



10 DOWNING STREET

Prime Minister.

Sept. 6, 1982.

A note on David Young's last point:-

Profitable Companies and wealthy individuals will find ways to avoid paying large amounts of tax. They will use whatever means the revenue allow, from Industrial Building Allowances to Container Leasing. If we want money to go into homes for rent, make it easy to avoid tax by this route. Don't worry about large taxpayers avoiding tax by building rented houses, they are going to avoid tax anyway! It is only the direction of their avoidance that you can alter.

David -

David Wolfson.

THE PRIME MINISTER

During our discussion on Saturday, I referred to the number of instances in which policy decisions had been defeated by the Inland Revenue in drawing up the rules related to each scheme.

Examples are as follows:

1. Workshop Building Allowance

From the outset, I pressed for there to be no restrictions as to user of these small workshop units which had an upper limit of 2,500 sq. ft. At under this limit, it is very difficult for anyone to determine the precise user of premises and although we were able to get the Town Planning rules changed to permit either industrial or storage use, the Revenue proved adamant. At the present time, some Inspectors of Taxes are looking closely at individual occupation and there was evidence that units were being kept empty for fear that the owners would lose their tax allowance.

The Revenue's argument was that this would be the thin end of the wedge that would lead towards a Commercial Buildings Allowance but, with a clear cut-off point, this was never likely to be the case. Our only hope now is in the Corporation Tax Review.

2. Business Start-Up Scheme

I am told by practising accountants that they cannot recommend this scheme to their clients as the rules now provide that in the event of the majority partner disposing of his shares within five years, the tax allowance becomes repayable.

3. Zero Coupon Scheme

This was a scheme which would permit companies to issue interest-free bonds at, say, 25 and redeem them at 100 after a number of years. The Revenue ruled that the difference would be treated as income and not capital and in practice the scheme was killed.

4. Company De-Merger Provisions

This was announced in the 1980 Budget and was a scheme which would allow a company to split itself up into two or more units. The detailed rules are such that practically no de-mergers have taken place.

5. Company Share Purchase Scheme

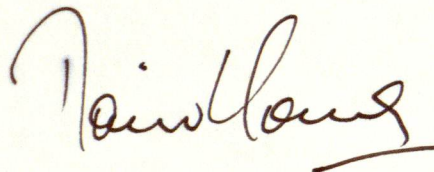
This was a scheme to allow companies to buy back their own shares. The detailed rules were so onerous that nothing happened after the 1981 Budget and it was finally modified in last year's Budget.

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6. Residential Building Allowance

This was a scheme which would enable new residential property, built to let under an assured tenancy, attract a tax allowance of 75% on the construction element. As well as providing a boost for house building, it would have enabled us to make a start on de-regulation of residential rents and make a valuable contribution towards the mobility of labour. I did press the Chancellor to make the allowance 100% for the first two years but when the detailed rules were published at the report stage of the Finance Bill, it became apparent that this scheme would only have marginal or little utility. The rules provide that only an approved landlord (approved by the Department of the Environment) who actually builds the property and creates the tenancy can enjoy the tax allowance. This effectively eliminates the tax shelter market and the only people likely to use the scheme are the occasional large housebuilder.

The Inland Revenue is quite properly motivated by a desire to ensure at all costs that the taxes are collected. Unfortunately, this stultifies these new initiatives and I am afraid that the only answer, if we really desire them to have an impact, is to live a little dangerously and to run the risk of a certain amount of tax avoidance. After all, if it were to become excessive, we could always then modify the legislation.



David I. Young
3rd September, 1982