

CONFIDENTIAL

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LEADER'S CONSULTATIVE COMMITTEE

117TH MEETING

3.00-6.00 p.m. Monday 21st June 1976, in the Leader's  
Room at the House of Common.

POLICY DISCUSSION AGENDA

1. Policy Group on Taxation:: Second Interim Report  
(LCC/76/116) - attached.
2. Social Services Policy Groups' Report (LCC/76/117)  
- attached.

Conservative Research Department,  
24 Old Queen Street, London, S.W.1.

CFF/SMW  
17.6.76

*Emphasis* *No financial restriction*  
Leaders Consultative Committee *Employer*

Policy Discussions 21st June, 1976

CHAIRMAN'S NOTES

Policy Group on Taxation

Although this group is relatively far advanced its members have, of course, been engaged with the Finance Bill.

On Capital Transfer Tax the first alternative you might wish to consider is whether Conservative Policy should be to repeal the tax completely or 'draw its teeth'.

In either event what should go in its place? Would we return to Estate Duty? Would the CTT as amended in the way suggested in Appendix A be any less anomalous than Estate Duty? Would we be prepared to have no tax on transfers of capital even at death?

The group suggests a top marginal rate of tax on investment income of 75%. One alternative is a top earned rate of 60% with a flat surcharge of 15% on investment income. Other alternatives are set out in Appendix C.

On V.A.T. they propose initially that the minimum turnover requirement be raised from £5,000 to £10,000. In order to shift gradually some of the burden from direct to indirect taxation they suggest first reconsolidating the V.A.T. rates into a single 10% rate and subsequently in one or two jumps raising it to 15%.

They are examining methods by which smaller firms of a proprietary character could be given further tax encouragement.

They suggest abolishing Stamp Duties and taxing deals in shares or land through VAT on brokers and agent's commission.

On Social Security some of the group wish to tax short term benefits and believe it can be done administratively while others believe that the goals to be achieved can only be achieved through the Tax Credit Scheme. They also propose a significant increase in social security contributions replacing the whole of the Exchequer contribution to the National Insurance Fund by increases in the Employer's contribution (Paragraphs 23 to 25 and Appendix E)

In Appendix F they offer some suggestions for encouraging wider ownership of assets.

They also suggest indexing the personal tax threshold not so much so that the Chancellor is liable automatically to forego the extra revenues which inflation may bring to

the Exchequer but to require him to justify the increases in taxation which result from non-adjustment of thresholds.

### Social Services Policy Group

On the Health Service the group recommend increasing prescription charges to raise an extra £30 to £35 million p.a. of revenue, removing the Area Health Authorities altogether and giving the Regional Health Authorities co-ordinating powers; repealing the Health Services Bill or amending the restrictive clauses so as to allow the expansion of pay beds in the NHS. They advocate the restoration of tax relief on employers medical insurance schemes as a means of encouraging the independent sector and reducing the strain on the NHS at a cost of between £5 and £10 million per annum.

They are examining the continental systems of health insurance and believe a system of payment and insurance would raise extra finance and also make people aware that treatment has to be paid for, but do not recommend any manifesto commitment at this stage except in the most general sense.

Their recommendations on voluntary organisations are summarised in the four sub-headings at the beginning of Page 3.

Their detailed recommendations on Social Security particularly the treatment of self-employed will be found on Pages 4 and 5 and on Page 6 they recommend re-affirming the pledge eventually to abolish the Earnings Rule and in the meantime stand by our proposals to raise the earnings limit from £35 to £50 per week as from April 1977.

\* Strictly speaking employers even now do not pay tax on their contributions but the value of the contributions is counted as part of the employees income for tax. The group's recommendation is that the earlier position where no tax was attracted should be restored.

JATD/SRG  
21st June 1976  
CRD

The Main Proposals relating to CTT in Appendix A

Shorthand Summaries

1. Reduce rate of CTT generally.
2. Make close relatives pay less CTT than others.
3. Insulate CTT liability from some of the effects of inflation.
4. Remove snooping obligations on professional advisors.
5. Remove periodic CTT charges on discretionary trusts.
6. Enable annual tax free gift entitlement to be carried forward indefinitely during giver's adult life.
7. Have same CTT relief for agricultural landlords as for working farmers.
8. Restore in CTT the provisions which benefitted woodland owners under Estate Duty.
9. Remove element of double taxation where CTT and CGT both apply.
10. Enable giver as well as recipient to pay tax by instalments.

LEADER'S CONSULTATIVE COMMITTEE

Minutes of the 117th Meeting held at 3.00 p.m. on Monday, 21st June 1976, in the Leader's Room at the House of Commons.

Present: Mrs. Thatcher (In the Chair)

Mr. Whitley, Sir Keith Joseph,  
Mr. Maudling, Sir Geoffrey Howe,  
Mr. Pym, Mr. Gilmour, Mr. Peyton,  
Mr. Jenkin, Mr. St. John Stevas,  
Mr. Heseltine, Mr. Raison,  
Mr. Maude, Mr. Buchanan-Smith,  
Mr. Edwards, Mr. Neave, Mrs. Oppenheim,  
Mr. Biffen, Lord Thorneycroft.

Mr. Atkins.

In attendance: Mr. Butler, Mr. Stanley, Mr. Patten,  
Mr. Douglas, Mr. Ridley, Mr. Boswell,  
Mr. Nicholson, Mr. Mockler (for Item 2)

Apologies: Lord Carrington, Lord Hailsham,  
Mr. Prior.

1. Policy Group on Taxation: Second Interim Report

Sir Geoffrey Howe introduced the paper LCC/76/116. There was a discussion as to the status of the proposals and it was agreed that they formed a reasonable strategic basis on which to present our policies between now and an election whenever that was called. While it was too early to put them into precise form as eventual proposals for an election, say in two years' time, because the state of the economy and the revenue from various taxes would by then have changed, they could certainly serve as interim proposals on which to fight an early election. What we actually published in any Manifesto would have to be decided at the appropriate time.

The various proposals in the paper were discussed in turn, and were generally agreed, subject to the following points:

- i. We were not likely to be able to reduce the general burden of taxation in the first few years because of the over-riding need to cut public expenditure.
- ii. However, there was an urgent case for reducing "enterprise taxation". This package would include:
  - a. cuts in the top rates of direct taxation.
  - b. Early steps to mitigate the effects of Capital Transfer Tax on small businesses, farms, historic houses, etc., and to enable family businesses to be passed on to the succeeding generation.
  - c. Changes in the structure of Capital Gains Tax so that it did not as a result of inflation act as a wealth tax.

- NOTE 1. It was recognised that it would take around 3 or 4 years to develop a comprehensive system of capital taxation to replace Capital Transfer Tax and Capital Gains Tax. However, the development of interim proposals was a priority before the next election.
2. We should bear in mind our previous Manifesto pledges regarding the abolition of estate duty on transfers between husbands and wives.
- iii. It would clearly be desirable to link our changes in "enterprise taxation", if at all possible, with some across-the-board reductions in the burden of indirect tax either by raising thresholds or by reductions in the standard rate. We should seek to get across the argument that direct taxation needed to be reduced not only for incentive reasons but because of the ridiculous anomaly regarding the poverty trap.
- iv. To balance our proposals on direct taxation, particularly those on the higher rates, we should need to prepare a selective poverty package, involving, for example, the disabled and one-parent families.
- v. We should not commit ourselves to figures for the reduction of the top marginal rates of tax but we would refer to the European parallels and we would equip MPs and candidates with details of the arrangements in European countries.
- vi. The reduction in direct taxation would necessarily involve the preparation of a package for the increase of indirect taxes, one element of which would involve a return to a single rate of Value Added Tax. This would be linked to specific reforms in VAT including an increase in the minimum turnover requirement to £15,000 rather than £10,000 as proposed in paragraph 9.
- vii. With regard to social security contributions we needed to move gradually to cut out the Exchequer contribution to the National Insurance fund. There were difficulties in putting the whole burden on employer contributions, and we accepted that because of the company liquidity position we could not move to European standards of welfare taxation until we had restored prosperity to nearer the European level. These particular proposals needed to be looked at in more detail but the general line was agreed.

#### Appendix F: Wider Share Ownership

There was a discussion. The general principles were agreed but no figures were as yet determined. This was an important aspect of the task of adapting the capitalist system to modern conditions. It was also agreed that we should prepare proposals for a savings scheme.

#### 2. Interim Report on Social Services

There was a discussion on the first part of this paper and the following points were agreed:

- i. Our main objectives were to restore morale in the Health Service and help solve the problem of financing it by encouraging the development of private health insurance.

- ii. Private health services needed to be integrated into the NHS, and not kept isolated from it. Prescription charges should be increased.
- iii. We should restore the tax relief to employees in respect of BUPA contributions paid by employers. We should also encourage employers and unions to negotiate over assistance for health insurance.
- iv. We should encourage BUPA, etc., and the doctors to give evidence to the Royal Commission on the case for increasing health insurance, with, as a long term aim, the possibility of raising 20 per cent to 25 per cent of the NHS costs via insurance.
- v. We did not want a new bureaucracy to police the provision of day beds in NHS hospitals. We should leave this to the medical profession itself. There might be a role for the Health Services Board to establish criteria.
- vi. Regional, Area and District Health Administration. We should encourage the Regions to experiment on what administrative structures best met their particular needs. The only general constraint would be through cash limits.
- vii. It would be appropriate for a Minister (perhaps one sitting in the House of Lords) to be responsible for liaison with the voluntary organisations.
- viii. On the self-employed, we should promise an open enquiry on their National Insurance contributions and benefits.

### 3. Other Business

#### a) Lindsey Oil Refinery Ltd (Financial Assistance)

It was agreed that we should vote against an Order under the Industry Act to provide financial assistance. Mr. Heseltine would inform Mr. Michael Brotherton of that decision.

#### b) Cabinet Confidentiality

Mrs. Thatcher raised the question of the speech over the weekend by Mr. William Price, stating that in the context of the Cabinet leak over the Child Benefit issue, there was a tendency to leak a wide variety of Cabinet information. There was a discussion and it was agreed that:

- i. Mr. Peyton would ask the Lord President whether the Government accepted or rejected Mr. Price's view and whether, bearing in mind the comment by Sir Douglas Allen that the track record of inquiries into leaks, such as the Government had put in motion, was not good, what alternative procedures they intended to adopt to restore confidence in Cabinet security.
- ii. If the reply was not satisfactory, we would move the adjournment of the House under Standing Order No. 9.
- iii. We would consider devoting a half Supply Day to the subject.

c) Shadow Cabinet Security

Mrs. Thatcher raised the matter of a leak in the Daily Mail of what appeared to be some of our policy material on home ownership. There was a discussion and it was agreed that it was necessary that those members of the policy group together with the officers of the relevant backbench committees, even if they were not members of the policy group, should be kept informed of what our proposals were. They should not, however, see the papers that the respective Shadow Spokesmen put before the Shadow Cabinet.

d) Possible restoration of co-operation with the Government over Business

There was a discussion on what terms we should seek for agreeing to return to normal co-operation with the Government Whip's Office over pairing and other business arrangements. It was agreed that:

- i. Once the vote had been retaken on the recommittal Motion over the Aircraft and Shipbuilding Industries Bill we would return to normal co-operation, even though we might not have won the vote.
- ii. We required an understanding that in future changes in pairing would not be made without agreement between the two Chief Whips.
- iii. We could not agree to a voluntary time table over the Aircraft and Shipbuilding Industries Bill, and if the Government insisted on moving Guillotine Motions on this and other bills, we should reconsider our proposal to return to normal co-operation.

The Meeting closed at 6.10 p.m.