

I share David's

Prime Minister

1

mis-judges particularly
in the light of the I.T. effects
on people in the 21-5000 income
range. To leave them worse
off - than rate

I rather agree with this - though I
would still raise the thresholds on stamp
duty and ILS.

PRIME MINISTER

capital gains bills off in
unacceptable. But I see stamp duty which
is used but only to fund charges

Do you wish to discuss with the
Chancellor?

Pl 2/3 of Lewis.
Very cautious.
Prof

I have seen the Chancellor's memo on capital taxation and hope
it is not too late to look at it from the other side.

To the vast majority of people in this country anyone who has
capital gains of £5,000 in a year is rich. Likewise an estate of
£25,000 and certainly £50,000 is evidence of considerable wealth.
It is therefore quite certain that the proposed changes will be
presented as another give-away to the rich, and the costs quoted
would probably be the full year costs of £250 million.

Even at the first year cost of £60 million, comparison will be
drawn every time we have a measure which appears to create financial
hardship for any group. Let me put forward a few instances:

- If they hadn't given £60/250 million to the rich,
- they would not have needed to charge for school transport
- or increase the charges for school meals
- or raise prescription charges
- or they could have increased the child benefit allowance
earlier or by the full amount of inflation

I believe that it will be very damaging for there to be
practically any give-away to the better off at this time. We are
facing recession. We are having to do a lot of unpleasant things.
Most people feel that life is going to get tougher and may well go
along with us. But the charge that life does not have to get
tougher for the well off, who did very well out of the last budget,
will do damage to our social cohesion far beyond the £60 million or
even £250 million cost.

I know this has been discussed time and again and the result
has been a watered-down measure. The point I am making is that the
amount of the give-away to the better off is not important. If
there is any give-away we will risk immense damage to our position
as the Party for all the people, the family and so on.

/ Surely

Surely these relatively minor ameliorations of capital taxation can wait until we are able to make tax changes benefiting the whole of the community in two years' time.

David.

PS:-

In paragraph 3 of the Chancellor's minute, he says:-

"It would be unwise to appear to be giving too many concessions to the wealthy..."

I would suggest it would read more accurately:-

"It would be political suicide to give any concessions to the wealthy..."

If that sentence is a better judgement of reality, the rest of the memo would have to change completely.

The present proposals are a lamb, for which we shall be hung just as if they had been a sheep!

7 March 1980



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Treasury Chambers, Parliament Street, SW1P 3AG
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PRIME MINISTER

CAPITAL TAXATION

Following our meeting this morning and that on 29th February, I can now let you know my final conclusions on the capital taxes. Your Private Secretary recorded on 4th January that you agreed with the conclusions which my colleagues and I had provisionally reached and which I put to you on 12th December. However I then suggested that for both Budgetary and presentational reasons it might not be possible to go as far as I had hoped, and so it has proved.

Fly A

2. The main elements in the package I put to you in that minute were the abolition of the investment income surcharge (IIS); an increase in the exemption limit from capital gains tax (CGT) to £5,000 in any year; an increase in the capital transfer tax (CTT) threshold to £60,000 or £70,000 and a cut in the rates; to abandon lifetime cumulation; to give relief for agricultural landlords; and to remove the CGT/CTT overlap.

3. This package would cost some £600 million in a full year and, even though only around £125 million would arise in 1980/81, it is more than we can reasonably justify committing this year. Moreover it would be unwise to appear to be giving too many concessions to the wealthy in a Budget in which in real terms we are going to have to increase the burden of income tax, and

/in which



in which we are not increasing child benefit to the extent to which we are being pressed, by many of our supporters as well as by the usual pressure groups. However I am sure that it would be equally wrong to go the other way and do nothing, bearing in mind the commitments we have given and the expectations of our supporters. Accordingly as I mentioned last week I have looked again at the proposals on capital taxation to see which seem to be the most pressing and should be done this year and which could reasonably be left until a later year when we shall be getting greater revenue from the North Sea.

4. I have little doubt that against this background we should leave for another year any question of abolishing the IIS. We increased the threshold very substantially last year and, unlike the other taxes, we have no commitments to honour. I propose that we should do no more than increase the threshold in line with the increase (around 11 per cent) we are making elsewhere in the higher rate threshold and bands, i.e to £5,500.

5. The balance of consideration between the CGT and CTT changes previously proposed is much finer. I have concluded however that it is better to give full effect to our CGT proposals and to trim the CTT package for this year. This is firstly because the CGT costs arise far more slowly - there is no cost in the first year and only about 30 per cent of the full year cost arises in the second year - and partly because, since we cannot deal directly (for the reasons I gave in paragraph 12 of my previous minute) with the very unfair impact of the tax on paper gains, it is all the more important to relieve the burden in another way. Moreover there are greater staff savings here than in the CTT package.

6. Nevertheless I do not think we should do nothing on CTT this year. The effect of inflation has been to bring many

/more



more estates into the charge to the tax and it would be right not only to restore the value of the threshold in order to cut them out, but also to increase it in real terms. This would reduce the numbers affected by the tax still further by removing the cases where the liability is comparatively small. I propose therefore that we should increase the threshold from £25,000 to £50,000, so reducing the number of estates caught from around 40,000 to some 18,000 and giving a staff saving of 220. I do not propose, however, that we should reduce the rates of tax above the new threshold so the starting rate of CTT will become 30 per cent.

Review to
 some £25,000?

7. There is also a structural change we should make. We should retain our intention to abandon lifetime cumulation and cumulate gifts for ten years only. This will here and now remove one of the oppressive features of the tax but, since the tax was introduced in 1974, can have no cost until 1984. The only other CTT changes I propose are on the heritage - in line with our commitments and for which there is at least some bipartisan support in the House, on gifts to charities as part of a much wider package to encourage the voluntary movement; and a few tidying measures to relieve the administrative burden on taxpayers and the Revenue.

8. Against the general background, I believe it would be unwise to introduce any relief for agricultural landlords this year. We can justify the delay by the failure of the agricultural interests to reach any agreement on the question of land tenure; it may be desirable here, as elsewhere, to promise consultation with those concerned.

9. Finally, we should remove the overlap between the taxes. It seems particularly oppressive that a lifetime gift should attract a charge to both and we can remove it at little cost.

Overhead ✓



10. In sum the main elements of the package are now thus:-

	<u>Cost</u>			<u>Staff Saving</u>
	<u>1980/81</u>	<u>1981/82</u>	<u>Full year</u>	
	£m	£m	£m	
CGT - exempt first £5,000 gains in each year (£2,500 for trusts)	Neg	35	110	550
CTT - £50,000 threshold, no changes in rates	60	115	140	220

CGT/CTT overlap

- remove

small

Since I regard the increase in the threshold to the IIS as more a matter of personal, than of capital, taxation, I have not scored it here.

11. For completeness, I would also mention stamp duty, though I do not think it would be sensible to score this as part of the capital tax package. I mentioned last week that I was considering raising the stamp duty thresholds for houses, etc., by £5,000, and you said you were attracted by this proposal. I now propose to go ahead with it. It is a modest change, considerably less than would be needed to take account of the movement in house prices since the thresholds were last raised

/in 1974



in 1974. Even so, the move will cost £85 million in 1980/81, £95 million in 1981/82 and £95 million in a full year. The staff effects are negligible.

12. I should be grateful to know whether you are content that we should proceed on this basis: I am, of course, very ready to discuss it with you.

A handwritten signature in dark ink, appearing to be "G.H." with a flourish.

(G.H.)

7 March, 1980

DC SIR R. ARMITAGE
~~10/13/80~~ 10/13/80
~~10/13/80~~ 10/13/80



10 DOWNING STREET

From the Private Secretary

10 March 1980

Dear Jim,

The Prime Minister considered the Chancellor's minute of 5 March about the distributional effects of his proposed income tax package over the weekend, and also his minute of 7 March setting out his proposals in respect of capital taxation.

As I told you on the telephone, the Prime Minister is most concerned about the distributional implications of both sets of proposals. As regards income tax, she does not believe a package which will bear most heavily on those in the £2½-£5,000 income bracket is tenable; for in her view, it would severely aggravate wage pressures in the next pay round.

For similar reasons, she believes it would be most unwise to make significant concessions on capital taxes this year. Even if the income tax package can be made more equitable, she thinks that even the relatively modest proposals put forward by the Chancellor will be widely criticised as favouring the rich at a time when the less well off are having to face higher prescription charges, charges for school transport, higher charges for school meals, etc. The Prime Minister therefore suggests that the Chancellor should drop his main proposals on CGT and CTT, and confine his proposals to the minor changes mentioned in paragraph 7 of his minute of 7 March.

Talk
Treasury
kind
My also
likely to
agree
covering
the overlap
between
CGT and
CGT.
It
m/j

The Prime Minister agrees that the stamp duty proposals should not be scored as a capital tax measure, and she agrees with the proposal to raise the thresholds by £5000.

The Prime Minister would like to have an early discussion with the Chancellor. As I mentioned to you, she would find it helpful to have some clear figures on the distributional effects of both the Chancellor's preferred income tax package, and possible alternatives.

Tom
The
Lambert

John Wiggins, Esq.,
HM Treasury.