J M G TAYLOR  
DATE: 13 January 1989

PS/FINANCIAL SECRETARY

cc Sir P Middleton  
Sir T Burns  
Mr Scholar  
Mr Culpin  
Mr Gilhooly  
Mr Riley  
Mrs Chaplin  
Mr Tyrie  
Mr Jenkins (OPC)

Mr Isaac - IR  
Mr Pitts - IR  
Mr Jaundoo - IR  
PS/IR

1989 FINANCE BILL STARTER 262  
INHERITANCE TAX: INSTRUMENTS OF VARIATION

The Chancellor has seen Mr Jaundoo's note of 9 January.

2. He notes Mr Jaundoo's recommendation (paragraph 23) that we should provide for the changes to apply to transfers where the death occurs on or after Royal Assent. He recognises that some interval is clearly required, but he wonders whether it needs to be as much as 4½ months (which this implies).

A handwritten signature in dark ink, appearing to be 'JMG'.

J M G TAYLOR

From: Nigel Forman.

17th January 1989.

To: Chancellor.

Finance Committee, 17th January.

1. The speaker at the Finance Committee this evening was Professor Geoffrey Wood of the City University Business School. He spoke with great self-confidence and made the following notable points.

- The criticism of the last Budget was wrong, because the balance of payments deficit was not a result of the tax cuts, the fiscal stance has been quite tight, the effect of the tax cuts was small in relation to other factors (e.g. the growth of private credit) and in any case the Budget was too late in the year to have had its alleged inflationary consequences.
- The Brown study commissioned by the Treasury of the supply side effects of tax cuts had come to the wrong conclusion, because it had ignored the long term effects upon investment and career choices of a sustained and consistent policy of income tax reductions. This would have virtuous entrepreneurial consequences over the longer term.
- The recent rapid expansion of domestic demand was largely the result of the conduct of our monetary policy which had been too lax for too long after the shock of Black Monday. It had been a particular mistake to try to peg the £ to the D.M. for so long last winter and spring.
- Removing mortgage interest rates from the R.P.I. would not achieve anything very useful, assuming that this was replaced by another factor for housing costs which might well have to be capital values or imputed rent (which could have even worse consequences on the R.P.I.).
- The deficit on the current account was not necessarily a bad thing, not least since it was essentially the counterpart of the surplus on capital account. It was better to have a current account deficit than higher inflation, which might otherwise have been the consequence of our lax monetary policy during the first half of last year. From 1870 to 1914 the U.S.A. had run a current account deficit much larger as a proportion of G.D.P. than anything experienced more recently and this had been a desirable consequence of the massive inflow of capital into the U.S.A. for investment purposes during that period.
- This year's Budget should concentrate upon raising tax thresholds and easing the impact of employee National Insurance at the lower end to ease the poverty trap, and this should be done against the background of a more cautious and predictable monetary policy focussing upon the monetary base (as in Switzerland). A period of balanced Budgets and predictably cautious monetary policy would be highly desirable for the country.

2. Among the other points which he made in answer to questions were:

- Inflation (as measured by the R.P.I.) will peak in the summer and begin to turn down in the autumn or possibly early next year, provided that short term interest rates are kept at their present level until about the early autumn.

? !  
- Two ways of reducing public spending would be (a) to move to a negative income tax administered by the Inland Revenue, which would enable us to abolish the Department of Social Security; and (b) to end all subsidies to our farmers, which would enable us to abolish M.A.F.F. (hollow laughter from the politicians present)!

- Questioned by David Howell about the disadvantages of moving entirely to a system of monetary base control, he conceded that there would be transitional problems; that since the banks and other lending institutions would probably find a way around it, it would be necessary to adjust their prudential ratios and reserve requirements from time to time; and in any case it would be best to do it when inflation was much lower (say 1% or 2%), since it would be likely to have an inflationary effect in the transition.

- He attached no great significance to 'the Budget judgement', since he did not believe in the merits of fiscal fine-tuning. However, he said you should aim for a surplus of about the same size as the previous year in order to convey an impression of stability and continuity in the public finances.

- It was not pay (public or private sector) which caused inflation, unless it was accommodated by an excessive growth in the money supply.

3. You will perhaps gather from the above report that some of those present were impressed by his breath-taking self-confidence and simplicity. However, I am bound to add that the less initiated in his audience seemed genuinely to approve of nearly all his views (save, perhaps, his draconian approach towards the farmers). Altogether a very exhilarating presentation!

F.W.F.



Inland Revenue

CONFIDENTIAL

Somerset House  
London WC2R 1LB

G H Bush

Telephone 01-438 7586

*Handwritten signature*

*Handwritten signature*

FINANCIAL SECRETARY

27 January 1989

**FINANCE BILL : UNAUTHORISED DISCLOSURE OF CONFIDENTIAL  
INFORMATION : STARTERS 63 AND 452**

1. In Mr Rogers' absence from the office, I am forwarding the attached note by Mr Hutton reporting progress with these starters. The note has been agreed with Customs.
2. We would welcome an early discussion with you on the issues here which, as you are aware, are sensitive.
3. We and Customs colleagues would also find it helpful to consider with you and the Economic Secretary, the arrangements for handling these starters.

*G. H. Bush*  
G H BUSH

cc PS/Chancellor  
PS/Chief Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Mr Scholar  
Mr Culpin  
Mr Gilhooly  
Mrs Chaplin  
Mr Tyrie  
Mr Sutherland (olc)  
PS/C&E

Chairman  
Mr Isaac  
Mr Rogers  
Mr Painter  
Mr Beighton  
Mr Shutler  
Mr Miller  
Mr Bush  
Mr Jones  
Mr Hutton  
PS/IR



INLAND REVENUE  
MANAGEMENT DIVISION  
SOMERSET HOUSE

FROM: R A HUTTON

DATE: 27 JANUARY 1989

1. Mr P B G Jones
2. Mr D B Rogers *DR*
3. Financial Secretary

**PROTECTION OF TAXPAYER INFORMATION AFTER REFORM OF SECTION 2  
OF THE OFFICIAL SECRETS ACT 1911**

**FINANCE BILL STARTERS 63 AND 452**

1. Last month (Miss Feest's note of 6 December) you authorised us to continue to work up the detail for these starters. At the same time, you commented that there were some potentially sensitive issues here; you were particularly concerned about whether the proposed new regime on confidentiality would be more restrictive than present arrangements.

---

CC: PS/Chancellor	Chairman	Mr Jones
PS/Chief Secretary	Mr Isaacs	Mr Tyrie
PS/Paymaster General	Mr Rogers	Mr Hutton
PS/Economic Secretary	Mr Painter	PS/IR
Mr Scholar	Mr Beighton	PS/C&E
Mr Culpin	Mr Shutler	
Mr Gilhooly	Mr Miller	
Mrs Chaplin	Mr Bush	
Mr Sutherland - OPC		

HUTTON  
FST  
27/1



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2. This note is by way of a progress report which, among other things, picks up points which came up recently at Dorneywood. You and the Economic Secretary may wish to talk through the proposals with ourselves and Customs. We also think that it would be useful to begin to consider the arrangements for handling the proposed legislation since time to the Budget and Bill is short and the present arrangements whereby parallel submissions are made by Customs and ourselves to the Economic Secretary and you are cumbersome.

Background

3. The background to these measures was set out in my minutes of 23 August and 25 November and that of David Howard of Customs to the Economic Secretary, on 25 November.

4. In brief, all employees of the Revenue departments are bound by a special obligation of confidentiality which is rooted in long standing principles of public policy. The special nature of Revenue confidentiality is recognised by the Courts as important to the public interest and it has consistently received support from Parliament in passing legislation allowing disclosure to be made only of particular information for closely specified purposes. If a

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Revenue employee breaks this duty of confidentiality, he or she faces disciplinary procedures which in a bad case could lead to dismissal. In an extreme case criminal proceedings could be brought under the Official Secrets Act (OSA).

Revenue officers have a very strong ethos of confidentiality and this in combination with the deterrent effect of the sanctions available has meant that neither Department has any traceable record of a prosecution being brought under the OSA. As you know there have been occasional breaches of confidentiality in the past, however, and it would be wrong to pretend that individuals might not be tempted in the future.

5. The Official Secrets Bill (OSB) now before Parliament changes this because, in repealing the present OSA and, in particular, Section 2, it puts nothing in place to allow prosecutions by Departments for serious breaches of confidentiality outside, broadly, national security, intelligence and defence. Specifically, tax information received in confidence from companies and individuals will not be covered.

6. But last years's White Paper also recognised there are circumstances where it is in the public interest that private information supplied in confidence to Government

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should be given the protection of the criminal law as civil remedies and the Civil Service disciplinary code do not provide sufficient safeguard against disclosure. Particular reference was made to information supplied to the revenue authorities. Hence Starters 63 and 452.

Official Secrets Bill

7. The OSB completed its Second Reading during Christmas week, and began its Committee stage on Wednesday (25 January). One of the features of the OSB which we have had to consider is the question of a "harm" test.

8. The White Paper states that the Government believes that it is right to use the criminal law to prohibit disclosure of certain information because of the degree of harm to the public interest which may result. The White Paper proposes that where it is necessary for the Courts to consider the harm likely to arise from the disclosure of particular information, the prosecution should be required to produce evidence on the harm that disclosure has caused and that the defence should be free to produce its own evidence in rebuttal. The OSB provides specific tests of harm to be applied to most of the offences it creates.

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9. There is no harm test however where the unauthorised disclosure is by a member or former member of the Security and Intelligence Services. We understand that the rationale for this is that all such disclosures are intrinsically harmful because they carry a credibility which the disclosure of the same information by any other person would not and because they reduce public confidence in the ability and willingness of the Security Services to carry out their essentially secret duties effectively and loyally. There is also the practical difficulty that, if a harm test were to apply, evidence may need to be brought to Court which would involve a disclosure itself as harmful as the disclosure which is the subject of the proceedings.

10. We are not proposing a specific harm test to apply to the unauthorised disclosure of private information supplied to the Revenue Departments. Comparisons may therefore be drawn between the OSB on the one hand and the proposals for breaches of confidentiality in the Revenue Departments on the other.

11. It may be said, for example, that, in the absence of any test of harm, Ministers are proposing a tougher code for tax than exists for the majority of criminally-protected disclosures under the new Official Secrets legislation.

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12. We believe that there is a clear distinction of principle between offences to which the new Official Secrets legislation will import a harm test and the proposals for breaches of confidentiality about tax.

13. Most of the information to be protected by the OSB proposals is Government information. We understand that the underlying principle there is that there should not be a criminal sanction against disclosure of information about public business, unless the disclosure of that information would genuinely harm the public interest. Hence the harm test (other than in the case of unauthorised disclosures by members of the Security Services) before someone can be convicted under the OSB proposals. By contrast, tax information which we seek to protect is always private information.

The revenue departments have an operational interest in confidentiality, because we believe that without it we would lose taxpayers' co-operation. But, more important, is the fact that we have to intrude into people's privacy and business confidentiality to carry out our functions, through use of formal statutory powers where necessary, to obtain information of a personal and business character. As the Courts have recognised they therefore have a right to expect that confidential information about their private affairs

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which we receive for our purposes is not subsequently misused or broadcast to the wider world. And if that is correct, there is a need to be able to enforce that right in the Criminal Courts in very exceptional cases where conduct and discipline procedures are not adequate and where in the case of ex-employees it is impossible to apply them.

14. Better parallels with the Revenue Department proposals are the anti-disclosure measures in the Financial Services Act and the Banking Act. Both are concerned to protect private information. Neither contain the test of harm. And both provide for fines and custodial sentences on conviction in line with our proposals.

15. While we believe the distinction of principle between our proposals and those in the OSB are clear enough, briefing for the public presentation of the case will need very careful preparation.

16. It will need to be emphasized that recourse to criminal prosecution will be considered only in the very worst cases. We think that it would be helpful to re-assure the House on this point as a matter of record at an appropriate stage.

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"Purported" information

17. The OSB provides for an offence to have been committed when a statement is made which purports to be a disclosure of sensitive information. In other words, someone can be prosecuted even if what is disclosed is actually fictitious. We understand that the reasoning behind the OSB here is that such statements could be harmful because of the credibility of the discloser and this information cannot always be rebutted without making a further disclosure which is itself harmful.

18. For the same reasons, we are considering whether the tax measures should cover similar disclosures even though the disclosure of purported tax information differs from purported security material in one essential aspect; a taxpayer can choose to override the confidentiality applying to his tax affairs and publicly correct any mis-statement made about him, with our endorsement of relevant facts, if he seeks it.

19. There are very tricky issues here which we are still exploring. We will come back to you on the point if we think it necessary to cover the situation in the legislation.

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WHAT OTHER DEPARTMENTS ARE DOING

20. With the one exception mentioned below all other Departments seem so far to have decided against introducing new anti-disclosure measures to compensate for the restriction of OSA protection although some, like the Treasury, may still be considering the matter. There is no central initiative at the Treasury or OMCS. Many departments have specific measures in place already. There are over 100 such. It has been an offence to disclose population Census material since 1920 and there are for example particular measures in the Airport Act, the Gas Act, the Building Societies Act and many others including of course the Financial Services Act and the Banking Act to which we have already referred.

21. DSS and Health have Ministerial approval to put an anti-disclosure measure into the current Social Security Bill. They propose to do so by way of a Government amendment at Committee or Report stage, although this is subject to approval by H Committee. Subject to that approval, they hope to use the Revenue measure as a barometer of public reaction, as the Social Security Bill is not due to leave the Commons until after Easter. They can therefore leave their move until after publication of the Finance Bill.



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22. DSS are in touch with us at official level. They share our concern that without careful presentation, anti-disclosure legislation covering Civil Servants in Inland Revenue, Customs and Excise and Social Security and Health could be seen as a back-door way of re-asserting much of the coverage given up by the reformed OSA. There are, however, advantages in being first in the field; it will allow the particular nature of Revenue Departments' confidentiality to be distinguished.

**OTHER DEPARTMENTS AND THE REVENUE PROPOSALS**

23. In my minute of 25 November I referred to the possibility of bringing certain non-Revenue employees who had direct access to tax information within the ambit of our proposals. In particular I mentioned:-

\* Tribunal members such as General and Special Commissioners of Income Tax and the Lands Tribunal - all appointed by the Lord Chancellor.

\* the staff of some of the Tribunals who are officers of the Lord Chancellor's Department.

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\* National Audit Office staff.

\* staff of the Parliamentary Commissioner.

It was agreed that as a first step we should ask these three bodies how they would view the inclusion of their staff within the scope of the sanction.

24. We await a substantive reply from the Lord Chancellor's Department, although they have promised to give the point urgent consideration.

25. The Office of the Parliamentary Commissioner has referred our enquiry to Machinery of Government Division at the Cabinet Office (OMCS) who in turn are seeking advice from Treasury Solicitor.

26. National Audit Office accept in principle that their staff should be included. We will take advice from Parliamentary Counsel on the proper method of achieving this.

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**PUBLICITY BEFORE THE BUDGET**

27. We understand from Home Office that while the timetable for OSB is not yet final, it is anticipated that Committee and Report stages will be completed before the end of February. All being well, it is hoped that the Bill will be ready for Royal Assent by the end of May. The necessary Commencement Order to bring it into effect and repeal the old Section 2 OSA will be dealt with in the Autumn.

28. During Committee stage it could be that the reference in the White Paper to possible anti-disclosure measures by the Revenue departments will be picked up and questions asked of Home Office Ministers. We have told Home Office officials that until our proposals are finally approved for inclusion in the Finance Bill, the most that can be said is that the matter is under active consideration. They accept this and their advice to Home Office Ministers is that no other exposure should be given to the Revenue proposals in case it fuels adverse reaction which could affect the main thrust of the OSB.

29. The tactics here are clearly for Treasury Ministers. There is something to be said for an announcement in advance of Budget Day; this is a non-fiscal measure and it could

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be useful to gauge public reaction, talk to and re-assure the Trade Unions and other interested groups before the measure gets tangled up with Finance Bill pressures generally. On the other hand, if the proposal proves to be contentious, an early announcement will give critics more time to organise their opposition and, as mentioned above, there could be awkward side-winds for your Home Office colleagues. You may want to discuss this with us.

HANDLING BY REVENUE DEPARTMENTS

30. The present handling arrangements are cumbersome. Inland Revenue and Customs currently produce parallel submissions to yourself and the Economic Secretary respectively and this inevitably leads to some loss of time. We think it would be sensible if the joint measure was now regarded as one starter, dealt with by one Department in the lead with input from the other. We suggest that it would make sense for the Revenue to assume the lead role as the larger Department, but in close consultation with Customs and including in submissions any material of particular concern to them as is appropriate. The lines of communication at official level between our two Departments are well established. This proposal obviously has implications touching on Ministerial responsibility but subject to that, we would like to discuss with you how we might adapt our present procedures for the convenience of the respective Ministerial and official teams.

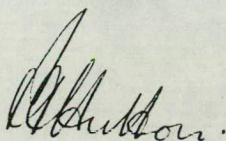
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SUMMARY

31. This minute is by way of a progress report which specifically:-

- \* proposes that a harm test is not appropriate to the proposed measure. (Para 7 et seq)
- \* highlights a tricky area - statements made which purport to disclose confidential information. (Para 17 et seq)
- \* discusses the question of advance publicity (Para 27 et seq).
- \* suggests that the handling arrangements need to be considered. (Para 30 et seq).

32. There are a number of issues to be explored here. You may find it helpful to discuss them with us on the basis suggested at the outset (in Paragraph 2). Meanwhile Parliamentary Counsel has been given instructions to produce draft Clauses.



R A HUTTON

CONFIDENTIAL



*[Handwritten signature]*

FROM: MISS S J FEEST  
DATE: 6 December 1988

MR R A HUTTON - IR

cc

PS/Chancellor  
PS/Chief Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Mr Scholar  
Mr Culpin  
Mr Gilhooly  
Mrs Chaplin  
PS/IR

PROTECTION OF TAXPAYER INFORMATION AFTER REFORM OF  
SECTION 2 OF THE OFFICIAL SECRETS ACT 1911

BUDGET STARTER 452

The Financial Secretary was grateful for your minute of 25 November 1988 and is content for you to proceed as stated in your conclusion.

However he has commented that:

"There are some potentially sensitive issues here and we would look ridiculous if we were more restrictive than <sup>in</sup> the old provisions."

*[Handwritten signature: Susan Feest]*

SUSAN FEEST

B/S  
Hutton  
6/12



INLAND REVENUE  
MANAGEMENT DIVISION  
SOMERSET HOUSE

FROM: R A HUTTON

25 NOVEMBER 1988

- 1. Mr P B G Jones <sup>25/11/88</sup>
- 2. Financial Secretary

**PROTECTION OF TAXPAYER INFORMATION AFTER REFORM OF  
SECTION 2 OF THE OFFICIAL SECRETS ACT 1911**

**BUDGET STARTER 452**

1. My minute of 23 August drew attention to the need for legislation to provide a criminal sanction against unauthorised disclosure of private and commercial information supplied to the Revenue departments and explains why it will become necessary once reform of the Official Secrets Act (OSA) has been completed. This minute sets out in more detail proposals for

cc PS/Chancellor	Chairman	Mr Jones
PS/Chief Secretary	Mr Isaacs	Mr Tyrie
PS/Paymaster General	Mr Rogers	Mr Jenkins - OPC
PS/Economic Secretary	Mr Painter	Mr Hutton
Mr Scholar	Mr Beighton	PS/IR
Mr Culpin	Mr Fallows	PS/C&E
Mr Gilhooly	Mr Miller	
Mrs Chaplin	Mr Bush	

HUTTON  
FST  
25/11

suitable legislation and seeks approval for formal inclusion as a starter for the Finance Bill 1989. We are not seeking to cover Budget Confidentiality, or the confidentiality of other economic or financial information where everyone accepts that the same rules will naturally apply to the Revenue as to other Government Departments.

#### THE NEED FOR A CRIMINAL SANCTION

2. When Section 2 (OSA) is removed and if nothing is put in its place, it could well be perceived by the taxpayer that without a criminal sanction his protection is gone. He would not necessarily see sufficient protection in the ethos of the Revenue departments or any real sanction in the disciplinary code. Indeed there would be no protection at all against disclosure by people to whom the disciplinary code does not apply, in particular former employees. And when other compulsory information powers are balanced by criminal sanctions where that information is improperly disclosed, we feel an adequate answer is needed to what will protect taxpayers privacy when Section 2 goes.



3. Nor is it just a question of taxpayer "perceptions". As recent events have demonstrated, there is in practice a real case for providing for the truly bad case where a criminal sanction is needed as a last resort. There will from time-to-time be people who are tempted to publish, for political or other reasons, sensitive private information whether about public or about private individuals whom they have some reason for attacking. In the case of an employee we have disciplinary sanctions up to and including dismissal. However with a turnover rate amongst junior staff reaching in some places 20% per annum that is pretty fallible protection. For ex-employees (the most recent area of difficulty) there will effectively be no sanction at all.

4. It is for these reasons that what we are recommending a fairly narrow provision to cover only :-

- \* information about the affairs of taxpayers supplied by them or by other persons.
- \* people directly employed in handling this information to establish tax liability.

## THE PRESENT POSITION

5. The bulk of information provided by the public for Revenue purposes is supplied voluntarily; we resort to enforcement powers in only a comparatively small proportion of cases. There would not be such a high degree of co-operation without the confidence that personal and financial details will be kept private. The special nature of tax confidentiality is recognised in the statutory declaration required of all Revenue employees by Section 6 and Schedule 1 of the Taxes Management Act 1970.

This says:

"I, AB, do solemnly declare that I will not disclose any information received by me in the execution of the duties which may from time to time be assigned to me by the Board of Inland Revenue except for the purposes of my duties, or to the Board of Inland Revenue or in accordance with their instructions, or for the purposes of any prosecution for an offence relating to inland revenue, or in such other cases as may be required by law."

Similar declarations are required of Board members and of those involved in the various appeal tribunals such as the General and Special Commissioners. But the legislation provides no criminal sanction for any breach of the obligations so imposed.

6. Revenue employees, as Civil Servants, are also required to sign the standard Official Secrets Act declaration. But the statutory declaration mentioned above is unique to the Inland Revenue. Customs and Excise have no similar requirement. Except in a few clearly defined circumstances, disclosure is prohibited not only to private individuals but also to any other Government Departments, and to other public bodies, including the Police. In the absence of the taxpayer's consent disclosure will only be made:-

- i) when ordered by the Courts;
- ii) for the purposes of a prosecution for an offence against the Inland Revenue;

iii) when the Department's obligation is specifically overridden by statute (e.g. Section 59 Social Security Act which allows some disclosure to DSS.)

7. The Board has discretion as part of their responsibilities for the care and management of the income and capital taxes to permit other disclosures. But it is used very sparingly indeed. Information is given to the Police in murder and treason cases for example, but very rarely in cases involving any other crimes, except when ordered by the Courts.

8. Even then, the Board would ordinarily invite the Court not to require the disclosure of information because of the overriding public interest in that information being protected, where a Revenue witness is asked to reveal details of a taxpayer's affairs without that taxpayer's consent.

## INFORMATION TO BE PROTECTED

9. The OSA White Paper puts the Government view that the civil remedies available to those providing information, and the disciplinary procedures which preclude disclosure by Crown Servants, will for the most part provide sufficient protection for private information. But it also says there are circumstances, particularly where information is provided under statutory requirement, when it is in the public interest that such information is given the protection of the criminal law. The White Paper suggests that information provided to the tax authorities should receive particular consideration in this context.

10. It is clear that under that policy there is no case for criminal sanction to apply to Cabinet documents or Ministerial advice as a class, or to economic information. In debate the Home Secretary has specifically included Budget papers in the class that should not be given this protection.

11. In the submission we seek to protect only that information which relates to the affairs of taxpayers (individual or corporate) whether it is supplied by taxpayers, agents acting on their behalf, or by other bodies such as Banks and Building Societies. This would include certain sensitive information received by the Valuation Office under statutory powers; rent returns for rating purposes, particulars delivered of property transactions and survey details from inspections.

12. We must also include any information received from foreign governments under Double Taxation Agreements. We have an obligation to give such information the same protection as is given to information obtained under our domestic law. We would be in breach of our treaty obligations if we excluded the information from the new measure.

#### WHO SHOULD BE COVERED?

13. The obvious category to whom the sanction should apply are those who have, or have had, direct access to taxpayer information as part of their every day duties.

This would include:-

- i) the Board;
- ii) Inland Revenue employees;
- iii) former employees (including pensioners);
- iv) those seconded to the Revenue from outside bodies or other departments;
- v) consultants and contractors having access to taxpayer information in the course of carrying out work on behalf of the Board.

14. There are others who receive taxpayer information from the Revenue or are given limited access:-

i) Tribunal members such as:-

Special and General Commissioners

Lands Tribunal

Section 463 Tribunal

Board of Referees under Section  
80(3) TMA

ii) Clerks to Tribunals and their  
staff;

iii) The Parliamentary Commissioner and  
his staff:

iv) staff of the National Audit Office;

v) the Police (under the Drug  
Trafficking Offences Act for  
instance);

vi) staff of other departments to whom  
we disclose information under statute.



15. There are considerable problems in our exercising control over non-employees even those fairly directly concerned in the administration of tax. The imposition of disciplinary procedures for less serious disclosure offences has to be left to the employing body. Prosecution for a more serious offence could be undertaken but we would normally seek the agreement of the employing department. There is a case for saying that once information has been passed from the Revenue we believe it should be given the same protection as it receives in the hands of Revenue employees. There is precedent for this in Section 58 of the Finance Act 1969. It permits the Board to disclose to the Department of the Employment or the Business Statistics Office certain specified information for statistical purposes and provides a criminal sanction of up to 2 years imprisonment or a fine or both for onward disclosure otherwise than in accordance with the Section. But the practicalities require the co-operation of the employer. There are limits to how far we can go in seeking to provide sanctions for disclosure by third parties.

16. As a first step we think we should seek the views of the Lord Chancellor's Department, who have responsibility for the appointment and conduct of the General and Special Commissioners and the Lands Tribunal, on extending the sanction to those involved in the tribunals. The General and Special Commissioners are at present bound by the statutory declaration in the Taxes Management Act and this does suggest that their position parallels that of Revenue employees. We could also ask the PCA and the National Audit Office how they would view the inclusion of their staff within the scope of the sanction.

17. Overall though we are against trying to spread our net too wide. To do so would weaken our case for the special nature of Revenue confidentiality. And it could draw accusations that we were countering the limited scope of a reformed OSA by substituting our own "catch all" provision along the lines of the old and discredited Section 2.

## WHAT PENALTIES ARE WE SEEKING?

18. Under the Official Secrets Bill (OSB) and the Banking Act 1987 maximum sentences of 2 years imprisonment or a fine or both are provided on indictment and 3 months imprisonment or a fine or both for lesser offences on summary conviction. Our feeling is that while it might be argued the material covered by the OSB falls into a more serious category than Revenue information there seems nothing to distinguish it from that covered by the Banking Act and we already have the provision mentioned at paragraph 14 above. A convincing deterrent is needed to satisfy the public perception and these are maximum terms which can be tailored to the offence. These matters are regulated by the Home Office according to a scale of punishments and it is not a matter on which we need seek views from Treasury Ministers at least at this stage but they look like precedents.

## CONTROL OF PROSECUTIONS

19. It is important that control of prosecutions lies in the Board's hands. If it does not, we may face a situation where a member of the public could bring a prosecution for an offence we would not consider serious enough to justify criminal charges. There is a parallel in the bribery and

collusion section in the Customs Management Act. Under this provision a prosecution has to be ordered by the Board of Customs and Excise.

#### **CO-ORDINATION WITH CUSTOMS AND EXCISE**

20. Like us Customs hold sensitive confidential information, particularly in relation to VAT traders, and in connection with the control of drugs. Historically, the basis of Customs confidentiality has developed in a slightly different direction from the Inland Revenue's but there is little real difference between the two Departments in this respect. Customs have some reservations about strength of the case for criminal sanctions but are to brief the Economic Secretary seeking approval to go ahead with a joint measure.

Discussions have not so far turned up any major differences such that would prevent a joint approach to the drafting.

#### **TIMING**

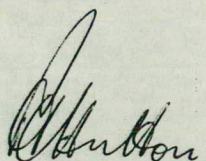
21. We understand from the Home Office that the Official Secrets Bill is set down for second reading on 12 December. Given a normal passage through the House, we

might expect repeal of the old OSA around Easter, leaving a hiatus until the Finance Bill receives Royal Assent. We would not propose to do anything for this interim period.

#### CONCLUSION

22. If you are content we would like formal approval please:-

- \* for inclusion as a budget starter
- \* to instruct Parliamentary Counsel
- \* to write to the Lord Chancellor's Department
- \* to write to the NAO and PCA.



R A HUTTON

25 November 1988

FROM: MISS T A M POLLOCK  
DATE: 27 January 1989

1. MR MICHE *RM 27/1*
2. MR GILHOOLY *27/1*
3. FINANCIAL SECRETARY

cc PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Paymaster General  
Sir Peter Middleton  
Sir Terence Burns  
Mr Anson  
Mr Wicks  
Mr Scholar  
Mr Culpin  
Mr Matthews  
Miss Hay  
Mr Macpherson  
Mr Flanagan  
Mr Sedgwick  
Mrs Chaplin  
Mr Call  
Mr Tyrie

PS/IR )  
Mr Isaac - IR)  
Mr Painter - IR)  
Mr Beighton - IR)\*  
Mr G Bush - IR)  
Mr McManus - IR)  
Mr McNicol - IR)  
Mr Shaw - IR)

PS/Customs )  
Mr Jefferson-Smith - C&E)\*  
Mr Wilmott - C&E)  
Mr P R H Allen - C&E)  
Ms French - C&E)

Mr Jenkins - Parl Counsel

\* reference sheets not attached

### 1989 FINANCE BILL

I attach updated Budget starters summary sheets covering all departments, together with:

- (a) reference sheets for 2 new Inland Revenue starters:

- number 158 - Charities: Payroll Giving Limit.  
 number 404 - Tax Charge on Switching Investments in  
 Offshore Funds (Umbrella Funds).

(b) a revised Index for Inland Revenue.

### Numbers of starters

2. You may wish to note that out of a total of 127 starters, decisions have now been taken to include 68 (13 provisionally) and to drop 38 (1 provisionally). *This leaves 21 starters awaiting a decision.*

### Instructions to Counsel

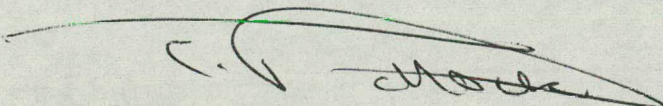
3. Parliamentary Counsel have confirmed that they have received instructions on the following numbers of starters:

	<u>Received in part or full</u>	<u>Not received*</u>
Revenue	30	22
Customs	15	2 (+4 not required - Treasury Orders)
Transport	9	0
Treasury	6	1

(\* excluding those dropped and provisionally dropped).

### Size of the Bill

4. Our tentative estimate of the size of the Bill is that it will now be in the order of 223 pages (including schedules, but excluding 3 starters for which as yet there is no estimate of length of legislation). Inland Revenue starters are expected to account for around 169 pages.



MISS T A M POLLOCK

## CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date	Revenue £m		Staff Effect		Legislation		Other Comments
			main subm.	cost(-)/Yield(+) 1989/90	1990/91	1/4/90	1/4/91	Length	Date Inst. sent to Counsel	
1.	Excise: duty rates	UCM	16.12.88	+1225	+1325	Nil	Nil	1 1/2 pages and 12 pages of schedules		1989-90 revenue yield based on revalorisation of <b>6.8%</b> . 1990-91 yield based on Autumn Statement methodology.
2.	Excise: power to estimate revenue duties payable	I	6.10.88	Neg	Neg	Nil	Nil	13 lines	Drafted	
3.	Excise: restriction of duty-paid blending of made-wine	I	29.9.88	Neg	Neg	Nil	Nil	1/2 page	Drafted	
4.	Excise: measurement and declaration of original gravity of beer	I	6.10.88	Neg	Neg	Nil	Nil	10 lines	Drafted	
5.	Excise: misdescription of substances as beer	I	14.10.88	Neg	Neg	Nil	Nil	3 lines	Drafted	



## CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date main subm	Revenue £m		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
				cost(-)/Yield(+) 1989/90	1990/91	1/4/90	1/4/91			
6.	Excise: oil duties relief	I	31.8.88	Nil	Nil	Nil	Nil	1 1/2 pages	21.10.88	
7.	Excise: abolition of gas oil/fuel oil duties	D	4.11.88	-160	-160	-5	-5	N/A		
8.	Excise: simplified duty credit arrangements for tobacco	D	18.11.88	Nil	Nil	Neg	Neg	N/A		
9.	Excise: matches and mechanical lighter duties: abolition	D	7.10.88	-20	-20	-9	-9	N/A		
30.	VAT: ECJ judgement on zero rates	I	28.6.88	+70 Gross Yield +335	+110 +625	+44	+129	) ) 3 1/2 pages ) and 14 pages ) of schedule	8.9.88	Decisions on subsidiary elements still required Further submissions in due course.
31.	VAT: minor property changes	I	12.4.88	+5	+20	Nil	Nil	) )		
32.	VAT: charities	UCM	17.1.88	-5	-5	Neg	Neg	None (Treasury Order)		

BUDGET.

CONFIDENTIAL

Date 26 January 1989

## CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date main subm	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation		Other Comments
				1989/90	1990/91	1/4/90	1/4/91	Length	Date Inst. sent to Counsel	
33.	VAT: adjustment of input tax on capital goods	I	17.8.88	Nil	Neg	Nil	Nil	Treasury Order		Implementation from 1.4.90
34.	VAT: revalorisation of registration/ deregistration thresholds	NSM		Neg	Neg	Nil	Nil	None (Treasury Order)		
35.	VAT:simplification of registration requirements	I	14.10.88	-35	-100	Neg	Neg	1 1/4 pages and 1/4 page of schedule	17.11.88	
36.	Right to repayment of VAT/excise duties and consequential changes	I	1.9.88	Nil	Nil	Nil	Nil	1 page	6.12.88	
37.	VAT: bad debt relief	I*	14.10.88	-50	-150	+10 (perm)	+20	1 1/2 pages	25.10.88	
38.	VAT:review of default surcharge	I*	4.1.89	-10	- 20	Nil	Nil	1 page and 10 lines	9.11.88 21.11.88	Interim subm. 21.11.88

## CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date main subm	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
				1989/90	1990/91	1/4/90	1/4/91			
39.	Duty and tax relief for diplomats and visiting forces	I	21.10.88	Nil	Nil	Nil	Nil	1 page	21.12.88	
40.	VAT:research and development cars	I	31.8.88	-5	-5	Nil	Nil	None (Treasury Order)		
41.	VAT:passenger transport	D	2.11.88	Depends on decisions		N/K	N/K	N/A		Instns to Sol- icitor's Office 7.12.88
42.	Car tax: rate change	D	3.10.88	Depends on decisions		Nil	Nil	N/A		
60.	Prosecution time limits	I*	11.11.88	Nil	Nil	Nil	Nil	1 1/4 pages	1.11.88.	
61.	Seizure at export of probable cash proceeds of drug trafficking.	I*		Nil	Nil	Nil	Nil	1/2 page		Interim subm. 7.11.88

Budget.

C O N F I D E N T I A L

Date 26 January 1989

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date main subm	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
				1989/90	1990/91	1/4/90	1/4/91			
62.	London Port banking: amendment to CEMA Section 17	I	21.9.88	Nil	Nil	Nil	Nil	6 lines	Drafted	
63.	Unauthorised dis- closure of confidential information	I	25.11.88	Nil	Nil	Nil	Nil	1 page	12.1.89	



BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 26 January 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+)						
				1989/90	1990/91	1/4/90	1/4/91			
106	Benefits in Kind: provided accommodation	UCM	18.1.89	NIL	+10	+100	+100	2-3 pages (more with transitional rules)		
107	Reform of relief for relocation costs	I	27.7.88	+ 5	+30	[Probably small - may depend on extent to which employers gross up]		2-3 pages		
108	Schedule E: Receipts Basis	I	18.11.88	-60	-80	+10	+40	5-6 pages	9.1.89 13.1.89	Full year yield of +£50m. Full year staff saving of 175.
109	Schedule E: post cessation receipts	D		---	---	---	---	---	N/A	The decision on 108 implies the dropping of this starter.
110	Schedule E: lump sum payments	I*	16.12.88	Depends on decisions		Nil	[Probably insignificant]	1-2 pages		

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 26 January 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1989/90	1990/91	1/4/90	1/4/91	Length	Date inst. sent to Counsel	
111	Testimonials for sportsmen	D	16.11.88	---	---	---	---	---	N/A	
112	Review of Employee Share Schemes	I	6.12.88	· Neg	· Neg	Neg	Neg	Up to 2-3 pages		
113	Employee Share Option Plans (ESOPs)	I*	6.12.88	Cost depends on selection from range of possible tax reliefs and on take-up. Currently unpredictable		Possibly + 2 to 3 Inspectors		Up to 3 pages		
114	Taxation of employee priority in company flotations	I	8.9.88	Neg	Neg	Nil	Nil	Up to 1 page	16.12.88 (part)	
115	Employees' material interest	I	6.12.88	Probably negligible		Nil	Nil	Up to 1 page	17.1.89	

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 26 January 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue £m		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+) 1989/90	1990/91	1/4/90	1/4/91			
116	Amendments to PRP	I*	7.7.88	-5 to -10	-10 to -15	(Some staff cost likely)		About 8 pages	4.8.88 11.8.88 20.12.88 (part)	
117	Mortgage interest relief limit for 1989-90	I	10.11.88	<u>Limit unchanged at £30,000</u>					Drafted	
				Nil	Nil	Nil	Nil	Few lines		
				<u>Increase to £35,000</u>						
				-320	-400	-5	-5			
				<u>Increase to £40,000</u>						
				-530	-690	-10	-10			
118	Trusts: general review	UCM	25.11.88	Depends on decisions		Depends on decisions		Perhaps 1-2 pages		
119	Mixed residence and non-resident trusts	UCM	25.11.88	£10m - and possibly a good deal more - tax at risk if no action taken		Depends on decisions		Perhaps 4-5 pages		



BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 26 January 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1989/90	1990/91	1/4/90	1/4/91			
150	Charitable covenants	D	12.12.88	Small cost		Neg	Neg		N/A	
151	Charities: covenanted membership subscriptions	UCM	4.11.88	N/K	N/K	N/K	N/K	1 page	22.11.88 (prov <sup>nl</sup> )	
152	Tax relief for equity investment	I	18.10.88	-5	-10	Nil	Nil	1/4 page		Full year staff effect of -30
153	Pensions: changes to tax rules	I	17.10.88	Neg	Neg	Neg	Neg	10 pages	6.12.88 15.12.88 20.12.88 23.12.88 10.1.89 (part)	
154	Miscellaneous allowances	I	24.11.88	Nil	-35	+10	+25	4 pages	16.12.88 (part)	
155	Friendly Societies Protection Scheme	D	9.9.88	---	---	---	---	---	N/A	Proposal to be implemented through secondary legislation.



BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 26 January 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1989/90	1990/91	1/4/90	1/4/91			
204	Business Expansion Scheme	D	25.11.88	---	---	---	---	---	N/A	
205	Advance Corporation Tax (change of ownership, surrender)	I	8.12.88	Depends on decisions		Neg	Neg	2 pages		
206	Close company legislation	I*	25.8.88	Cost depends on decisions - could exceed £50m in each year.		Neg	Neg	Up to 5 pages for apportionment	20.1.89 (part & prov <sup>n1</sup> )	
207	Capital allowances at sports grounds	I	28.10.88	Neg	Neg	Neg	Neg	1/2 page	Drafted	
208	Capital allowances and VAT	D	12.12.88	---	---	---	---	---	N/A	
209	Capital allowances: pre-consolidation amendments	I	28.10.88	Neg	Neg	Neg	Neg	7 pages	4.11.88	



BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 26 January 1989

1	2	3	4	5	6	7	8	9	10	11	
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue £m		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments	
				cost(-)/yield(+)							
				1989/90	1990/91	1/4/90	1/4/91				
251	CGT: Annual Exempt Amount	I	N/A	Nil*	-10 <i>(non indexed base threshold indexed)</i> +10 <i>(indexed base threshold frozen)</i>	No staff effect assuming revalorisation, staff addition if not revalorised as follows	Nil	+10 (+25 in full year)	Few lines (in event of non revalorisation).	Drafted	Full year cost of £25m. <b>Decision taken at Dorneywood. No submission required.</b>
				* assuming revalorisation							
252	CGT: Gifts relief	I	24.10.88	Neg	+25	Neg	Neg	10 pages	1.12.88	Full year yield £50m	
253	CGT: Qualifying Corporate Bonds	D	8.11.88	---	---	---	---	---	N/A		
254	CGT: Non-resident companies trading in the UK.	I	9.11.88	Substantial revenue at risk if no action taken. (Firm estimate not possible but cost could well exceed £100m a year).		Neg	Neg	6 1/2 pages	23.11.88		
255	CGT: Technical changes associated with rebasing	I	17.10.88	Neg	Neg	Neg	Neg	1 1/2 pages	Drafted		











BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 26 January 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+)						
				1989/90	1990/91	1/4/90	1/4/91			
402	Individual residence	UCM	6.12.88	Possibly yield of £50m		Possible saving of 10 units		4-5 pages		
403	EEIG's	D	15.11.88	---	---	---	---	---	N/A	Deferred to 1990.
404	Umbrella funds	I	9.12.88	Possibly +5 a year		+5	+5	1-2 pages		
450	Keith Committee: administrative improvements	I	6.7.88	Neg	Neg	Neg	Neg	26 pages	Several dates in Oct & Nov	
451	Sub-contractor tax scheme	I	14.10.88	Neg	Neg	Neg	Neg	1/2 page		
452	Unauthorised disclosure of information provided to IR and C&E	I	25.11.88	Nil	Nil	Nil	Nil	5 pages	12.1.89	Joint measure with C&E
453	Deep discounted government and para-statal bonds	UCM	18.1.89	Nil	Neg	Neg	Neg	1 page		

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 26 January 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1989/90	1990/91	1/4/90	1/4/91			
454	Electronic payment of dividends	UCM	27.10.88	Neg	Neg	N/K	N/K	Less than 1 page		Timing of legislation depends on successful result of discussions with APACS
455	Electricity privatisation: miscellaneous taxation provisions	UCM	8.12.88	Depends on decisions but probably small cost.		Neg	Neg	2-3 pages		

BUDGET STARTERS: SUMMARY SHEETS

DEPARTMENT OF TRANSPORT

Date 26 January 1989

No	Description	Status	Date of main Submission	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date of Inst. to Counsel	Other Comments
				1989/90	1990/91	1/4/89	1/4/90			
600	Northern Ireland /GB Exemption	D	4.11.88	NIL	NIL	NIL	NIL		N/A	
601	Trade Licensing	I	4.11.88	+NEG	+NEG	NIL	NIL	N/K	9.8.88	
602	Special Types	I	4.11.88	+NEG	+NEG	NIL	NIL	c-2-3 lines s-1 table (not confirmed)	9.8.88	
603	Rigid Goods Vehicles	I	4.11.88	+£20m		NIL	NIL	c-2-3 lines s-3 tables (not confirmed)	9.8.88	
604	Hackneys	I*	4.11.88	+£20m	+£20m	NIL	NIL	c-2-3 lines s-1 table (not confirmed)	9.8.88	
605	Recovery Vehicles	I	4.11.88	NIL	NIL	NIL	NIL	4-6 lines	Drafted	
606	Dishonoured Cheques	I*	4.11.88	+NEG	+NEG	N/K	N/K	c-2 pages	Nov 88	
607	Minimum threshold for Refunds	D		+NEG	+NEG	NIL	-20?		N/A	
608	Abolishing refunds /6 month licensing	D		-10	-40	NIL	-100?		N/A	

Budget

CONFIDENTIAL

## BUDGET STARTERS: SUMMARY SHEETS

DEPARTMENT OF TRANSPORT

Date 26 January 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main Submission	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date of Inst. to Counsel	Other Comments
				1989/90	1990/91	1/4/89	1/4/90			
609	Mandatory 2 or 3 year First Licensing	D		+N/K	+N/K	NIL	-NEG		N/A	
610	Mine Rescue	D	4.11.88	NIL	NIL	NIL	NIL		N/A	
630	Failure to notify keeper changes	D	4.11.88	NIL	NIL	NIL	NEG?		N/A	
631	Update reference to "registration" to include "registration book"	I	4.11.88	NIL	NIL	NIL	NIL	N/K	Drafted	
632	Grass Cutting Vehicles	I	4.11.88	-NEG	-NEG	NIL	NIL	c-4 lines	18.1.89 (revised instructions)	
633	Sale of Registration Numbers	I	4.11.88	+NEG	up to £50m per year	+NEG	+20	c-4-5 lines s 1½ pages	June 88	

## BUDGET STARTERS: SUMMARY SHEETS

HM TREASURY

Date 26 January 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main Submission	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date of Inst. to Counsel	Other Comments
				1989/90	1990/91	1/4/89	1/4/90			
650	ITV Levy	UCM	11.10.88	NIL	+60	NIL	NIL	up to 1 page and 3-4 pages of schedules		Alteration of levy on profits either to a revenue levy or a mixed revenue/profit system
651	Government stock: small estates	I	4.10.88	NEG	NEG	NEG	NEG	12 lines	18.8.88	Simplification of the Bank's arrangements for dealing with small holdings of the deceased
652	Gilts Redemption Monies: New Procedures	I	4.10.88	NEG	NEG	NEG	NEG	15-20 lines	18.8.88	Simplification of current arrangements
653	Gilts Redemption Monies: Payment of Interest on monies due to deceased holders	D	4.10.88	NIL	-NEG	NEG	NEG		N/A	
654	Redemption 3% 1986-1996: wind up of Annuities Account and Sinking Fund	I	21.10.88	NEG	NEG	NIL	NIL	½ page	18.11.88	

## BUDGET STARTERS: SUMMARY SHEETS

HM TREASURY

Date 26 January 1989

1 2 3 4 5 6 7 8 9 10 11

No	Description	Status	Date of main Submission	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation	Date of Inst. to Counsel	Other Comments
				1989/90	1990/91	1/4/89	1/4/90	Length		
655	Power to use NLF money to purchase and cancel Gilt Edged Securities ahead of redemption	I	6.1.89	NIL	NIL	NIL	NIL	about 6 lines	13.1.89	
656	National Savings: Abolition of minimum interest rate provision	I	6.12.88	NIL	N/K	NIL	NIL	up to 3 lines	9.1.89	
657	National Savings: Restriction of Investment and Ordinary Accounts to personal holders	I	6.12.88	NIL	NIL	N/K	N/K	N/K	9.1.89	

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BUDGET STARTER: REFERENCE SHEET

Date of issue: 13 January 1989

TITLE: Tax Charge on Switching Investments in Offshore Funds (Umbrella Funds)

STARTER NUMBER: 404

CLASSIFICATION: C

Revenue £m*		Staff effects*		Length of legislation*
cost(-)/yield(+)	(Full year)	1/4/90	1/4/91	
1989/90	1990/91			
Difficult to estimate but could be of the order of up to +£5m a year		+5	+5	1-2 pages
Minister in lead		PCTA or equivalent resolution required		
FST		No		

ORIGIN OF STARTER: Representations from the Unit Trust Association

BACKGROUND AND COMMENTS:

Ministers have accepted that there should be a 'level playing field' for taxing investors in UK unit trusts as compared with investors in similar offshore investment funds. At present switching investments within an offshore fund gives rise to no tax charge whereas switching within a UK unit trust does. This change will bring forward an appropriate part of the tax charges that already arise on the disposal of interests in offshore funds.

OFFICIAL IN LEAD: P W Fawcett

TELEPHONE 3541 6497

OFFICIAL IN SUPPORT: Mrs C Smyth

TELEPHONE 3541 6015

FP CONTACT: Miss M Hay

TELEPHONE 270 4918

\* **HEALTH WARNING** The data reports the position at the time of issue of each Reference Sheet and will be updated only if the scope of the Starter changes significantly. Latest information for all items can be found on the Summary Sheets.



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BUDGET STARTER: REFERENCE SHEET

Date of issue: 13 January 1989

TITLE: Charities: Payroll Giving Limit

STARTER NUMBER: 158

CLASSIFICATION: C

Revenue £m*		(Full year)	Staff effects*		Length of legislation*
cost(-)/yield(+)			1/4/90	1/4/91	
1989/90	1990/91				
Neg	Neg		Nil	Nil	Few lines
Minister in lead			PCTA or equivalent resolution required		
FST			Yes		

ORIGIN OF STARTER: Chancellor

BACKGROUND AND COMMENTS:

Current limit on donations qualifying for relief under the payroll giving scheme is £240 a year. Ministers are considering an increase for 1989-90.

OFFICIAL IN LEAD: C Stewart TELEPHONE 3541 7414  
 OFFICIAL IN SUPPORT: Mrs E Fletcher TELEPHONE 3541 7784  
 FP CONTACT: Miss M Hay TELEPHONE 270 4918

\* **HEALTH WARNING** The data reports the position at the time of issues of each Reference Sheet and will be updated only if the scope of the Starter changes significantly. Latest information for all items can be found on the Summary Sheets.

INDEX**INCOME TAX**

- 100 Income tax allowances; basic rate limit and rates
- 101 Independent Taxation: minor consequential changes
- 102 Benefits in kind: Misc 1
- 103 Benefits in kind: Misc 2
- 104 Benefits in kind: car and car fuel benefit
- 105 Benefits in kind: company cars - salary forgone
- 106 Benefits in kind: provided accommodation
- 107 Reform of reliefs for relocation costs
- 108 Schedule E: receipts basis of assessment
- 109 Schedule E: post cessation receipts
- 110 Schedule E: lump sum payments
- 111 Taxation of testimonial payments to sportsmen
- 112 Review of employee share scheme legislation
- 113 Employee Share Ownership Plans (ESOPs)
- 114 Taxation of employee priority in company flotations
- 115 Employees' material interest
- 116 Amendments to PRP
- 117 Mortgage interest relief limit for 1989/90
- 118 Trusts - general review
- 119 Mixed residence and non-resident trusts

**SAVINGS AND INVESTMENT**

- 150 Charitable covenants
- 151 Charities - covenanted membership subscriptions
- 152 Tax relief for equity investment
- 153 Pensions: changes to tax rules
- 154 Miscellaneous allowances

- 155 Friendly Societies Protection Scheme
- 156 Unit trusts: basis of charge
- 157 Swap fees
- 158 Charities: payroll giving limit

**BUSINESS TAXATION**

- 200 Main CT rate for Financial Year 1989
- 201 Small companies rate of CT for Financial Year 1989
- 202 Purchase of own shares by quoted companies
- 203 Entrepreneurs scheme
- 204 Business Expansion Scheme
- 205 ACT (change of ownership, surrender)
- 206 Close company legislation
- 207 Capital allowances: safety at sports grounds
- 208 Capital allowances and VAT
- 209 Capital allowances: pre-consolidation amendments
- 210 Abolition of hobby farming provisions
- 211 Abolition of farmers' averaging provisions
- 212 Reopening of claims for relief
- 213 Extension of relief for pre-trading expenditure
- 214 Sports governing bodies
- 215 Life assurance review

**CAPITAL TAXES**

- 250 CGT
- 251 CGT: annual exempt amount
- 252 CGT: gifts relief
- 253 CGT: qualifying corporate bonds
- 254 CGT: non-resident companies trading in the UK
- 255 CGT: technical changes associated with rebasing

- 256 CGT: chattels exemption
- 257 CGT: private residence relief
- 258 Lloyd's capital gains treatment
- 259 IHT: threshold and rates
- 260 IHT: liability of trustees
- 261 IHT: instruments of variation
- 262 CGT: sterling non-qualifying corporate bonds
- 263 Gifts to Housing Associations

**STAMP DUTY**

- 300 Stamp duty on houses and land: £30,000 threshold
- 301 Stamp duty: rate on shares
- 302 Stamp duty: TAURUS

**OIL TAXATION**

- 350 Oil abandonment: PRT/CT reliefs
- 351 PRT: tariffing issues
- 352 Piper disaster: PRT and CT treatment of insurance receipts
- 353 PRT: relief for incremental oil field investment
- 354 PRT: Oil allowance: 'Peak Shaver' fields

**INTERNATIONAL TAXATION**

- 400 Tax deductible from tax credit payments to US companies
- 401 Sovereign Immunity
- 402 Residence and basis of UK tax liability for individuals
- 403 Tax rules for European Economic Interest Groupings (EEIGs)
- 404 Umbrella funds

**MISCELLANEOUS**

- 450 Keith Committee: administrative improvements
- 451 Sub-contractor tax scheme

- 452 Unauthorised disclosure of information provided to Inland Revenue and Customs and Excise departments
- 453 Deep discounted government and foreign para-statal bonds
- 454 Electronic payment of dividends
- 455 Electricity privatisation: miscellaneous taxation provisions

UNAUTHORISED  
DISCLOSURE

Susan 06.30.1.89

CONFIDENTIAL



*Phy*

*Learn to FST.*

FROM: MISS S J FEEST  
DATE: 30 January 1989

MR D B ROGERS - IR

cc

- PS/Chancellor
- PS/Chief Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Mr Scholar
- Mr Culpin
- Mr Gilhooly
- Mrs Chaplin
- Mr Tyrie
- Mr Sutherland (OPC)
- PS/C&E

*PS/ST  
ROGERS  
30/1*

*Ch*

*Given this covers with IR & C&E,  
could ask CST to take the lead,  
though FST seems to be quite keen.  
Potentially for Owens next Monday  
*AB**

**FINANCE BILL: UNAUTHORISED DISCLOSURE OF CONFIDENTIAL INFORMATION: STARTERS 63 AND 452**

The Financial Secretary was grateful for Mr Hutton's submission of 27 January 1989 and Mr Bush's covering note and is content with the basic proposals.

In particular, he agrees that there ought to be a power against the disclosure of "purported" confidential information as he feels that this could harm an individual just as much as true information.

He would be happy to discuss the handling of this issue along with the Economic Secretary and officials. Suitable arrangement will be made in due course, subject to the Economic Secretary's VIEWS.

*Susan*

SUSAN FEEST

Ch/ In the circs, OK? But will have to work up a convincing presentation & briefing for this change.

Ok. Agree with your comment @ 4. I understand, how do people stop that? 75% of primary with history? 24?

FROM: IAN RICH  
DATE: 2 February 1989

- 1. MISS O'MARA
- 2. ECONOMIC SECRETARY

Dis cc

- Chancellor -
- Sir P Middleton
- Mr Wicks
- Mr Scholar
- Mr Peretz
- Mr Michie
- Mrs Chaplin
- Mr Patterson (DNS)
- Mr Jenkins (TSol)

If we are to take action on this - and I hope we can - we shall almost certainly attract flak for giving up the possibility of zero interest. But I think it is worth pressing ahead nonetheless. If you find this unattractive, I'd recommend retaining the status quo. Mon 3/2

**FINANCE BILL STARTER 656: NATIONAL SAVINGS ORDINARY ACCOUNT INTEREST**

The National Savings Bank Act 1971 stipulates a minimum interest rate of 2.5%. When we were deciding Ordinary Account terms for 1989, the Chancellor asked if it might be worth considering the option of amending the Act, so that no interest need be paid at all on lower tier accounts.

2. My submission of 6 December reported that such an amendment would be within the scope of a Finance Bill, and would open up a range of options. It accordingly recommended provision in the 1989 Finance Bill. Miss Wallace's minute of 8 December records the Chancellor's agreement.

3. The Treasury Solicitor instructed Parliamentary Counsel to draft a clause which both removed the requirement to pay a minimum of 2.5 per cent and opened up the option of paying no interest. They both advised that an express reference is necessary to achieve the latter objective, and Parliamentary Counsel is of the view that provision must be made as follows (my underlining).

"The Director of Savings may, with the consent of the Treasury, from time to time determine the rate or rates at which interest is to be payable on amounts deposited in ordinary accounts or that no interest is to be payable on such amounts...."

4. If the words underlined are omitted, there will be no need to continue to pay a minimum of 2.5 per cent, but it will be impossible to pay nothing. This also opens up the difficult question of how low interest rates could go short of zero. The Treasury Solicitor advises that there will be some scope for reductions below 2.5 per cent, but that as the rates got lower, the risks of the Director's determinations being subject to successful judicial review would increase. That would not be the case if we were to provide for a zero rate in the way Parliamentary Counsel has suggested. Presentationally, we would much prefer to omit the words underlined, but the Treasury Solicitor's advice shows this to be an unattractive proposition.

X | 5. The Clause as drafted is a more realistic approach, but there are disadvantages. It gives the zero option a high profile, which many would interpret as a firm decision and a step on the road to abolishing the Ordinary Account. It would be hard to convince critics that this was not so. The Federation of Sub-Postmasters and the small savings lobby have reacted badly to the modest decision to increase the minimum deposit from £1 to £5 on 1 January. On the other hand, there would be a good opportunity to explain publicly why we no longer attached any priority to the Ordinary Account - no social purpose; no funding policy need; not the sort of money we now want in National Savings. We could also stress that the Government's strong desire to stimulate more long term saving did not imply more deposits in the most liquid National Savings products.

6. Treasury officials believe that the difficulties noted in paragraph 5 can be surmounted, and recommend proceeding on the basis drafted by Parliamentary Counsel. DNS shares the view that there is no realistic alternative given Ministers' wish that there should be a zero option. But they note that it will not be easy to defend an option to pay no interest at all on a savings account.

7. You may care to discuss with us.

y | Not really. Just say interest would then only be payable on balances over, say, £500.

lan Rich  
IAN RICH



NOTES OF A MEETING HELD IN THE FINANCIAL SECRETARY'S ROOM ON THURSDAY 2ND FEBRUARY 1989 AT 10.00AM

Those present:

- The Financial Secretary
- The Economic Secretary
- Mr D B Rogers )
- Mr P B G Jones ) IR
- Mr G BUSH )
- Mr R A Hutton )
  
- Mr D J Howard ) Customs and Excise
- Mr R Brisley )

FINANCE BILL STARTERS 63 AND 452 UNAUTHORISED DISCLOSURE OF CONFIDENTIAL INFORMATION

Both the Financial Secretary and the Economic Secretary agreed that they were content with the basic principles of proposed changes and felt that the changes would be accepted with little dissent.

The Financial Secretary explained that Customs and Excise didn't have such a strong case for a criminal sanction against the disclosure of confidential information as the Inland Revenue; since VAT related to business affairs rather than personal affairs. However, he felt it was right for both the Revenue and Customs to have a joint proposal for action in the Finance Bill.

Mr Rogers said the Revenue want the issue to be narrowly focused on protecting information supplied on the taxpayer's private affairs. It was not intended to cover internal Revenue affairs ie policy matters. He asked if Customs saw the issue in the same light.

Mr Howard explained that Customs had a slight problem with the proposed starter and its interface with Clause 4 of the Official Secrets Bill. He was concerned that there might be a grey area between the aspects of confidentiality covered by the Finance Bill Clause and Clause 4 of the Official Secrets Bill.

The Economic Secretary explained that, unlike the Revenue, Customs required a guarantee of confidentiality not only for private business affairs but also to cover their policing function (ie import prohibitions).

Mr Rogers agreed with Mr Howard that further work would have to be done on this problem to cover any grey areas which might emerge.

#### PURPORTED INFORMATION

The Financial Secretary turned to the subject of "purported" information and whether this should be covered by the Bill. He admitted that his initial reaction had been that such allegations should be covered in the same way as true private information; but he understood that there could be a number of legal difficulties in this area and he was therefore prepared to drop the idea.

The Economic Secretary agreed that there was no need for such a power. He felt that if the "purported" information was obviously untrue, the civil servant involved could be sued for libel; whilst if it were only partly untrue, it would be covered by the Finance Bill clause anyway.

The Financial Secretary said he was still concerned that there ought to be some sort of criminal law sanction against the disclosure of purported information in order to convince the general public that the information they are compelled to supply to the Revenue/Customs would be treated in complete confidence and not used in any harmful or misleading way.

Such a situation might occur, Mr Bush explained, where a statement was made which was untrue but which indicated clearly the nature of a taxpayer's circumstances. He felt that in this situation the Revenue/Customs would have to consider very carefully before taking criminal proceedings, as a trial could cause more harm to the taxpayer than the actual information disclosed originally.

Mr Rogers pointed out that the whole subject of "purported" information was still under consideration and that he was awaiting the Home Office view. (Although they were expected to be against covering purported information in the Finance Bill clause).

The Financial Secretary agreed that further work should be done on this subject before a final decision was made.

#### PUBLICITY BEFORE THE BUDGET

With regard to the handling of the Finance Bill clause, the Financial Secretary was minded to encourage the Home Office to mention the Revenue/Customs' plans during the committee stage of the official Secrets Bill; so as to avoid any shocked reaction during the Finance Bill debates.

The Economic Secretary agreed that a prior announcement by the Home Office would be helpful; but only once our anti-disclosure measures had been satisfactorily finalised.

Mr Rogers agreed to this, subject to agreement from the relevant Home Office Ministers.

#### TRADE UNION REACTION

Mr Howard felt that such an early announcement would lead to enquiries from Trade Unions for details of the Budget proposal. He asked if Ministers were happy for Customs and Revenue to answer their queries in broad terms.

The Financial Secretary said he was content with this.

#### OTHER DEPARTMENTS TO BE INCLUDED

The Financial Secretary wondered if the extension of the proposals to cover the NAO, tribunal members and staff of the Parliamentary Commissioner was entirely necessary.

Mr Hutton pointed out that all three bodies had access to tax files and should therefore be covered in the same way. He pointed out that the NA<sup>^</sup> were content with this decision as were the other bodies.

The Financial Secretary agreed the sanction should therefore cover all three bodies.

On the question as to which Minister should handle the Finance Bill clause - there was no clear decision on this point and Financial <sup>Secretary</sup> suggested a final decision could be postponed at this stage.

*Susan Feest*

SUSAN FEEST  
2 February 1989

cc

- PS/Chancellor
- PS/Chief Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir Peter Middleton
- Mr Scholar
- Mr Culpin
- Mr Gilhooly
- Mr Michie
- Mr Tyrie
- PS/Inland Revenue
- Mr Jenkins
- (Parliamentary Counsel
  
- Mr D B Rogers )
- Mr P B Jones ) IR
- Mr G Bush )
- Mr R Hutton )
  
- Mr D J Howard ) C&E
- Mr R Brisley )
- PS/Custom and Excise

FROM: S D H SARGENT  
 DATE: 3 FEBRUARY 1989

PS/CHANCELLOR

cc PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Paymaster General  
 PS/Economic Secretary  
 Sir T Burns\*  
 Mr Anson\*  
 Dame Anne Mueller\*  
 Mr Wicks\*  
 Mr Hardcastle\*  
 Mr Byatt\*  
 Mr Scholar  
 Mr Culpin  
 Mr Sedgwick\*  
 Mr Riley\*  
 Mr Gilhooly  
 Mr Matthews\*  
 Mr MacPherson\*  
 Miss Simpson\*  
 Mr Chaplin  
 Mr Tyrie  
 Mr Call\*  
 PS/IR  
 Mr Beighton )  
 Mr Issac ) IR  
 Mr Painter )  
 Mr Bush )  
 Mr Unwin )  
 Mr Jefferson Smith\* ) C&E  
 Mr P R H Allen\* )

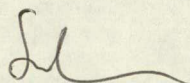
\* with copies of Mr Bush's  
 minute of 27 January

**FINANCE BILL: UNAUTHORISED DISCLOSURE OF CONFIDENTIAL INFORMATION**

Sir Peter Middleton has now seen the minute of 27 January from Mr Bush to the Financial Secretary, which was unfortunately not copied to him originally. Copies are attached for those who have not already received it.

2. Sir Peter Middleton has commented that this does raise the question whether the unauthorised disclosure of Budget material should also have criminal sanctions applied to it.

3. Sir Peter Middleton would also be interested to receive some more information about the 100 or more anti-disclosure measures that are already in place, as described in paragraph 20. Perhaps Mr Bush could provide this.



S D H SARGENT  
 Private Secretary

B/S  
 B/C  
 3/2

FROM: MISS T A M POLLOCK  
DATE: 3 February 1989

MR GILHOOLY

cc PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Paymaster General  
PS/Sir Peter Middleton  
Mr Scholar  
Mr Culpin  
Mr C Riley  
Mr Macpherson  
Mr Michie  
Miss Hay  
Mrs Chaplin  
Mr Tyrie  
Mr Call

*[Handwritten note in red ink: "List with names & dates in column"]*

PS/Sir Anthony Battishill - IR  
Mr Bush - IR

PS/Mr Unwin - C&E  
Mr P R H Allen - C&E

Mr Jenkins - Parly Counsel

### 1989 FINANCE BILL STARTERS

You asked me to update on a weekly basis Tables 1 and 2 and Annex A of your minute of 26 January to the Chancellor.

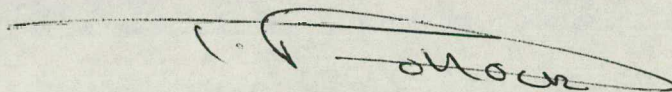
*The "minor starters" submission.*

2. The first update is now attached. Although three Revenue starters - numbers 106, 150, 402 - previously under consideration have now been dropped (together with number 303 which had been provisionally dropped), there are four new Revenue starters: -

- Number 204 - Business Expansion Scheme (previously dropped).
- 216 - Set-off of trading losses against capital gains.
- 217 - Tax relief for residential landlords.
- 264 - Capital Gains avoidance on sale of subsidiaries.

Full details of these will be circulated with the next update of Starters summary sheets.

3. You will note from the attached figures that the latest estimate of the length of the Bill is that it will be in the order of 212 pages (previously 223). Inland Revenue Starters account for around 158½ pages (previously 169½).

A handwritten signature in black ink, appearing to read 'T A M Pollock', written over a horizontal line.

MISS T A M POLLOCK

TABLE 1

STATE OF PLAY WITH DEPARTMENTS

	<u>Awaiting Submission</u>	<u>Under consideration by Ministers</u>	<u>Provisionally included</u>	<u>Included</u>	<u>TOTAL</u>
<u>INLAND REVENUE</u>					
- starters	2	15	6	30	53
- estimated no of pages	1 $\frac{3}{4}$	25 $\frac{1}{4}$	21	110 $\frac{1}{2}$	158 $\frac{1}{2}$
<u>CUSTOMS AND EXCISE</u>					
- starters	NIL	1	3	12	16
- estimated no of pages	NIL	13 $\frac{1}{2}$	3 $\frac{1}{4}$	26 $\frac{1}{4}$	43
<u>TREASURY &amp; TRANSPORT</u>					
- starters	NIL	1	2	13	16
- estimated no of pages	NIL	4 $\frac{1}{2}$	2 $\frac{1}{4}$	3 $\frac{3}{4}$	10 $\frac{1}{2}$
<u>T O T A L</u>					
- starters	2	17	11	55	85
- estimated no of pages	1 $\frac{3}{4}$	43 $\frac{1}{4}$	26 $\frac{1}{2}$	140 $\frac{1}{2}$	212

NOTES: "Pages" includes schedules.  
Length of one or two starters not yet known: these are included in "number of starters", but not in "pages".  
Excludes 4 Customs starters being dealt with by Treasury order.



T A B L E 2

STATE OF PLAY WITH PARLIAMENTARY COUNSEL

	<u>Instructions not yet with Counsel</u>	<u>Being drafted by Counsel</u>	<u>Drafting completed</u>	<u>TOTAL</u>
<u>INLAND REVENUE</u>				
- no of starters	21	22	10	53
- no of pages	38 $\frac{3}{4}$	116 $\frac{1}{2}$	3 $\frac{1}{4}$	158 $\frac{1}{2}$
<u>CUSTOMS AND EXCISE</u>				
- no of starters	2	9	5	16
- no of pages	14	28	1	43
<u>TREASURY &amp; TRANSPORT</u>				
- no of starters	1	13	2	16
- no of pages	4 $\frac{1}{2}$	5 $\frac{1}{2}$	$\frac{1}{2}$	10 $\frac{1}{2}$
<u>T O T A L</u>				
- no of starters	24	44	17	85
- no of pages	57 $\frac{1}{4}$	150	4 $\frac{3}{4}$	212

NOTES: As for Table 1

STARTERS: DETAILSI STARTERS AWAITING A SUBMISSIONInland RevenuePAGES

217	Tax relief for residential landlords	(1½)
259	IHT - Threshold and Rate	(½) - <i>now relevant</i>

II UNDER CONSIDERATION BY MINISTERSInland Revenue

100	Income Tax	(2/3)
103	Benefits-in-kind - Misc 2	(1)
118	Trusts: general review	(1 to 2)
*119	Mixed residence and non-resident trusts	(4 to 5)
151	Charities: covenanted membership subs	(1)
200	Main CT rate for financial year 1989	(½)
201	Small companies CT rate for financial year 1989	(½)
216	Set-off of trading losses against Capital Gains	(1½)
258	Lloyd's CG treatment	(1 page)
263	Gifts to Housing Associations	(½)
*264	Capital Gains Avoidance on Sale of Subsidiaries	(6-12)

\* Will be introduced at Committee stage.

BUDGET SECRET

453	Deep discounted government & parastatal bonds	(1)
454	Electronic payment of dividends	(under 1)
455	Electricity privatisation: misc tax provisions	(2 to 3)

Customs & Excise

1	Excise Duty Rates (including VED)	(13½)
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Treasury

650	ITV levy	(4 to 5)
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III PROVISIONALLY INCLUDED

Inland Revenue

104	Benefits in kind: car and car fuel benefit	(1½)
110	Schedule E: lump sum payments	(1 to 2)
113	ESOPS	(up to 3)
116	Amendments to PRP	(8)
206	Close company legislation	(up to 5)
212	Reopening of claims etc	(2)

Customs & Excise

37	VAT: bad debt relief	(1½)
60	Prosecution time limits	(1¼)
*61	Seizure at export of probable cash proceeds of drug trafficking	(½)

\* likely to be dropped

Transport

604	Hackneys	(2-3 lines, plus schedule table)
606	Dishonoured cheques	(2)

IV INCLUDED BUT NOT YET WITH COUNSELInland Revenue

107	Reform of relief for relocation costs	(2 to 3)
112	Review of Employee Share Schemes	(2 to 3)
152	Tax relief for equity investments	( $\frac{1}{2}$ )
204	Business Expansion Scheme	N/K
205	ACT (Change of ownership, surrender)	(2)
451	Sub-contractor tax scheme	( $\frac{1}{2}$ )

V INCLUDED AND WITH COUNSEL, STILL BEING DRAFTEDInland Revenue

108	Schedule E: Receipts Basis	(5 to 6)
114	Taxation of employee priority in company flotations	(1)
115	Employees' material interest	(1)
153	Pensions: changes to tax rules	(10)
154	Private Medical Insurance for over 60's	(4)
156	Unit trusts: basis of charge	(5)
209	Capital allowances: pre consolidation amendments	(7)
215	Life Assurance Review	(5)
252	CGT: Gifts relief	(10)

BUDGET SECRET

254	CGT non-resident companies trading in UK	(6½)
261	IHT: Instruments of variation	(3)
262	CGT: Sterling non-qualifying corporate bonds	(up to 2/3)
301	Stamp Duty: rate on shares	(7)
353	PRT: relief for incremental oil field investment	(5)
404	Umbrella funds	(1-2)
450	Keith Committee: administrative improvements	(26)
452	Unauthorised disclosure of information provided to IR and C&E	(2)

Customs & Excise

6	Excise: oil duties relief	(1½)
30	VAT: ECJ judgement on zero rates )	(17½)
31	VAT: minor property changes )	
35	VAT: simplification of registration requirements	(1½)
36	Right to repayment of VAT/excise duties and consequential changes	(1)
38	VAT: review of default surcharge	(¼)
39	Duty and tax relief for diplomats and visiting forces	(3)

Treasury & Transport

601	Trade Licensing	(not known)
602	Special Types	(3 lines plus a schedule table)
603	Rigid goods vehicles	(3 lines plus 3 schedules tables)
604	Hackneys	(3 lines plus a schedule table)
606	Dishonoured cheques	(2)
632	Grass cutting vehicles	(4 lines)
633	Sale of Registration Numbers	(1½)

VI INCLUDED AND COUNSEL'S DRAFTING COMPLETEDInland Revenue

117	Mortgage interest relief limit for 1989-90	(a few lines)
158	Charities: Payroll Giving Limit	(a few lines)
207	Capital allowances at sports grounds	( $\frac{1}{2}$ )
213	Extension of pre-trading expenditure relief	(7 lines)
251	CGT: Annual exempt amount	(a few lines)
255	CGT: Technical changes associated with rebasing	(1 $\frac{1}{2}$ )
256	CGT: chattels exemption	(a few lines)
400	Tax deductible from tax credit payments to US companies	( $\frac{1}{2}$ )

(In addition, the following two starters are still under consideration, but drafting has been completed)

200	Main CT rate for 1989	(2 lines)
201	Small companies rate of CT for 1989	(a few lines)

Customs & Excise

2	Excise: power to estimate revenue duties payable	( $\frac{1}{4}$ )
3	Excise: restriction of duty-paid blending of made wine	( $\frac{1}{2}$ )
4	Excise: measurement and declaration of original gravity of beer	( $\frac{1}{4}$ )
5	Excise: misdescription of substances as beer	(3 lines)
62	London Port banking: amendment to CEMA Section 17	(6 lines)

Treasury & Transport

605	Recovery vehicles	(5 lines)
631	Update reference to "registration" to include "registration book".	(not known)



FROM: A C S ALLAN

DATE: 8 February 1989

PS/ECONOMIC SECRETARY

cc Sir P Middleton  
Mr Wicks  
Mr Scholar  
Mr Peretz  
Miss O'Mara  
Mr Michie  
Mr Rich  
Mrs Chaplin

Mr Patterson - DNS  
Mr Jenkins (T.Sol.)

FINANCE BILL STARTER 656:

NATIONAL SAVINGS ORDINARY ACCOUNT INTEREST

The Chancellor has seen Mr Rich's minute of 2 February to the Economic Secretary. He agrees that we should proceed with the option of not paying interest at all on lower tier accounts. The defence against the point that this is a savings account is to follow the line that interest is payable on balances over the minimum level.

A handwritten signature in black ink, appearing to read 'A C S Allan', with a long horizontal stroke extending to the right.

A C S ALLAN

B U D G E T   C O N F I D E N T I A L



*PM*

FROM: S M A JAMES  
DATE: 9 February 1989

MR RICH

cc: PS/Chancellor  
Mr Wicks  
Mr Scholar  
Mr Peretz  
Miss O'Mara  
Mr Michie  
Mrs Chaplin

Mr Patterson - DNS  
Mr Jenkins - Tsy Sol

FINANCE BILL STARTER 656 : NATIONAL SAVINGS ORDINARY ACCOUNT INTEREST

The Economic Secretary was grateful for your minute of 2 February. He has also seen Mr Allan's note of 8 February. The Economic Secretary agrees with the Chancellor that we should proceed with the option of not paying interest at all on low tier accounts.

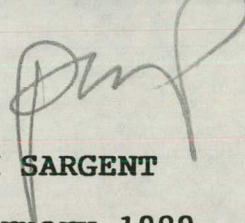
2. He would be grateful for advice on how we will respond in Committee to the obvious questions eg

- (i) do you intend to stop paying interest?
- (ii) when do you intend to stop paying interest?
- (iii) can you give assurances that you will continue to pay interest?

*SMA*

S M A JAMES  
Private Secretary





FROM: S D H SARGENT

DATE: 9 February 1989

MR R A HUTTON - IR

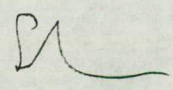
cc PS/Chancellor  
 PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Paymaster General  
 PS/Economic Secretary  
 Sir T Burns  
 Dame Anne Mueller  
 Mr Anson  
 Mr Wicks  
 Mr Hardcastle  
 Mr Byatt  
 Mr Scholar  
 Mr C D Butler  
 Mr Culpin  
 Mr Sedgwick  
 Mr Riley  
 Mr Gilhooly  
 Mr C C Allan  
 Mr Matthews  
 Mr MacPherson  
 Miss Simpson  
 Mr Chaplin  
 Mr Tyrie  
 Mr Call

PS/IR  
 Mr Beighton)  
 Mr Isaac ) IR  
 Mr Painter )  
 Mr Bush )

Mr Unwin )  
 Mr Jefferson Smith) C&E  
 Mr P R H Allen )

**FINANCE BILL: UNAUTHORISED DISCLOSURE OF CONFIDENTIAL INFORMATION**

Thank you for your minute of 7 February, which I have shown to Sir Peter Middleton. I am circulating copies of your minute and attachment with this note.



S D H SARGENT  
Private Secretary

C5

MANAGEMENT DIVISION (PERSONNEL) M1/5

FROM: R A HUTTON  
EXT : 438 6544  
DATE: 7 FEBRUARY 1989

Mr S D H Sargent  
PS/Sir Peter Middleton  
HM Treasury, Parliament Street  
LONDON SW1P 3AG

---

*Keep handy*

**FINANCE BILL : UNAUTHORISED DISCLOSURE OF CONFIDENTIAL INFORMATION**

In your note of 3 February you say Sir Peter Middleton would be interested to receive more information about the many anti-disclosure measures already in place.

... Attached is a copy of a Written Answer given on the 21 January 1987 which was supplied to us by the Home Office. It gives a list of statutory provisions containing criminal penalties for unauthorised disclosure of information obtained under statute. We have not had time to look at many of these, but the Home Office say it has become almost customary to impose such restrictions on disclosure where particular information is required to be provided by statute.



R A HUTTON  
7 February 1989

*Asking*

---

Agreement was reached upon a seven-point plan which would be pursued in conjunction with the Council of Europe's Pampidou Group, covering:

(i) Measures to reduce demand for drugs especially among young people;

(ii) Measures to improve the treatment of addicts and rehabilitation services;

(iii) ensuring that bilateral and Community aid supports as appropriate a recipient country's efforts to combat drug abuse;

(iv) steps to ensure that legislation takes account of the need to maintain effective control over illicit drug trafficking, particularly at the Community's external frontiers;

(v) mutual enforcement of confiscation orders relating to drug traffickers' assets;

(vi) enhanced co-operation between law enforcement agencies involving exchange of drug liaison officers between member states, the posting of drug liaison officers to other countries and the establishment of a worldwide directory of those involved in the fight against drug abuse; this would be achieved by inviting the Trevi Working Group Three to examine the scope for creating a co-ordinated network of drug liaison officers to monitor developments in producer countries;

(vii) preparation of joint assessments by Community ambassadors in drug-producing countries in order to ensure a steady flow of recommendations for action by the Twelve.

At the European Council, in December, Heads of State and Government endorsed this plan, action on which will be carried forward in ad hoc meetings of officials under the Belgian presidency. A copy of the Council's conclusions has been placed in the Library.

#### Remand Prisoners

**Mr. Duhs** asked the Secretary of State for the Home Department how many prisoners on remand are currently being held in police cells.

**Mr. Mellor:** On 16 January 1987 there were 197 persons held in police cells in England and Wales, most of whom are likely to have been untried.

#### Airey Neave (Murder)

**Mr. J. Enoch Powell** asked the Secretary of State for the Home Department whether, the case being concluded, he will now answer the question of the right hon. Member for South Down, *Official Report*, column 532, 6 November 1986.

**Mr. Douglas Hogg:** I understand that, as part of an operation which led to the conviction of two men for conspiracy to murder, two detectives represented themselves as members of a terrorist organisation. I am informed that the police made an apology in court for any distress caused to the family of the late Mr. Airey Neave.

#### Immigration

**Mr. Lawrence** asked the Secretary of State for the Home Department what is the current monthly rate of representations by hon. Members in immigration cases; and how it compares with the rate prior to the introduction of his March 1986 guidelines.

**Mr. Waddington:** The following table gives the number of immigration files created each month since October 1985 as a result of representations made on immigration matters by right hon. and hon. Members.

	Numbers
1985	
October	1,782
November	1,552
December	1,044
1986	
January	1,403
February	1,434
March	1,355
April	1,318
May	1,202
June	1,728
July	1,279
August	1,255
September	1,745
October	1,822
November	1,568
December	1,402

#### Notes:

1. These figures include a number of letters dealing with general issues rather than individual cases.
2. Representations made on behalf of a single family may be counted as more than one case where the immigration circumstances of more than one member of the family are under consideration.
3. Further representations made after reply has been sent are included separately in these figures.
4. Representations received about the same case from more than one right hon. Member or hon. Member are counted separately.
5. These figures include representations on after entry cases as well as those arising from port refusals where stops on removal were followed by written representations.
6. The figures relate to the months in which the representations were received. Those for November and December 1986 include substantial numbers of representations on behalf of passengers who were granted temporary admission in October and who were subsequently refused leave to enter after they had been further interviewed by immigration officers.
7. The guidelines to which my hon. and learned Friend refers were introduced on 1 May 1986.

#### Official Information

**Mr. Michael Meacher** asked the Secretary of State for the Home Department if he will publish a complete list of statutory provisions bearing upon the disclosure of official information, other than the Official Secrets Acts, in order to update the list of provisions published in appendix V of the Franks report.

**Mr. Waddington** [pursuant to his reply, 18 December 1986, c. 656]: The following is the information requested:

- Census Act 1920, section 8(2).
- Public Health Act 1936, section 287.
- Coal Act 1938, section 1(3).
- Population (Statistics) Act 1938, section 4(2).
- Ministry of Supply Act 1939, section 17.
- London Building Acts (Amendment) Act 1939, section 142.
- Agricultural Returns Act (NI) 1939, section 1(5).
- War Damage Act 1943, section 118.
- Water Act 1945, schedule 3, paragraph 82(5).
- Atomic Energy Act 1946, section 13.
- Coal Industry Nationalisation Act 1946, section 56.
- Building Restrictions (War-time Contraventions) Act 1946, section 5 (now defunct).
- Agriculture Act 1947, section 81.
- Cotton (Centralised Buying) Act 1947, section 23(2).
- Industrial Organisation and Development Act 1947, section 5.
- Statistics of Trade Act 1947, section 9.
- Civil Defence Act 1948, section 4(4).
- Cotton Spinning (Re-equipment Subsidy) Act 1948, section 4.
- Monopolies & Restrictive Practices (Enquiry & Control) Act 1948, section 17.
- Radioactive Substances Act 1948, section 7.

Wireless Telegraph Act 1949, sections 5, (6)(ii) and 15(4)(c).  
 London County Council (General Powers) Act 1949, section 35.  
 Coast Protection Act 1949, section 25.  
 Statistics of Trade Act (NI) 1949, section 8.  
 Slaughterhouses Act (NI) 1953, section 6(5).  
 Clean Air Act 1956, section 26.  
 Restrictive Trade Practices Act 1956, section 33.  
 Agriculture Act 1957, section 26.  
 Cinematograph Films Act 1957, section 5.  
 London County Council (General Powers) Act 1957, section 58.  
 Marketing of Eggs Act (NI) 1957, section 20.  
 Agricultural Marketing Act 1958, section 47.  
 Public Records Act 1958, schedule 2.  
 Food and Drugs Act (NI) 1958, section 41(6).  
 Building (Scotland) Act 1959, section 18(8).  
 Horticulture Act 1960, section 12(3).  
 Radioactive Substances Act 1960, section 13(3).  
 Covent Garden Market Act 1961, section 32.  
 Factories Act 1961, section 154.  
 Public Health Act 1961, section 68.  
 Rivers (Prevention of Pollution) Act 1961, section 12.  
 Flood Prevention (Scotland) Act 1961, section 10.  
 Agricultural Produce (Meat Regulation and Pig Industry) Act (NI) 1962, section 15(5).  
 Offices, Shops & Railway Premises Act 1963, section 59.  
 Water Resources Act 1963, section 112.  
 Weights & Measures Act 1963, section 48.  
 Agriculture and Horticulture Act 1964, section 13.  
 Betting, Gaming and Lotteries Act 1963, section 28.  
 Harbours Act 1964, section 46.  
 Marketing of Potatoes Act (NI) 1964, section 13.  
 Agricultural Marketing Act (NI) 1964, section 23.  
 Cereals Marketing Act 1965, section 17.  
 Gas Act 1965, schedule 6, paragraph 9.  
 Highlands and Islands Development (Scotland) Act 1965, section 12.  
 Factories Act (NI) 1965, section 154.  
 Land Development Values (Compensation) Act (NI) 1965, section 40.  
 Office and Shop Premises Act (NI) 1966, section 56.  
 Horticulture Act (NI) 1966, section 29.  
 Abortion Act 1967, section 2(1).  
 Agriculture Act 1967, sections 24 and 25.  
 Iron and Steel Act 1967, section 43.  
 Adoption Act (NI) 1967, section 44.  
 Medicines Act 1968, section 118(2).  
 Sewerage (Scotland) Act 1968, section 50.  
 Trade Descriptions Act 1968, section 28.  
 Post Office Act 1969, section 65.  
 Finance Act 1969, section 58(6).  
 Census Act (NI) 1969, sections 6, 7(4) and 7(5).  
 Agriculture Act 1970, sections 21, 83 and 108.  
 Sea Fish Industry Act 1970, section 14(2).  
 Fire Precautions Act 1971, section 21.  
 National Savings Bank Act 1971, section 12.  
 Town and County Planning Act 1971, section 281(3).  
 Local Government Act 1972, sections 100 and 158 and schedule 12A parts I and II.  
 European Communities Act 1972, sections 11(2) and 12.  
 Town and Country Planning (Scotland) Act 1972, section 263.  
 Water Act (NI) 1972, section 24(8).  
 Water Act 1973, section 32(7) and schedule 3, part III, paragraph 41.  
 Fair Trading Act 1973, sections 30(3) and 133.  
 Employment Agencies Act 1973, section 9(4).  
 Employment and Trading Act 1973, section 4(5).  
 Health and Safety at Work etc. Act 1974, sections 27(4) and 28.  
 Local Government Act 1974, sections 29, 32 and 33.  
 Prices Act 1974, schedule, paragraph 12.  
 Consumer Credit Act 1974, sections 160(4) and 174(5).  
 Legal Aid Act 1974, section 22.  
 Rehabilitation of Offenders Act 1974, section 9.  
 Control of Pollution Act 1974, section 94.  
 Health and Safety at Work Act 1974, section 28.  
 Supply Powers Act 1975, section 5.

Biological Standards Act 1975, section 5.  
 Sex Discrimination Act 1975, section 61.  
 Scottish Development Act 1975, section 10(7).  
 Restrictive Trade Practices Act 1976, section 41.  
 Energy Act 1976, schedule 2, paragraph 7.  
 Race Relations Act 1976, section 52.  
 Rent (Agriculture) Act 1976, section 30(4).  
 Fair Employment (NI) Act 1976, schedule 4, paragraph 11 and schedule 5, paragraph 12.  
 Banking Act 1979, section 19.  
 Estate Agents Act 1979, section 10.  
 Agricultural Statistics Act 1979, sections 3 and 4.  
 Merchant Shipping Act 1979, section 40(1)(b).  
 Local Government, Planning and Land Act 1980, section 167, and schedule 20, part III.  
 Competition Act 1980, section 19.  
 Water (Scotland) Act 1980, section 38(6).  
 Highways Act 1980, section 292(4).  
 Deep Sea Mining (Temporary Provisions) Act 1981, section 13.  
 Film Levy Finance Act 1981, section 8.  
 Energy Conservation Act 1981, section 20(8).  
 Fisheries Act 1981, section 12.  
 Education Act 1981, schedule 1, paragraph 4.  
 British Telecommunications Act 1981, section 50.  
 Local Government Finance Act 1982, section 30.  
 Iron & Steel Act 1982, section 33.  
 Insurance Companies Act 1982, section 47a.  
 Industrial Training Act 1982, section 6(2).  
 Merchant Shipping (Liner Conferences) Act 1982, section 10(2).  
 Civil Aviation Act 1982, section 23.  
 Value Added Tax Act 1983, section 44.  
 Diseases of Fish Act 1983, section 9.  
 Public Health (Control of Diseases) Act 1984, section 62(3).  
 Building Act 1984, section 96.  
 Telecommunications Act 1984, section 101.  
 Data Protection Act 1984, sections 15, 19, 20 and schedule 1, paragraph 3.  
 Police and Criminal Evidence Act 1984, section 98.  
 Anatomy Act 1984, section 10(6).  
 Road Traffic Regulation Act 1984, section 43.  
 Companies Securities (Insider Dealing) Act 1985, section 2.  
 Companies Act 1985, sections 449.  
 Weights and Measures Act 1985, sections 64 and 79(7).  
 Building Societies Act 1986, section 53.  
 Consumer Safety (Amendment) Act 1986, section 11.  
 Financial Services Act 1986, part VIII.  
 Animals Scientific Procedures Act 1986, section 24.  
 Legal Aid (Scotland) Act 1986, section 34.  
 Gas Act 1986, section 42.  
 Airports Act 1986, section 74.

## EMPLOYMENT

### EC (Job Growth)

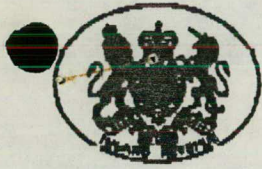
121. **Mr. Charles Wardle** asked the Paymaster General if he will make a statement on progress made during Britain's presidency of the European Community in encouraging the growth of jobs throughout the European Community.

124. **Sir Bernard Braine** asked the Paymaster General if he will make a statement on progress made during Britain's presidency of the European Community in encouraging the growth of jobs throughout the European Community.

125. **Mr. Batiste** asked the Paymaster General if he will make a statement on progress made during Britain's presidency of the European Community in encouraging the growth of jobs throughout the European Community.

**Mr. Lee:** The progress made was considerable. In particular, at the Labour and Social Affairs Council on 11

*Fast copy - copy coming by post*



INLAND REVENUE  
MANAGEMENT DIVISION  
SOMERSET HOUSE

*Prof*

FROM : R A HUTTON  
DATE : 10 February 1989

- 1. MR ROGERS *10/11*
- 2. FINANCIAL SECRETARY

**FINANCE BILL STARTERS 63 AND 452 : PROTECTION OF TAXPAYER INFORMATION AFTER REFORM OF SECTION 2 OF THE OFFICIAL SECRETS ACT 1911**

1. It was agreed at Monday's (6 February) overview meeting that there should be a provision in this year's Finance Bill to protect the confidentiality of taxpayer information which is held by the Revenue Departments in connection with their responsibilities for taxes and duties. You and the Economic Secretary were asked by the Chancellor to settle the details before he minutes the Prime Minister and other Ministerial colleagues.

- cc PS/Chancellor
- PS/Chief Secretary
- PS/Paymaster General
- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Dame Anne Mueller
- Mr Anson
- Mr Wicks
- Mr Hardcastle
- Mr Byatt
- Mr Scholar
- Mr C D Butler
- Mr Culpin
- Mr Sedgwick
- Mr Riley
- Mr Gilhooly
- Mr C C Allen
- Mr Matthews
- Mr McPherson
- Miss Simpson
- Mrs Chaplin
- Mr Tyrrie
- Mr Call

- Sir A Battishill
- Mr Isaac
- Mr Rogers
- Mr Painter
- Mr Beighton
- Mr Shutler
- Mr Miller
- Mr Bush
- Mr Jones
- Mr McManus
- Mr Hutton
- PS/IR

- Mr Unwin )
- Mr Jefferson Smith) Customs
- Mr Howard )
- Mr P R H Allan )
- Mr Sutherland (OPC)

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2. This note addresses the following open points:
- a. the precise coverage of the provision, including further advice, following your meeting on 2 February, on whether it should cover "purported information";
  - b. Following the Chancellor's request on 6 February, the position in other countries and in particular whether there is a clear distinction between the protection of information held by FISCs and the protection of other Government information;
  - c. the possibility of a pre-budget announcement during the passage of the Official Secrets Bill.

COVERAGE

3. As the Chairman explained at Monday's overview, both the Inland Revenue and Customs & Excise want to protect the following categories of information relating to identifiable persons and held by Departments in connection with their general responsibilities for assessing and collecting taxes and duties, viz information

- obtained by them from taxpayers (i.e. all individuals and organisations liable to taxes and duties); or
- which is derived from that information; or
- which is sent back to taxpayers in response to that information; as well as
- the judgements which the Departments make on the basis of that information; and
- obtained by them from third parties about individual taxpayers.

This amounts to what would commonly be regarded as the taxpayer's

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file. It does not cover, nor is it intended to, Departmental instructions or papers on policy or general management matters.

4. Ministers were content with this and further agreed that this information needs to be protected against unauthorised disclosure by former officials as well as present officials of the two Departments. You agreed on 2 February that the measure should also cover staff of the National Audit Office, the Parliamentary Commissioner for Administration and of various tax tribunals such as the General and Special Commissioners and the VAT tribunals. Consultants will also be covered.

5. The remaining question, as foreshadowed at the Overview meeting is whether a narrowly focused anti-disclosure provision targeted solely on taxpayer information as described above is sufficient, or whether the provision should have wider coverage.

(a) Wider coverage - general

6. While the Inland Revenue would prefer a narrowly focused provision, Customs would wish the protection to extend beyond strictly taxpayer information to deter disclosure of private information relating to their other responsibilities, where the citizen expects a similar measure of confidentiality, e.g. in connection with controlling prohibited or restricted imports such as dangerous drugs, pornography, etc.

7. The arguments against pushing out the boundaries of the provision are essentially pragmatic and presentational.

8. Both Revenue Departments recognise that they are not alone in requiring or receiving private information in order to discharge their functions. Other Departments hold private information too. While it may be desirable for Departments to adopt a common line to ensure that private information enjoys similar protection, the priority is to take the opportunity through the Finance Bill to ensure that taxpayer information remains protected after the abolition of Section 2 of the present Official Secrets Act.

9. Our view in the Inland Revenue is that a narrow, tax focus also facilitates public presentation of the measure. Moreover, it would allow the Chancellor to explain to his colleagues that he was acting at once to prevent disclosure of taxpayer information (as foreshadowed in the White Paper) without prejudice to the outcome of considering whether separate provisions in different legislation might be needed by other Departments to protect other categories of private information. The Customs view is that, in their case, the distinctions to be drawn in protecting 'taxpayer information' in the strictest sense of the definition, would be very fine indeed and they are concerned that the resultant anomalies could also give rise to presentational difficulties.

10. Ministers will therefore need to weigh the argument for a wider coverage against the risk that it could make it more difficult to explain why the Government was taking action to protect only some of the private information held by Departments. You will also need to take into account the risk that widening the coverage might take the provision outside the normal scope of a Finance Bill, so requiring a procedural resolution, though this is not something on which Parliamentary Counsel could seek definitive guidance from the House authorities until the terms of the legislation had been settled.

11. Against that background is it necessary to widen the coverage of the provision?

(b) Wider coverage - "purported information"

12. Neither we nor Customs believe it is necessary to cover "purported information" discussed at your meeting on 2 February following my minute of 27 January (para.17).

13. If a disclosure of taxpayer information involves a mixture of truth and lies, the provision will bite because part of what is disclosed is true. If it is all lies, we do not think it needs to be caught by this provision. If there is no truth at all in the allegations they will be deniable by the taxpayer, with support from the Revenue Departments if he seeks it. And if the citizen



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has suffered harm he may more easily prove its extent in a civil action for damages for libel, if he so chooses, than the Revenue Departments.

14. We have therefore come to the view that "purported information" should not be covered and recommend accordingly.

(c) Wider coverage - Inland Revenue

15. In the Inland Revenue we have considered to what extent we need to protect private information held by the Valuation Office.

16. Where information is provided by taxpayers in connection with valuations for tax (e.g. stamp duty, capital gains tax or inheritance tax), it will be protected by the narrowly focused provision already described. However, the Valuation Office also hold private information in relation to its rating responsibilities and the valuation work it undertakes on behalf of other Government Departments.

17. Although some of this other information is sensitive, on balance we have concluded that we should not seek to protect it by this year's Finance Bill provision. As far as rating is concerned policy responsibility lies with Department of the Environment. Moreover, in Scotland rating is handled anyway by Assessors employed by local authorities (not by the Valuation Office) who are not covered by Section 2 of the present Official Secrets Act. More generally much of this other Valuation Office information is difficult to distinguish from the general run of private information which many Government Departments hold. If necessary, we will consider this aspect again in the light of any future difficulties in practice or in the light of any moves by other Departments, particularly Department of the Environment, for confidentiality measures.

(d) Wider coverage - Customs & Excise

18. Although the Revenue would be content for the coverage of the provision to be confined to unauthorised disclosure of private

information about tax and duties, Customs would prefer the provision to go wider to catch unauthorised disclosure of information about identifiable persons in relation to their other responsibilities, for example controlling the import and export of prohibited and restricted goods.

19. Although Clause 4 of the Official Secrets Bill offers some protection, in the context of crime and special investigation powers, Customs do not believe it goes far enough. They have a wide range of alternative sanctions to prosecution which fall outside the scope of Clause 4. Unauthorised disclosure of this information could be very sensitive and newsworthy where, for example, it involved a prominent person so that the temptation to disclose can be considerable. A particular example is "compounding" which involves fining someone rather than prosecuting where the individual has been caught infringing import prohibitions or restrictions in a relatively small case. There have previously been isolated leaks in this area and Customs argue if these were to take the form of a series of leaks from an identifiable location justifying consideration of the criminal sanction it would be anomalous to be able to prosecute a member of staff for those leaks which relate to dutiable goods (e.g. a smuggled watch) but not those in respect of prohibited goods (e.g. pornography, etc).

20. Customs are providing a separate note on the reasons why they think a wider provision is needed.

#### POSITION IN OTHER COUNTRIES

21. We have only been able to make a few preliminary enquiries so far but what we have been able to find out will be very helpful in explaining and, if necessary, defending a provision to prevent disclosure of taxpayer information.

22. We understand there are analogous provisions in both the United States and Australia. These are free standing provisions - both countries have laws providing for freedom of Government information. Disclosure of taxpayer information by present or former IRS employees is a criminal offence (maximum jail sentence 5

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years). We understand that there are also stiff penalties in Australia. Our enquiries are continuing and we will let you know when we have further information.

POSSIBLE PRE-BUDGET ANNOUNCEMENT

23. So far as we are aware, Mr Wakeham has not yet replied to Mr Moore's letter of 27 January outlining his proposals to introduce a provision in the Social Security Bill to extend similar protection to social security information. But we understand DSS are proceeding ahead with instructing Counsel. And their officials have indicated that they would see considerable advantage in a joint announcement of what the three Department are proposing.

24. But Home Office officials have told us that they would not be enthusiastic about advising the Home Secretary to make an announcement about the Revenue Departments' proposals in case this should prejudice the passing of the Official Secrets Bill through Committee. They expect to be out of Committee by 22 February. As time is short, the Chancellor may wish to speak to the Home Secretary about the possibility of making an announcement. If so, we should be happy to provide a note describing in broad terms what is proposed both in relation to tax, duties and social security.

POINTS FOR DECISION

25. The points for decision are:

- a. Should the coverage of the provision be confined to taxpayer information (para.2)? This is what the Inland Revenue recommend but Customs would prefer a provision with wider coverage (para.18 et seq). You may wish to discuss this with the Economic Secretary in the light of the separate note which Customs are providing.
- b. Do you agree that "purported information" should not be covered (para.12 et seq)?

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- c. Do you want to advise the Chancellor that he might speak to the Home Secretary about the possibility of announcing the proposals on tax and social security information during the Committee stage of the Official Secrets Bill (para.24)?

*R.A. Hutton*  
R A HUTTON

C O N F I D E N T I A L



FROM: N. D. HUGHES  
DATE: 13 February 1989

MR D HOWARD - C&E

cc: PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
PS/Sir P Middleton  
Mr Scholar  
Mr Culpin  
Mr Gilhooly  
Mr Michie  
Mr Call  
Mr Tyrie  
  
PS/IR  
Mr Sutherland (Parly Counsel)  
  
PS/C&E  
Mrs Strachan - C&E  
Mr Jefferson-Smith - C&E  
Solicitor  
Mr Nissen - C&E  
Mr Allen - C&E  
Mr Mechem - C&E  
Mr Brisley - C&E  
Miss A French - C&E

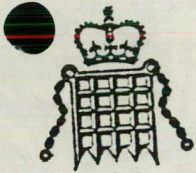
FINANCE BILL STARTERS 63 AND 452 : UNAUTHORISED DISCLOSURE OF CONFIDENTIAL INFORMATION AFTER REFORM OF SECTION 2 OF THE OFFICIAL SECRETS ACT 1911

The Economic Secretary was grateful for your minute of 10 February.

2. He has commented that drugs information etc would be better placed under clauses dealing with crime etc rather than under clauses dealing with duty.

3. As agreed, I have arranged a meeting for Thursday 16 February at 9.45am in this office to discuss this matter.

N D HUGHES  
Assistant Private Secretary



*[Handwritten signature]*

Board Room  
H M Customs and Excise  
New King's Beam House  
22 Upper Ground  
London SE1 9PJ  
Telephone: 01-620 1313

FROM: D.J. HOWARD  
DATE: 10 FEBRUARY 1989

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ECONOMIC SECRETARY

**FINANCE BILL STARTERS 63 AND 452 : UNAUTHORISED DISCLOSURE OF CONFIDENTIAL INFORMATION AFTER REFORM OF SECTION 2 OF THE OFFICIAL SECRETS ACT 1911**

1. At the meeting we attended with yourself and the Financial Secretary on 2 February we and the Inland Revenue were asked to discuss further whether the proposed Finance Bill Clause should be broadly or narrowly focused. Mr Hutton of Inland Revenue is submitting a further paper to the FST today, which we have jointly agreed, principally addressing this point and the question whether the clause should cover "purported" information. However, as the paper makes clear, there remains some divergence of view between our two Departments as to the scope of the clause. As flagged up in that paper we are therefore putting this separate note to you setting out in detail our reasons for seeking a wider provision than is envisaged by Inland Revenue.

Circulation

Chancellor  
Chief Secretary  
Financial Secretary  
Paymaster General  
Sir Peter Middleton  
Mr Scholar  
Mr Culpin  
Mr Gilhooly  
Mr Michie  
Mr Call  
Mr Tyrie  
PS/Inland Revenue  
Mr Sutherland  
(Parliamentary Counsel)

Chairman  
Mrs Strachan  
Mr Jefferson Smith  
Solicitor  
Mr Nissen  
Mr Allen  
Mr Mechem  
Mr Brisley  
Miss A French

2. We envisage fundamental difficulties if the protection provided by the Finance Bill clause were narrowly focussed on "taxpayer information" in the strictest sense of the term (paragraph 3 of Mr Hutton's paper). These arise from the extension of our responsibilities beyond domestic tax matters and indeed beyond revenue matters altogether into the maintenance of preventive controls for the protection of society, for example from drugs, weapons, diseased plants and animals. While we agree with the Inland Revenue that the protection of taxpayers' confidentiality is the first priority, the effects of unauthorised disclosure in respect of export controls and the preventive function is potentially another serious area; it is often upon these areas that the media's interest is most strongly focussed.

3. We have therefore given further consideration to the interaction of the Official Secrets Bill and the draft clause for the Finance Bill prepared by Parliamentary Counsel, and the implications of restricting the scope of the latter as is now proposed by the Inland Revenue. In doing so, we have taken account of the leading judgement of the House of Lords in Norwich Pharmacal (1974) AC 189 that information maybe "of such a character that the giver of it would not expect it to be used for any purpose other than that for which it is given or disclosed". We have concluded that in the light of our wider responsibilities it could damage the interests of the citizen in his dealings with the Department if the Finance Bill clause were to be limited to protection of information related only to tax or duties.

4. Both Clauses 3 (international relations) and 4 (crime and special investigation powers) of the Official Secrets Bill bear upon this. Copies of the two clauses are annexed. There are clear shortcomings in clause 4 in that it offers no protection where because of lack of evidence to the criminal standard of proof (beyond all reasonable doubt) or, rarely, for public interest reasons a prosecution is not mounted. These shortcomings apply to all law enforcement agencies including the police and Crown Prosecution Services, but there are unique factors which create particular difficulties for Customs and Excise:-

(i) Where an offence was committed prior to the extension of the 3-year time limit on proceedings in the Customs and Excise Management Act 1979 by Section 11 Finance Act 1988, no proceedings or other sanction is available. The new 20-year time limit introduced by the Finance Act 1988 is not retrospective and will not be reached in full until 2008. There will, therefore, continue to be cases in which Clause 4 will not bite.

(ii) We have a wide range of alternative sanctions to prosecution (predominantly compounding, civil penalties regimes, and seizure and restoration) use of which has been suggested or approved by the Keith Committee and endorsed by Ministers. The majority of Customs offences will, therefore, not fall to be dealt with under the provisions of Clause 4.

(iii) Even where a prosecution has taken place Clause 4 will not prevent disclosure of information which has not been made public, eg where it was gathered but not given in evidence in court; or where it was raised in camera. This could be a significant consideration when either informers or other sensitive sources of information are involved; this is frequently so for drugs or other cases involving import prohibitions.

5. Clause 3 of the OSB may offer some remedy in cases of disclosure of details of strategic exports under COCOM restrictions, (or even sensitive, but not illegal, sales of items such as crowd control equipment to South Africa or Chile, commercial airliners to Libya, chemical plant to Iran etc) where such episodes may cause damage to international relations. However, even where the OSB provisions may afford protection for such Customs information (and our Departmental legal advisers feel there is some lack of certainty unless the matter has been tested in the Court), we are of the view that it might be preferable, in the public interest, for any proceedings to be mounted under a Finance Bill provision specifically applicable to all the functions of the Department rather than under the OSB.

6. It seems to us inherent that any restriction of the Finance Bill clause to "tax or duty" only would exclude from its protection disclosures of details of prohibited or restricted imports, such as dangerous drugs, pornography, weapons, pet animals imported in breach of the rabies controls etc. This is, of course, an area of particular interest to the media, especially where newsworthy individuals are involved. Isolated leaks of details of such episodes have regrettably occurred. In the event of a persistent series of leaks occurring from an identifiable source, so justifying exceptional consideration of invoking the criminal sanction, the narrower version of the Finance Bill clause would put us in the anomalous position that any proceedings could relate to those leaks which related to dutiable goods (eg a smuggled watch) but not those in respect of prohibited goods (eg pornography etc).

7. To sum up, therefore, we think that the citizen generally, and not just the "taxpayer" in the sense proposed by the Inland Revenue, is entitled to expect complete confidentiality in all his dealings with the Department, and that the criminal law should



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reflect this. We feel a particular concern that an over-narrow sanction could cause:-

(a) in some areas an excess of reliance on the untried and untested provisions of Clauses 3 and 4 of the Official Secrets Bill which were not drafted with Customs' considerations primarily in mind; and

(b) in others the creation of anomalies and practical limitations in our ability to institute proceedings in those cases where serious leakage of sensitive information had taken place.

8. Accordingly, we continue to urge a widely drafted clause in relation to Customs and Excise matters. We acknowledge that, as the Inland Revenue have suggested, this might require a Procedure Resolution but, subject to Parliamentary Counsel's consultation with the House authorities, we do not regard this as beyond doubt, and in any event we believe that the case is justifiable.

9. We should be glad to discuss further.



D J HOWARD

5 (3) It is a defence for a person charged with an offence under this section to prove that at the time of the alleged offence he did not know, and had no reasonable cause to believe, that the information, document or article in question related to defence or that its disclosure would be damaging within the meaning of subsection (1) above.

(4) In this section "defence" means—

- 10 (a) the size, shape, organisation, logistics, order of battle, deployment, operations, state of readiness and training of the armed forces of the Crown;
- (b) the weapons, stores or other equipment of those forces and the invention, development, production and operation of such equipment and research relating to it;
- (c) defence policy and strategy and military planning and intelligence;
- 15 (d) plans and measures for the maintenance of essential supplies and services that are or would be needed in time of war.

3.—(1) A person who is or has been a Crown servant or government contractor is guilty of an offence if without lawful authority he makes a damaging disclosure of— International relations.

- 20 (a) any information, document or other article relating to international relations; or
- (b) any confidential information, document or other article which was obtained from a State other than the United Kingdom or an international organisation,
- 25 being information or a document or article which is or has been in his possession by virtue of his position as a Crown servant or government contractor.

(2) For the purposes of subsection (1) above a disclosure is damaging if—

- 30 (a) it jeopardises the interests of the United Kingdom abroad, seriously obstructs the promotion or protection by the United Kingdom of those interests or endangers the safety of British citizens abroad; or
- 35 (b) it is of information or of a document or article which is such that its unauthorised disclosure would be likely to have any of those effects.

(3) Information or a document or article within subsection (1)(b) above may be regarded for the purposes of subsection (2)(b) above as such that its unauthorised disclosure would be likely to have any of the effects there mentioned either by reason of the fact that it is confidential or by reason of its contents or nature.

45 (4) It is a defence for a person charged with an offence under this section to prove that at the time of the alleged offence he did not know, and had no reasonable cause to believe, that the information, document or article in question was such as is mentioned in subsection (1) above or that its disclosure would be damaging within the meaning of that subsection.

(5) In this section "international relations" means the relations between States, between international organisations or between one or more States and one or more such organisations and includes any matter relating to a State other than the United Kingdom or to an international organisation which is capable of affecting the relations of the United Kingdom with another State or with an international organisation. 5

(6) For the purposes of this section any information, document or article obtained from a State or organisation is confidential at any time while the terms on which it was obtained require it to be held in confidence or while the circumstances in which it was obtained make it reasonable for the State or organisation to expect that it would be so held. 10

Crime and special investigation powers.

4.—(1) A person who is or has been a Crown servant or government contractor is guilty of an offence if without lawful authority he discloses any information, document or other article to which this section applies and which is or has been in his possession by virtue of his position as such. 15

(2) This section applies to any information, document or other article—

- (a) the disclosure of which—
  - (i) results in the commission of an offence; or
  - (ii) facilitates an escape from legal custody or the doing of any other act prejudicial to the safekeeping of persons in legal custody; or
  - (iii) impedes the prevention or detection of offences or the apprehension or prosecution of suspected offenders; or
- (b) which is such that its unauthorised disclosure would be likely to have any of those effects. 20 25

(3) This section also applies to—

- (a) any information obtained by reason of the interception of any communication in obedience to a warrant issued under section 2 of the Interception of Communications Act 1985, any information relating to the obtaining of information by reason of any such interception and any document or other article which is or has been used or held for use in, or has been obtained by reason of, any such interception; and 30
- (b) any information obtained by reason of action authorised by a warrant issued under section 3 of the Security Service Act 1988, any information relating to the obtaining of information by reason of any such action and any document or other article which is or has been used or held for use in, or has been obtained by reason of, any such action. 35 40

1985 c. 56.

1988 c.

(4) It is a defence for a person charged with an offence under this section in respect of a disclosure falling within subsection (2)(a) above to prove that at the time of the alleged offence he did not know, and had no reasonable cause to believe, that the disclosure would have any of the effects there mentioned. 45

(5) It is a defence for a person charged with an offence under this section in respect of any other disclosure to prove that at the time of the alleged offence he did not know, and had no reasonable cause to believe, that the information, document or article in question was information or a document or article to which this section applies. 50

FROM: MISS T A M POLLOCK

DATE: 13 February 1989

1. MR MICHE *SM 13/2*
2. MR GILHOLLY *SM 13/2*
3. FINANCIAL SECRETARY

cc PS/Chancellor  
 PS/Chief Secretary  
 PS/Economic Secretary  
 PS/Paymaster General  
 Sir Peter Middleton  
 Sir Terence Burns  
 Mr Anson  
 Mr Wicks  
 Mr Scholar  
 Mr Culpin  
 Mr Pickford  
 Mr Matthews  
 Miss Hay  
 Mr Macpherson  
 Mr Flanagan  
 Mr Sedgwick  
 Mrs Chaplin  
 Mr Call  
 Mr Tyrie

PS/IR )  
 Mr Isaac - IR)  
 Mr Painter - IR)  
 Mr Beighton - IR)\*  
 Mr C Bush - IR)  
 Mr McManus - IR)  
 Mr McNicol - IR)  
 Mr Shaw - IR)

PS/Customs )  
 Mr Jefferson-Smith - C&E)\*  
 Mr Wilmott - C&E)  
 Mr P R H Allen - C&E)  
 Ms French - C&E)

Mr Jenkins - Parl Counsel

\* reference sheets not attached

### 1989 FINANCE BILL

I attach updated Budget starters summary sheets covering all departments, together with:

- (a) reference sheets for 4 new Inland Revenue starters:

- number 216 - Set Off of Trading Losses Against Capital Gains.
- number 217 - Tax Relief for Residential Landlords.
- number 218 - Lloyds Stock Lending.
- number 264 - CGT: Capital Gains Avoidance on Sales of Subsidiaries.

(b) a revised Index for Inland Revenue.

Numbers of starters

2. You may wish to note that out of a total of 131 starters, decisions have now been taken to include 75 (8 provisionally) and to drop 44. This leaves 12 awaiting a decision.

Instructions to Counsel

3. Parliamentary Counsel have confirmed that they have received instructions on the following numbers of starters:

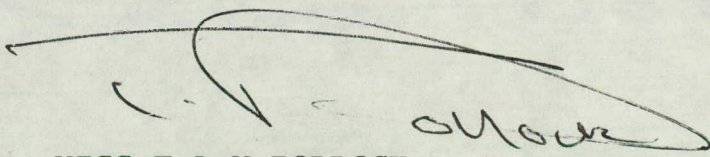
	<u>Received in part or full</u>	<u>Not received*</u>
Revenue	38	13
Customs	14	2 (+4 not required - Treasury Orders)
Transport	9	0
Treasury	6	1 (Home Office)

(\* excluding those dropped).

Of those starters received by Parliamentary Counsel, 22 have now been drafted.

Size of the Bill

4. Our tentative estimate of the size of the Bill is that it will now be in the order of 210 pages (including schedules but excluding 3 starters for which as yet there is no estimate of length of legislation). Inland Revenue starters are expected to account for around 155½ pages.

  
MISS T A M POLLOCK

BUDGET CONFIDENTIAL

Date 9 February 1989

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date main subm.	Revenue £m cost(-)/Yield(+) 1989/90	1990/91	Staff Effect 1/4/90 1/4/91		Legislation Length	Date Inst. sent to Counsel	Other Comments
1.	Excise: duty rates	UCM	16.12.88	+1225	+1325	Nil	Nil	1 1/2 pages and 12 pages of schedules		1989-90 revenue yield based on revalorisation of 6.8%. 1990-91 yield based on Autumn Statement methodology.
2.	Excise: power to estimate revenue duties payable	I	6.10.88	Neg	Neg	Nil	Nil	13 lines	Drafted	
3.	Excise: restriction of duty-paid blending of made-wine	I	29.9.88	Neg	Neg	Nil	Nil	1/2 page	Drafted	
4.	Excise: measurement and declaration of original gravity of beer	I	6.10.88	Neg	Neg	Nil	Nil	10 lines	Drafted	
5.	Excise: misdescription of substances as beer	I	14.10.88	Neg	Neg	Nil	Nil	3 lines	Drafted	

BUDGET CONFIDENTIAL

Date 9 February 1989

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date main subm	Revenue £m		Staff Effect		Legislation		Other Comments
				cost(-)/Yield(+) 1989/90	1990/91	1/4/90	1/4/91	Length	Date Inst. sent to Counsel	
6.	Excise: oil duties relief	I	31.8.88	Nil	Nil	Nil	Nil	1 1/2 pages	21.10.88	
7.	Excise: abolition of gas oil/fuel oil duties	D	4.11.88	-160	-160	-5	-5	N/A		
8.	Excise: simplified duty credit arrangements for tobacco	D	18.11.88	Nil	Nil	Neg	Neg	N/A		
9.	Excise: matches and mechanical lighter duties: abolition	D	7.10.88	-20	-20	-9	-9	N/A		
30.	VAT: ECJ judgement on zero rates	I	28.6.88	+40 Gross Yield +300	+80 +520	+44	+129	) ) 3 1/2 pages ) and 14 pages ) of schedule ) )	) ) ) 8.9.88 )	Decisions on subsidiary elements still required Further submissions in due course.
31.	VAT: minor property changes	I	12.4.88	+15	+20	Nil	Nil	) )	) )	
32.	VAT: charities	I	17.1.88	-5	-5	Neg	Neg	None (Treasury Order)		

BUDGET CONFIDENTIAL

Date 9 February 1989

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date main subm	Revenue £m		Staff Effect		Legislation		Other Comments
				cost(-)/Yield(+) 1989/90	1990/91	1/4/90	1/4/91	Length	Date Inst. sent to Counsel	
33.	VAT: adjustment of input tax on capital goods	I	17.8.88	Nil	Neg	Nil	Nil	Treasury Order		Implementation from 1.4.90
34.	VAT: revalorisation of registration/deregistration thresholds	I	31.1.89	Neg	Neg	Nil	Nil	None (Treasury Order)		
35.	VAT:simplification of registration requirements	I	14.10.88	-35	-100	Neg	Neg	2 pages and 1/4 page of schedule	17.11.88	
36.	Right to repayment of VAT/excise duties and consequential changes	I	1.9.88	Nil	Nil	Nil	Nil	1 page	6.12.88	
37.	VAT: bad debt relief	I*	14.10.88	-50	-150	+10 (perm)	+20	1 1/2 pages	25.10.88	
38.	VAT:review of default surcharge	I	4.1.89	-10	- 20	Nil	Nil	10 lines	9.11.88 21.11.88	Interim subm. 21.11.88 Surcharge notices Liability part dropped.



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

Date 9 February 1989

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date main subm	Revenue £m		Staff Effect		Legislation		Other Comments
				cost(-)/Yield(+) 1989/90	1990/91	1/4/90	1/4/91	Length	Date Inst. sent to Counsel	
39.	Duty and tax relief for diplomats and visiting forces	I	21.10.88	Nil	Nil	Nil	Nil	3 pages	21.12.88	
40.	VAT:research and development cars	I	31.8.88	-5	-5	Nil	Nil	None (Treasury Order)		
41.	VAT:passenger transport	D	2.11.88	Depends on decisions		N/K	N/K	N/A		Instns to Sol- icitor's Office 7.12.88
42.	Car tax: rate change	D	3.10.88	Depends on decisions		Nil	Nil	N/A		
60.	Prosecution time limits	I*	11.11.88	Nil	Nil	Nil	Nil	1 1/4 pages	1.11.88	
61.	Seizure at export of probable cash proceeds of drug trafficking.	I*		Nil	Nil	Nil	Nil	1/2 page		Interim subm. 7.11.88 <b>Further submission to be made. For possible inclusion at Committee Stage.</b>

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

Date 9 February 1989

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date main subm	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation		Other Comments
				1989/90	1990/91	1/4/90	1/4/91	Length	Date Inst. sent to Counsel	
62.	London Port banking: amendment to CEMA Section 17	I	21.9.88	Nil	Nil	Nil	Nil	6 lines	Drafted	
63.	Unauthorised dis- closure of confidential information	D	25.11.88	Nil	Nil	Nil	Nil		N/A	Included in starter 452



BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 10 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1989/90	1990/91	1/4/90	1/4/91			
106	Benefits in Kind: provided accommodation	D	18.1.89	---	---	---	---	---	N/A	
107	Reform of relief for relocation costs	I	27.7.88	+5	+30	[Probably small - may depend on extent to which employers gross up]		5 pages	3.2.89	
108	Schedule E: Receipts Basis	I	18.11.88	-60	-80	+10	+40	5-6 pages	9.1.89 13.1.89	Full year yield of +£50m. Full year staff saving of 175.
109	Schedule E: post cessation receipts	D		---	---	---	---	---	N/A	The decision on 108 implies the dropping of this starter.
110	Schedule E: lump sum payments	∅	16.12.88	Depends on decisions		Nil	[Probably insignificant]	1-2 pages	N/A	

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 10 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm		Staff Effect		Legislation		Other comments
				cost(-)/yield(+)				Length	Date inst. sent to Counsel	
				1989/90	1990/91	1/4/90	1/4/91			
111	Testimonials for sportsmen	D	16.11.88	---	---	---	---	---	N/A	
112	Review of Employee Share Schemes	I	6.12.88	Neg	Neg	Neg	Neg	Up to 2-3 pages	8.2.89	
113	Employee Share Option Plans (ESOPs)	I*	6.12.88	Cost depends on selection from range of possible tax reliefs and on take-up. Currently unpredictable		Possibly + 2 to 3 Inspectors		Up to 3 pages		
114	Taxation of employee priority in company flotations	I	8.9.88	Neg	Neg	Nil	Nil	Up to 1 page	16.12.88 (part)	
115	Employees' material interest	I	6.12.88	Neg	Up to -5	Nil	Nil	Up to 1 page	17.1.89	

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 10 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1989/90	1990/91	1/4/90	1/4/91	Length	Date inst. sent to Counsel	
116	Amendments to PRP	I	7.7.88	-10	-15	(Some staff cost likely)		About 8 pages	4.8.88 11.8.88 20.12.88 <b>24.1.89</b> <b>31.1.89</b>	
117	Mortgage interest relief limit for 1989-90	I	10.11.88	<u>Limit unchanged at £30,000</u>						Drafted
				Nil	Nil	Nil	Nil	Few lines		
				<u>Increase to £35,000</u>						
				-320	-400	-5	-5			
				<u>Increase to £40,000</u>						
				-530	-690	-10	-10			
118	Trusts: general review	I	25.11.88	Depends on decisions		Depends on decisions		Perhaps 1-2 pages		
119	Mixed residence and non-resident trusts	UCM	25.11.88	£10m - and possibly a good deal more - tax at risk if no action taken		Depends on decisions		Perhaps 4-5 pages		

**BUDGET STARTERS: SUMMARY SHEETS**  
**INLAND REVENUE**

Date: 10 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1989/90	1990/91	1/4/90	1/4/91	Length	Date inst. sent to Counsel	
150	Charitable covenants	D	12.12.88	---	---	---	---	---	N/A	
151	Charities: covenanted membership subscriptions	UCM	4.11.88	-5	-5	Neg	Neg	1 page	22.11.88 (prov <sup>n1</sup> )	
152	Tax relief for equity investment	I	18.10.88	-5	-10	Nil	Nil	1/4 page		Full year staff effect of -30
153	Pensions: changes to tax rules	I	17.10.88	Neg	Neg	Neg	Neg	10 pages	Several dates in December, January & February (part)	
154	Private medical insurance for over-60s	I	24.11.88	Nil	-40	+10	+25	4 pages	16.12.88 (part)	Full year staff effect of +45.
155	Friendly Societies Protection Scheme	D	9.9.88	---	---	---	---	---	N/A	Proposal to be implemented through secondary legislation.





BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 10 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1989/90	1990/91	1/4/90	1/4/91	Length	Date inst. sent to Counsel	
204	Business Expansion Scheme	I	25.11.88	Neg	+5	Neg	Neg	7 lines	Drafted	
205	Advance Corporation Tax (change of ownership, surrender)	I	8.12.88	Depends on decisions		Neg	Neg	2 pages		
206	Close company legislation	I	25.8.88	Neg	Neg	Neg	Neg	Up to 5 pages for apportionment	20.1.89 (part)	
207	Capital allowances at sports grounds	I	28.10.88	Neg	Neg	Neg	Neg	1/2 page	Drafted	
208	Capital allowances and VAT	D	12.12.88	---	---	---	---	---	N/A	
209	Capital allowances: pre-consolidation amendments	I	28.10.88	Neg	Neg	Neg	Neg	7 pages	4.11.88	

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 10 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+) 1989/90	1990/91	1/4/90	1/4/91			
210	Hobby farming provisions	D	20.10.88	---	---	---	---	---	N/A	
211	Abolition of farmers' averaging provisions	D	20.10.88	---	---	---	---	---	N/A	
212	Reopening of claims etc	I*	25.11.88	Neg	Neg	Depends on details		2 pages	10.11.88 (prov <sup>n1</sup> )	
213	Extension of pre-trading expenditure relief	I	8.9.88	Neg	Neg	N/K	N/K	7 lines	Drafted	
214	Sports governing bodies	D	8.11.88	---	---	---	---	---	N/A	
215	Life Assurance Review	I	30.11.88 (FST)	-20	Depends on decisions	Neg	Neg	5 pages	18.11.88 20.12.88 3.1.89 (part)	
216	Set off of trading losses against capital gains	I	19.1.89	Nil	-35	Depends on decisions		More than 1 page		



**BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE**

Date: 10 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mm</sup>	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1989/90	1990/91	1/4/90	1/4/91	Length	Date inst. sent to Counsel	
254	CGT: Non-resident companies trading in the UK.	I	9.11.88	Substantial revenue at risk if no action taken. (Firm estimate not possible but cost could well exceed £100m a year).		Neg	Neg	6 1/2 pages	23.11.88	
255	CGT: Technical changes associated with rebasing	I	17.10.88	Neg	Neg	Neg	Neg	1 1/2 pages	Drafted	
256	CGT: Chattels exemption	I	20.10.88	Neg	Neg	Modest staff savings		Few lines	Drafted	
257	CGT: Private Residence Relief	D	21.11.88	---	---	---	---	---	N/A	
258	Lloyd's CG treatment	D	15.12.88	---	---	---	---	---	N/A	
259	IHT - threshold and rate	UCM	2.2.89	Nil	Nil	Nil	Nil	1/2 page (if no automatic indexation)		

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 10 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm		Staff Effect		Legislation		Other comments
				cost(-)/yield(+)		1/4/90	1/4/91	Length	Date inst. sent to Counsel	
				1989/90	1990/91					
260	Inheritance tax: liability of trustees	D	2.11.88	---	---	---	---	---	N/A	
261	IHT: Instruments of variation	I	14.11.88	Neg	+10	-5	-10	3 pages	20.12.88 (part only)	Full year yield estimated at £20m. All yield figures highly uncertain.
262	CGT: sterling non-qualifying corporate bonds	I	18.1.89	Nil	Neg	Neg	Neg	1/4 page	Drafted	Full year yield perhaps £50m eventually. Some links with Starter 453.
263	Gifts to Housing Associations	I	26.1.89	Neg	Neg	Neg	Neg	Up to 1/2 page	8.2.89	



BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 10 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1989/90	1990/91	1/4/90	1/4/91	Length	Date inst. sent to Counsel	
351	PRT: tariffing issues	D	26.10.88	---	---	---	---	---	N/A	
352	Piper Disaster: PRT and CT treatment of insurance receipts	D	26.9.88	---	---	---	---	---	N/A	EST has reaffirmed his earlier decision in the light of companies' response.
353	PRT: relief for incremental oil field investment	I	22.12.88	-40	-40	Nil	Nil	2-3 pages	26.1.89	
354	PRT oil allowance: "Peak Shaver" fields	D	3.11.88	---	---	---	---	---	N/A	
400	Tax deductible from tax credit payments to US companies	I	6.9.88	Without legislation there could be a revenue cost of £15m a year (plus £68m in respect of past years)		Nil	Nil	1/2 page	Drafted	

BUDGET SECRET

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 10 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mm</sup>	Revenue £m		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+) 1989/90	1990/91	1/4/90	1/4/91			
401	Sovereign immunity	D	12.7.88	---	---	---	---	---	N/A	
402	Individual residence	D	6.12.88	---	---	---	---	---	N/A	
403	EEIG's	D	15.11.88	---	---	---	---	---	N/A	Deferred to 1990.
404	Umbrella funds	I	9.12.88	Neg	Neg	+5	+5	1-2 pages	30.1.89	
450	Keith Committee: administrative improvements	I	6.7.88	Neg	Neg	Neg	Neg	26 pages	Several dates in Oct & Nov	
451	Sub-contractor tax scheme	I	14.10.88	Neg	Neg	Neg	Neg	1/2 page	1.2.89	
452	Unauthorised disclosure of information provided to IR and C&E	I	25.11.88	Nil	Nil	Nil	Nil	2 pages	12.1.89	Joint measure with C&E



BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 10 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub <sup>mn</sup>	Revenue fm		Staff Effect		Legislation		Other comments
				cost(-)/yield(+)		1/4/90	1/4/91	Length	Date inst. sent to Counsel	
				1989/90	1990/91					
453	Deep discounted government and para-statal bonds	I	18.1.89	Nil	Neg	Neg	Neg	1 page	6.2.89 (part only)	
454	Electronic payment of dividends	D	27.10.88	---	---	---	---	---	N/A	
455	Electricity privatisation: miscellaneous taxation provisions	UCM	8.12.88	Depends on decisions but probably small cost.		Neg	Neg	2-3 pages		



## BUDGET STARTERS: SUMMARY SHEETS

DEPARTMENT OF TRANSPORT

Date 10 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main Submission	Revenue £m		Staff Effect		Legislation	Date of Inst. to Counsel	Other Comments
				cost(-)/Yield(+) 1989/90	1990/91	1/4/89	1/4/90	Length		
609	Mandatory 2 or 3 year First Licensing	D							N/A	
610	Mine Rescue	D	4.11.88						N/A	
630	Failure to notify keeper changes	D	4.11.88						N/A	
631	Update reference to "registration" to include "registration book"	I	4.11.88	NIL	NIL	NIL	NIL	N/K	Drafted	
632	Grass Cutting Vehicles	I	4.11.88	-NEG	-NEG	NIL	NIL	c-4 lines	Nov 88	
633	Sale of Registration Numbers	I	4.11.88	+NEG	up to £30m per year	+NEG	+20	c-4-5 lines s 1½ pages	June 88	

CONFIDENTIAL

BUDGET STARTERS: SUMMARY SHEETS

HM TREASURY

Date 26 January 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main Submission	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date of Inst. to Counsel	Other Comments
				1989/90	1990/91	1/4/89	1/4/90			
650	ITV Levy	UCM	11.10.88	NIL	+60	NIL	NIL	up to 1 page and 3-4 pages of schedules		Alteration of levy on profits either to a revenue levy or a mixed revenue/profit system
651	Government stock: small estates	I	4.10.88	NEG	NEG	NEG	NEG	12 lines	Drafted	Simplification of the Bank's arrangements for dealing with small holdings of the deceased
652	Gilts redemption Monies: New Procedures	I	4.10.88	NEG	NEG	NEG	NEG	15-20 lines	Drafted	Simplification of current arrangements
653	Gilts Redemption Monies: Payment of Interest on monies due to deceased holders	D	4.10.88						N/A	
654	Redemption 3% 1986-1996: wind up of Annuities Account and Sinking Fund	I	21.10.88	NEG	NEG	NIL	NIL	½ page	18.11.88	

BUDGET CONFIDENTIAL

BUDGET STARTERS: SUMMARY SHEETS

Date 26 January 1989

HM TREASURY

1 2 3 4 5 6 7 8 9 10 11

No	Description	Status	Date of main Submission	Revenue £m		Staff Effect		Legislation	Date of Inst. to Counsel	Other Comments
				cost(-)/Yield(+)		1/4/89	1/4/90	Length		
655	Power to use NLF money to purchase and cancel Gilt Edged Securities ahead of redemption	I	6.1.89	NIL	NIL	NIL	NIL	about 6 lines	13.1.89	
656	National Savings: Abolition of minimum interest rate provision	I	6.12.88	NIL	N/K	NIL	NIL	up to 3 lines	9.1.89	
657	National Savings: Restriction of Investment and Ordinary Accounts to personal holders	I	6.12.88	NIL	NIL	N/K	N/K	N/K	Drafted	

**CONFIDENTIAL**

**BUDGET STARTER: REFERENCE SHEET**

**Date of issue:** 10 February 1989

**TITLE:** Set Off of Trading Losses Against Capital Gains

**STARTER NUMBER:** 216

**CLASSIFICATION:** C

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Revenue fm* cost(-)/yield(+)		(Full year)	Staff effects*		Length of legislation*
1989/90	1990/91		1/4/90	1/4/91	

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Nil	-35		Up to +10	More than 1 page
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**Minister in lead**

**PCTA or equivalent  
resolution required**

---

FST

**ORIGIN OF STARTER:** Lord Young's Budget representations

**BACKGROUND AND COMMENTS:**

<b>OFFICIAL IN LEAD:</b>	M J G Elliott	<b>TELEPHONE</b>	3541 6252
<b>OFFICIAL IN SUPPORT:</b>	Miss C M Brand	<b>TELEPHONE</b>	3541 6304
<b>FP CONTACT:</b>	Miss M Hay	<b>TELEPHONE</b>	270 4918

\* **HEALTH WARNING** The data reports the position at the time of issue of each Reference Sheet and will be updated only if the scope of the Starter changes significantly. Latest information for all items can be found on the Summary Sheets.

**CONFIDENTIAL**

**BUDGET STARTER: REFERENCE SHEET**

**Date of issue:** 10 February 1989

**TITLE:** Tax Relief for Residential Landlords

**STARTER NUMBER:** 217

**CLASSIFICATION:** C

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<u>Revenue fm*</u> <u>cost(-)/yield(+)</u>		<u>Staff effects*</u>	<u>Length of legislation*</u>	
1989/90	1990/91			(Full year)
-10	-15	Small cost	More than 1 page	

---

<b>Minister in lead</b>	<b>PCTA or equivalent resolution required</b>
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FST

**ORIGIN OF STARTER:** Mr Ridley's Budget representations

**BACKGROUND AND COMMENTS:**

The Chancellor has asked for the possibility of tax relief for residential landlords to be looked at as a possible starter (Mr Taylor's minute of 31 January).

**OFFICIAL IN LEAD:** M J G Elliott

**TELEPHONE** 3541 6252

**OFFICIAL IN SUPPORT:** J R Streeter

**TELEPHONE** 3541 6589

**FP CONTACT:** Miss M Hay

**TELEPHONE** 270 4918

\* **HEALTH WARNING** The data reports the position at the time of issue of each Reference Sheet and will be updated only if the scope of the Starter changes significantly. Latest information for all items can be found on the Summary Sheets.

**CONFIDENTIAL**

**BUDGET STARTER: REFERENCE SHEET**

**Date of issue:** 10 February 1989

**TITLE:** Lloyds Stock Lending

**STARTER NUMBER:** 218

**CLASSIFICATION:** C

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Revenue £m* cost(-)/yield(+)		(Full year)	Staff effects*		Length of legislation*
1989/90	1990/91		1/4/90	1/4/91	
Neg	Neg		Nil	Nil	1/4 page

---

Minister in lead	PCTA or equivalent resolution required
FST	No

---

**ORIGIN OF STARTER:** Inland Revenue

**BACKGROUND AND COMMENTS:**

A minor change that will enable Lloyds to improve their earnings through stock lending.

**OFFICIAL IN LEAD:** M A Johns

**TELEPHONE** 3541 7739

**OFFICIAL IN SUPPORT:** M Templeman/A G Nield

**TELEPHONE** 3541 7300/6412

**FP CONTACT:** Miss M Hay

**TELEPHONE** 270 4918

\* **HEALTH WARNING** The data reports the position at the time of issue of each Reference Sheet and will be updated only if the scope of the Starter changes significantly. Latest information for all items can be found on the Summary Sheets.



**CONFIDENTIAL**

**BUDGET STARTER: REFERENCE SHEET**

**Date of issue:** 10 February 1989

**TITLE:** CGT: Capital Gains Avoidance on Sales of Subsidiaries

**STARTER NUMBER:** 264

**CLASSIFICATION:** C

Revenue fm* cost(-)/yield(+)		(Full year)	Staff effects*		Length of legislation*
1989/90	1990/91		1/4/90	1/4/91	
Substantial revenue at risk if no action taken			Neg	Neg	Could be 6 - 12 pages
<b>Minister in lead</b>			<b>PCTA or equivalent resolution required</b>		
FST			Yes		

**ORIGIN OF STARTER:** Inland Revenue

**BACKGROUND AND COMMENTS:**

Groups of companies selling off subsidiaries can strip out capital gains prior to sale by an intra-group dividend which has no tax consequences, and so avoid a charge on the gains. Alternatively they could sell assets to subsidiaries (treatment on a no gain/no loss basis) then sell commercial control of the subsidiary while keeping it in the group for tax purposes. This avoids the capital gains charge which would arise if the subsidiary left the group.

<b>OFFICIAL IN LEAD:</b>	M F Cayley	<b>TELEPHONE</b>	3541 7427
<b>OFFICIAL IN SUPPORT:</b>	Miss R A Dyall	<b>TELEPHONE</b>	3541 7571
<b>FP CONTACT:</b>	Miss M Hay	<b>TELEPHONE</b>	270 4918

\* **HEALTH WARNING** The data reports the position at the time of issue of each Reference Sheet and will be updated only if the scope of the Starter changes significantly. Latest information for all items can be found on the Summary Sheets.

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FROM: I RICH  
DATE: 17 February 1989

1. MISS O'MARA *This will not be an easy ride but we think it still* cc

2. ECONOMIC SECRETARY *hard doing man 20/2*

PS/Chancellor  
Sir P Middleton  
Mr Wicks  
Mr Scholar  
Mr Peretz  
Mr Michie  
Mrs Chaplin  
Mr Patterson - DNS  
Mr Jenkins - T.Sol

**FINANCE BILL STARTER 656: NATIONAL SAVINGS ORDINARY ACCOUNT INTEREST**

Your Private Secretary's minute of 9 February asked for advice on how to respond in Committee to questions about this Clause, which provides for the Director of Savings, with the consent of the Treasury, to:-

"determine the rate or rates at which interest is to be payable on amounts deposited in ordinary accounts or that no interest is to be payable on such amounts."

The broad thrust of this submission has been agreed with DNS.

2. It may be useful to summarise the present position. The following table analyses the current stock of live accounts - ie those held on the National Savings Bank computer.

Balance in <u>Account</u> £	Number of Accounts <u>million</u>	Amount Invested <u>£bn</u>	Interest Rate %	Interest Cost <u>£m a year</u>
500 or more	0.8	1.1	5 (higher tier)	55
under 500	14.8	0.5	2.5 (lower tier)	12.5

In addition, there are some 40 million dormant accounts for which manual records are held. These date back many years, perhaps to the holders' childhood, and have usually long since been forgotten by the holders. Occasionally, an old passbook comes to light, and

there is a request for repayment. Some 36 million of these accounts have balances under £1, and for that reason earn no interest. The remaining 4 million accounts earn interest at the lower tier rate (2½ per cent). So the overall pattern is that:-

- a. 0.8 million accounts earn 5 per cent;
- b. 19 million accounts earn 2½ per cent;
- c. 36 million accounts earn nothing.

3. The Clause will provide us in theory with a range of future options, including paying no interest on any Ordinary Account deposit or revising the higher tier. We are however committed to the present interest rate structure for the whole of 1989, so there will be no immediate savings, or increase in the run-down of Ordinary Account business.

4. It will not be easy to "sell" the proposed Clause to two powerful and critical audiences. First, it will be interpreted by the Federation of Sub-Postmasters, who rely on Ordinary Account business for much of their National Savings income, as a step towards abolishing the Ordinary Account - you will have noted the strong protests from this source about the recent decision to increase the minimum deposit from £1 to £5. Secondly, the small savings lobby, including interest groups representing pensioners - already complaining strongly about the increase in the minimum deposit - will take a lot of persuading that the Government is not preparing to abolish the Ordinary Account. Both groups are capable of lobbying and securing backing, both from the Government's supporters as well as from its opponents. Moreover, militants in the trade unions will probably try to whip up staff opposition on the grounds that DNS jobs in Glasgow are under threat. In Committee, the Clause will therefore need full and careful presentation if it is to be carried.

5. The basic rationale for the Clause would have to be fairly forthright, on the following lines:

a. A minimum interest rate is not stipulated for any other National Savings product. Interest rates are set in the light of all relevant circumstances at the time. This Clause brings the Ordinary Account into line with usual practice.

b. The Government does want to encourage saving among all sections of the community. But that does not mean promoting all National Savings products.

c. We want in National Savings funds which investors will leave untouched for a number of years. The Ordinary Account does not fit this bill. An instant access account has no priority as a Government funding instrument.

d. Ordinary Account is an expensive operation - some £130 million a year in administration and interest costs. The average cost of each transaction is well over £1 in Post Office agency fees and DNS running costs. The Government has no plans to close the Ordinary Account down, but it is important to ensure that it is run efficiently and economically. It is for that reason that we have recently increased the minimum deposit from £1 to £5, and dispensed with the Standing Order and Paybill services.

e. Ordinary Account business has been declining for many years. This reflects the fact that it no longer serves the social needs for which it was originally established. These are now met to a great extent by banks and building societies, including Girobank, which offers current and savings account facilities over Post Office counters.

6. In answer to specific questions, the line we suggest might be taken is as follows:-

a. Do you intend to stop paying interest entirely? The rates for the whole of 1989 have already been announced and we shall honour them. No decision has been taken on the



interest rate structure thereafter. The Clause simply brings Ordinary Account into line with other National Savings products, for which no minimum interest rate is stipulated, and so increases the range of options open to us. The majority of "Old Bank" accounts, which have balances of less than £1, already earn no interest.

b. What will the interest rate structure be in 1990? Too early to say. We shall as usual decide and announce nearer the time what terms will apply.

c. Can you give assurances that you will continue to pay interest on the present basis? No.

d. Indefensible to pay no interest on a savings account? No decision yet taken about future structure of interest rates. But unlikely that many depositors regard Ordinary Account as savings account - much closer to instant access account. Those who wish to save small sums with National Savings would do much better with Investment Account (currently offering 10.75% gross at 1 month's notice).

e. Does this Clause pave the way for the abolition of Ordinary Account? There are no plans for this. The Clause simply makes available the widest possible range of options on interest rates to the Government, and puts the Ordinary Account on the same footing as all other National Savings products.

f. Is the future of the Ordinary Account assured? No prudent Government could reasonably be expected to give such an unconditional assurance. But the Government has no power in present legislation to abolish it. That would require further primary legislation (extensive amendment to the National Savings Bank Act 1971).

g. The Clause further discourages small savers, such as pensioners and children? No. Banks and building societies offer instant access accounts and accept small deposits.

Girobank offers an instant access savings account to the over - 18s, and a very short notice savings account to all; transactions can be made at Post Offices. In all cases, the interest rate is higher than on Ordinary Account.

7. To sum up, since legal advice is that the Clause must refer explicitly to the option of paying no interest, Treasury Ministers are likely to face firm opposition from certain quarters in taking this Clause through Committee. The current criticism of the decision to increase the minimum deposit in the Ordinary Account from £1 to £5 may give some indication of the strength of feeling.

*Ian Rich*

IAN RICH



*my*

FROM: MISS S J FEEST  
DATE: 20 February 1989

MR M EVERSLED - IR

cc

PS/Chancellor  
Mr Pickford  
Mrs Simpson  
Mr Massingale - IR  
PS/IR

FIRST ORDER PQ NO 2

The Chancellor held a meeting on First Order PQ's today and expressed his surprise that no figures were available as to how many children are cared for in work place nurseries. Can you explain this?

The Financial Secretary would also like to know the background on Factual III.

On Positive points, the Chancellor feels that this should reflect his view that "work place nurseries are desirable but that doesn't necessarily mean that there is a case for giving tax relief".

On Defensive (iii), the Chancellor changed the reply to read:-

"All aspects of the tax system are being kept under continual review.

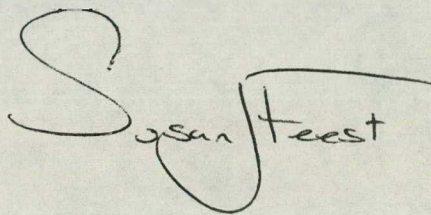
On Defensive 10 (Comparison with company cars) the Chancellor feels that the last sentence should be deleted.

On Defensive 14 (increase £8,500 threshold to exclude lower paid from tax), the Chancellor feels that the line should reflect our standard correspondence reply.

It was also felt that perhaps this year's Finance Bill should amend the car scale's clause so that the £8500 figure is no longer stated as "high paid employees" but rather as for "all except lower

paid employees". The Financial Secretary would like your views on this point.

The Financial Secretary is holding a meeting on Wednesday 22 February 1989 at 11.00am to discuss these points.

A handwritten signature in cursive script that reads "Susan Feest". The letter 'S' is large and loops around the first part of the name. The signature is written in dark ink on a light-colored paper.

**SUSAN FEEST**