PART FIVE MT

Confidential Filing

Interim Report of the Working Group on Tax and Savings

Tax Reliefs for Housing

Green Paper of Taxation of Husband and wife

SERIES CLOSED - SEE TREASURY: BUDGET AND TAX POLICY

ECONOMIC POLICY

Part 1: March 1980

Part 5: May 1990

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~25.5.90~~ ~~25.6.90~~ ~~4-7-90~~ ~~25.9.90~~ ~~21.11.90~~ ~~3.2.92~~ 21.7.92							
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cc PU

Treasury Chambers, Parliament Street, London, SW1P 3AG
071-270 3000

20 July 1992

Ms Mary Francis
Private Secretary to
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister,
Treasury hope that the Alliance & Leicester will not put up rates now that the First Option rate has been cut. No firm news as yet: Board meets on Tuesday, 11.0 am.
MF 20/7.

PS. News of cut Treasury on was 9.0 pm News.

Dear Mary,

NATIONAL SAVINGS: FIRST OPTION BOND

The Cheltenham and Gloucester building society issued a statement on Friday announcing that their variable base mortgage rate would go up from 10.75 per cent to 10.99 per cent, with effect from Saturday. The C&G also increased some of the rates they pay to investors. In their press statement, and in subsequent comments to the media, the C&G have blamed the increases on competition from National Savings' new FIRST Option Bond.

It is not clear at this stage how far other societies will follow the C&G. On Friday, three of the largest societies (the Halifax, the Nationwide and the Leeds) said that they had no immediate plans to raise their rates. And, although a good deal of the weekend press was critical of the FIRST Option Bond, it is notable that some of the public comment (eg by Mark Boleat of the BSA) has been fairly restrained. However, the Alliance and Leicester have announced this morning that they are likely to announce an increase in their mortgage rates this week. And there is clearly a risk that others will follow.

The FIRST Option Bond went on sale on 7 July. The new Bond represented an important step in National Savings' product development - for the first time, they are offering a tax-paid product, designed to appeal to basic rate taxpayers.

An interest rate of 10.34 per cent gross (7.75 per cent net of basic rate tax) is payable on sums between £1,000 and £20,000. A rate of 10.74 per cent gross (8.05 per cent net) is payable on sums between £20,000 and £250,000. These rates are guaranteed for 1 year from the date of purchase. The rates were intended to be attractive and competitive, bearing in mind the additional contribution expected from National Savings towards this year's higher funding requirement. But they were not "super-competitive", in that they were not the highest rates among those already on offer from building societies and also insurance companies.

It is by no means clear that National Savings products are, in fact, the major source of the societies' problems. For example, in June, during which the societies are thought to have suffered a net outflow of more than £300 million, the inflow to National Savings (on a comparable basis) fell sharply from around £400 million in May to a little over £200 million. And the FIRST Option Bond was not then on sale.

However, there is no doubt that the new FIRST Option Bond has got off to a stronger start than we expected. The inflow during the first 2 weeks or so has been around £150 million. Before the launch, National Savings hoped that it might bring in roughly £750 million in the financial year as a whole.

Against this background, the Chancellor has decided to act quickly to minimise the risk of further mortgage rate increases. He has therefore decided to reduce the net rates offered on the First Option Bond by 0.5 per cent. This decision will be announced by National Savings this evening at 7pm and will come into effect from 12 Noon tomorrow (Tuesday). (The slight delay in implementation will allow applications already in the post and received by DNS by Noon tomorrow to receive the higher rates.) The new net rates will be 7.25 per cent on amounts between £1,000 and £20,000; and 7.55 per cent on amounts between £20,000 and £250,000. Action will also be taken on advertising.

A decision to reduce the rates so soon after the launch may itself attract further criticism, namely that Ministers have backed down in the face of pressure from the building societies and that the initial judgement about the rates for the new bond was mistaken. However, the Chancellor believes that this will be much the lesser evil, compared with the risk that delay might increase the possibility of other societies raising mortgage rates and blaming National Savings for doing so. In presenting the decision, a virtue can be made of the swiftness of the Government's response. And it can be reasonably pointed out that fixing the terms of a new product in what is new territory for DNS (the tax-paid market) was bound to be difficult.

The Chancellor also intends to continue keeping a close watch on National Savings rates generally.

Yours ever,

Owen Barder.

OWEN BARDER
Assistant Private Secretary

20.0 PM 1 32

MR POTTER   3rd February 1992

cc   Mr Chapman

VOLUNTARY HOSPITAL DRIVERS

You may remember that the Inland Revenue recently changed the rules so that tax is applied to mileage allowance paid above 4,000 miles to volunteers who drive people to and from hospital. This caused quite a political fuss.

It was agreed that the change would be phased in over several years. It came into effect in October last year. As the tax year draws to an end, the fuss is starting up again.

William Waldegrave is writing to the Chancellor asking for the 4,000 mile ceiling to be increased to 10,000. I would guess that this would mean that most volunteers would not be caught for tax. I have asked the Department of Health to copy the correspondence to us, because of the obvious political sensitivity.

CAROLYN SINCLAIR

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1. DP
2 File

Not a very impressive launch but I think the real selling will be done by banks & building socs

AT

Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

2 January 1991

Andrew Turnbull Esq
Principle Private Secretary
to the Prime Minister
10 Downing Street
LONDON
SW1

Dear Andrew

LAUNCH OF TESSA SCHEMES

... As promised I attach a copy of the press notice issued by the Treasury on 27 December. In addition, as I mentioned, the Financial Secretary will be giving a press conference tomorrow in the Treasury, principally in relation to the forthcoming abolition of composite rate tax, but likely to be followed by interviews in which the launch of TESSA s will also be covered.

Yours sincerely

Kate Gaseltine

MISS K GASELTINE
Assistant Private Secretary

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 071-270 5238
Facsimile: 270 5244
Telex: 9413704

27 DECEMBER 1990

CHANCELLOR WELCOMES START OF TESSAs

Commenting today on the start of TESSA schemes from 1 January, the Chancellor of the Exchequer, Rt Hon Norman Lamont MP, said:

> "This is an important measure which will encourage taxpayers to save. The scheme is convenient, flexible and simple. I am pleased to see that many banks and building societies have chosen to introduce this new savings product for their customers. TESSAs are getting off to an excellent start. I am sure that they will help to cultivate the savings habit."

PRESS OFFICE
HM TREASURY
PARLIAMENT STREET
LONDON
SW1P 3AG
01 270 5238

NOTES FOR EDITORS

TESSAs are part of the package of savings measures announced by the former Chancellor of the Exchequer in his Budget in March this year. The new scheme provides for tax free saving in a special account with banks and building societies.

Savers can deposit up to a maximum of £9,000 over the 5 year life of a TESSA. Up to £3,000 can be saved in the first year, and up to £1,800 in later years, as long as the overall total does not exceed the £9,000 maximum.

MR TURNBULL

BP

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 071-270 0101

From the Secretary of the Cabinet and Head of the Home Civil Service
Sir Robin Butler KCB CVO

Ref. A090/2787

21 November 1990

Dear Julie,

Publicity for Tax Changes

Sir Anthony Battishill, accompanied by Mr Tharby and Mr Mace, came to see Sir Robin Butler on Monday 19 November, to discuss Sir Anthony's letter of 13 November. Mr Whetnall (Machinery of Government Division) was also present.

Sir Anthony explained that, following up the Chancellor of the Exchequer's decision to abolish composite rate tax on savings, the Inland Revenue had to consider the position of 15 million non-tax payer investors. In the absence of action by the Revenue, tax would be deducted from their savings and they could then reclaim it at the end of the tax year. Such an approach would be very costly for the Revenue. It would be both to the advantage of the individual taxpayers, and cost effective for the Revenue, if non-taxpayers registered as such in advance and no tax were deducted from their savings. The Revenue had taken advice from independent consultants and the COI, who had pointed out that, since they would be dealing with people who were not in touch with the Revenue, and not financially sophisticated, the two difficult points to be got across would be the need for personal action, and the need to get in touch with the Inland Revenue.

Sir Anthony said that Ministers had pressed the Revenue to keep their basic repayment population as low as possible. In order to meet running costs limits, it was essential to encourage those people able to register to do so. With a possible target population of 15 million, the sums at stake were considerable. The campaign would break even if it attracted an additional 500,000 to 600,000 to register. The consultants had confirmed that to reach the proposed target population, television advertising was essential, to supplement the newspaper, women's magazines, household drop etc already planned by the Revenue.

/Sir Robin said that,

Julie McClatchey
PS/Sir Anthony Battishill KCB
Inland Revenue

Sir Robin said that, subject to one proviso, the Revenue proposals satisfied the requirements for Government publicity: they informed individuals of action which it was in their own and the national interest for them to take, they provided factual information, and they were cost effective. The proviso was that the campaign should not be open to suspicion that its purpose was to promote the political interests of the Government. The Opposition and the media would be quick to criticise any element of the campaign which could be seen as promoting the Government's action in abolishing composite rate tax, particularly during the sensitive period in the run up to an Election. There were certain points in the proposed texts where criticism could be levelled. For instance, remarks such as "you should not pay tax" might be better expressed as "you need not pay tax". Direct references to the Government changing the law should also be avoided unless strictly necessary. He also thought that it would be inappropriate for the campaign to be launched by the Chancellor of the Exchequer; for an administrative matter of this sort the Financial Secretary would be appropriate.

Sir Anthony said that the Revenue had been careful throughout to try and present the change in as balanced and factual way as possible. Market research showed, however, that the target population did not differentiate between the Inland Revenue and the Government. He accepted the points Sir Robin had made and undertook to look again at the scripts to see whether further amendments were possible. Work on filming the television advertisements would start fairly shortly, with the aim of running the campaign early in 1991. He noted that the Inland Revenue logo would be used in all the material; this had been seen as important to distinguish the campaign from parallel campaigns which would be run by Banks and Building Societies to attract non-taxpaying savers. Sir Robin confirmed that there would be no problem with using the logo.

I am copying this letter to John Gieve and Gina Haskins (Treasury) and to Andrew Turnbull.

Yours sincerely,

Sonia Phippard

(Miss S C Phippard)
Private Secretary

Barry

You will no doubt hear more of this. I personally don't agree that higher income families should get more relief. The flat rate relief provided by CB seems as good a system as any to me. I have just read A D's [illegible] piece and find the logic compelling. A

Pl return report to Questions.

PRIME MINISTER 4

Thank you very much

TAXATION OF FAMILIES

You asked me to look for a statement of the principle that the tax system should not only recognise family responsibilities but that the extent of relief should be income-related so that those with higher incomes got more relief to recognise that they would incur greater expenses in bringing up children.

The Royal Commission on the Taxation of Profits and Income which sat between 1952 and 1954 considered these issues in its second report. The context was that, at that time, income tax and surtax were assessed separately, using slightly different rules. Surtax made no allowance at all for family circumstances.

The Commission identified two polar cases:

i. A flat rate relief at all income levels (which is in effect what Child Benefit now provides above the threshold for Family Credit).

ii. The quotient system, seen in some Continental tax systems, in which the family income is aggregated, then divided by the number of people in the family, with children scoring as half a unit, and the tax bill being calculated separately on each unit.

The Commission regarded both extremes as unsatisfactory. They regarded the first as unfair to better-off families and the latter as too generous as it implicitly assumed that, say, the expense of bringing up a fourth child was equivalent to the first. The Commission went on to propose a complicated scheme for a variable child allowance. I cannot remember whether it was implemented, but much the same effect would have been achieved by the child tax allowance which could be offset against a series of rising marginal rates.

The argumentation is set out in paragraphs 151-157 and 173-181. The effect of their proposals can be summarised as follows. At £1,000 per annum a married man with two children paid 47% of the tax on a single person, but at £3,000 paid 91%. After their proposals these proportions would have become 42% and 73% respectively.

AT

ANDREW TURNBULL
25 September 1990

tmw a:taxation

chex.jp/tt1/14 **PERSONAL AND CONFIDENTIAL**

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DM

Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

11 July 1990

Rt Hon Kenneth Baker MP
Party Chairman
Conservative Central Office
32 Smith Square
LONDON
SW1P 3HH

Prime Minister 2

DM

12/7

Dear Chancellor of the Duchy,

THE TAXATION OF OVERSEAS VOTERS

We met on 25 June to discuss your concern that potential overseas voters would be put off registering because of the possibility that this might affect their domicile, which in turn might create a possible tax liability.

We agreed that it would be highly controversial to legislate to ensure that registration to vote would not be taken into account in determining domicile for tax purposes. But we also agreed that legislation was not necessary. It would be representation without taxation. I accepted the point you made that we have already taken a step in that direction by allowing people resident abroad for up to 20 years to register to vote, but that was done relatively uncontroversially. To give the Opposition an additional opportunity to claim we are going for an electoral fix and one which contrasts strongly with our known views that payment of the community charge aids electoral accountability would be most unwise. The numbers likely to be affected do not make the risk worthwhile.

Since legislation is not worthwhile we need to spell out clearly to those living overseas who are considering registration how minimal the risk is that they would become liable to UK taxes. I suggest you tell them:

> "Registering or voting as an overseas elector will have no effect on a person's residence status for tax purposes: consequently, anyone who is already non-UK resident will not incur additional liability to UK income tax or capital gains

tax from doing so. Moreover, of itself, registering to vote could never be a decisive factor in establishing a UK domicile - which principally affects inheritance tax - a tax which in any case is paid only by about 4 per cent of estates in the UK."

I am copying this letter to the Prime Minister.

T. Tarkowski

pp JOHN MAJOR

[Approved by the Chancellor of the Exchequer and signed in his absence]

cst.ps/let/16gh25.6

RESTRICTED

n. D. P.M.
BHP
25/6

ECONOMIC SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Barry H Potter Esq
Private Secretary
10 Downing Street
London
SW1A 2AA

25 June 1990

Dear Barry,

ENCOURAGING SAVINGS

This is to let you know that we shall be announcing by written Parliamentary answer and Treasury Press Notice tomorrow improvements in the terms of the Save-as-You-Earn (SAYE) Share Option scheme.

The scheme is at present operated by the Department for National Savings and building societies. It enables employees to save up to £150 a month for five years to purchase shares in their company at a guaranteed price. In his Budget, the Chancellor proposed that the scheme should be extended to the banks, and the necessary legislation is included in the Finance Bill. We are also taking the opportunity to increase the guaranteed tax free bonuses payable on completed contracts.

These changes will come into effect after the Finance Bill receives Royal Assent.

Yours,
Gina

GINA HASKINS
Private Secretary

25.06. PM 90

PRIME MINISTER

TAX: LABOUR AND INTERNATIONAL COMPARISONS

In an interview on Newsnight on 24 May, Mr. Kinnock said:

> "...The people who would be liable for the full 50 per cent, plus 9 per cent national insurance rate, the levels of taxation changed on those kind of incomes in, for instance, West Germany, will be people on £40,000 a year."

He clearly does not know that in West Germany a married man with two children would have to be earning at least £75,000 to have a marginal rate of only 53 per cent; and in France the figure is £114,500 before a marginal rate of 56 per cent is reached.

For basic rate taxpayers, Labour are proposing that anyone earning over £18,500 will face a marginal rate of 34 per cent (25 per cent income tax plus 9 per cent from removing the national insurance ceiling). In France, a married man with two children has to be earning at least £27,000, and in Germany £32,500, before they face a 34 per cent marginal rate.

DOMINIC MORRIS

4 June 1990

A:\parly\tax (pmm)

File

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10 DOWNING STREET

LONDON SW1A 2AA

22 May 1990

From the Private Secretary

Dear Kate

TAX BURDEN

This is to confirm my conversation with Tancred earlier this afternoon, following Mr. Kinnock's Questions during PM's Question Time. The Prime Minister felt it would be helpful to have a table of figures and ratios for each year from 1974 to present covering the following:

- for the figures; GGE, total GDP, non-oil tax revenue, PSBR, and net personal disposable income;

- for the ratios; GGE as a proportion of GDP; non-oil tax revenues as a proportion of GDP and PSBR as a proportion of GDP.

Most of these figures I hope will be readily available. It should be simply a case of pulling them together. Could I ask for this table please by the end of the week.

Yours

Dominic

(DOMINIC MORRIS)

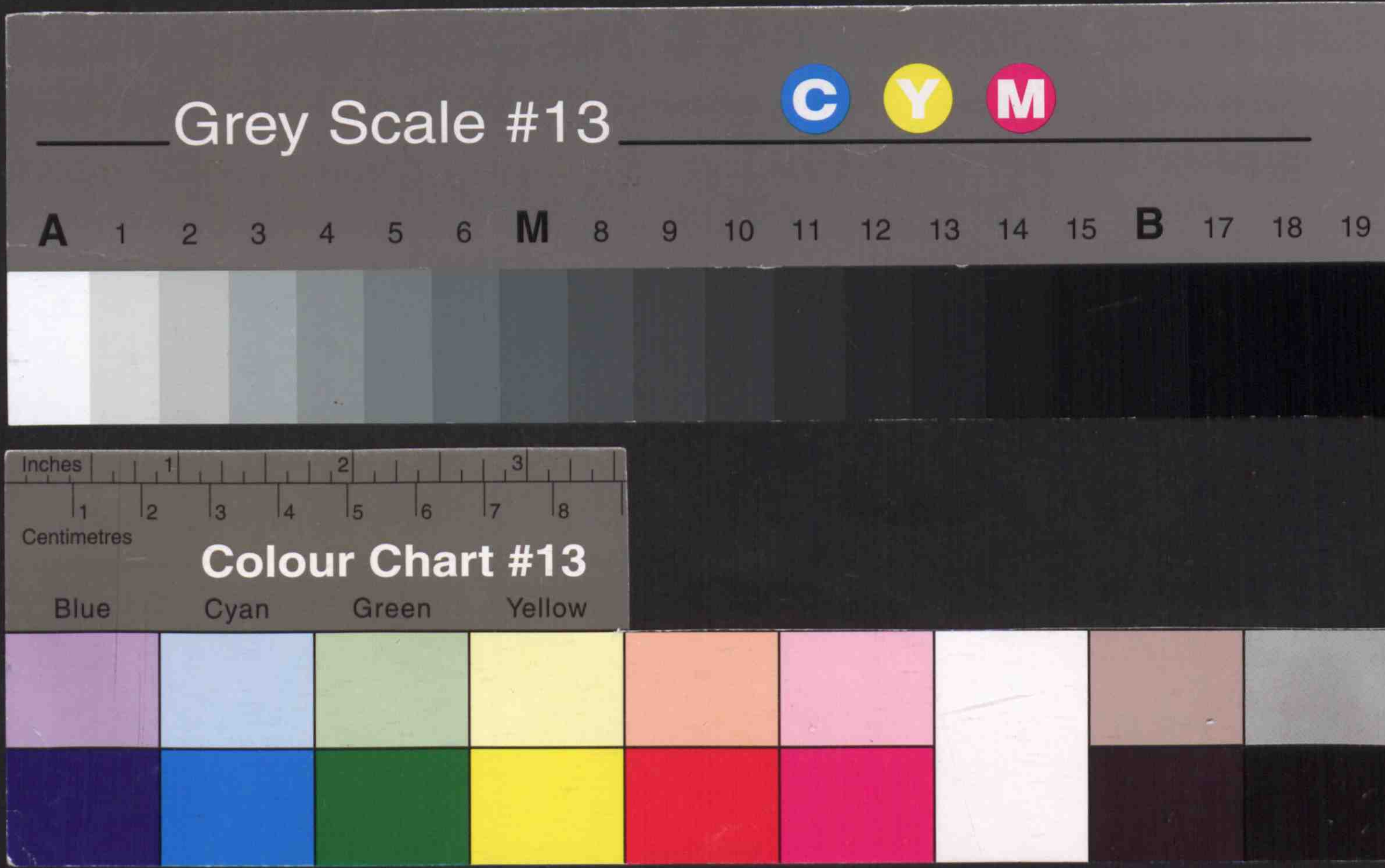
Ms. Kate Gasaltine,
H.M. Treasury.

PART 4 ends:-

PG to EST's office 19-3-90

PART 5 begins:-

DM to HMT 22-5.90


Grey Scale #13
C Y M
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Colour Chart #13
Blue Cyan Green Yellow