

32⁹⁰

NOTE OF A MEETING HELD IN THE CHANCELLOR OF
THE EXCHEQUER'S ROOM HM TREASURY, AT 9 AM
ON MONDAY, 19 JANUARY 1981

Present:

Chancellor of the Exchequer	Mr Dalton) Inland Revenue
(in the Chair)	Mr Green	
Chief Secretary	Mr Beighton	
Financial Secretary	Mr Ware	
Minister of State (C)		
Minister of State (L)		
Mr Middleton		
Mr Unwin		
Mr Battishill		
Mr Tyler		
Mr Ridley		
Mr Cropper		

CAPITAL TAX CHANGES FOR THE 1981 BUDGET

The meeting had before it Lord Cockfield's paper of 19 December, a minute of 7 January from the Financial Secretary, one of 9 January from the Minister of State (C), and one of 13 January from Mr Cropper. An agenda was contained in Mr Tyler's note of 15 January.

2. The Chancellor began by asking the meeting for broad feelings about the possible changes. Lord Cockfield said he believed that the package he had proposed was the minimum possible for the Government if it was to retain respectability in the light of previous categorical assurances. The fact was that the CTT and CGT burden was now heavier than at the time of the Election in May 1979. Unless the Government took action this year there was a danger that it would go into the next Election with a CTT burden heavier than when Mr Healey introduced the tax in 1974. The first year cost of the package he was proposing was less than the first year cost of last year's measures. Reductions in the capital tax burden would be generally better for business than the other schemes being considered in FASE. He would prefer to tackle trusts all at once this year, in order to avoid confusion and a further postponement of the introduction of the periodic charge.

3. The Financial Secretary said that the full package felt wrong politically in the context of the likely budgetary and financial situation. It would not be more cost-effective than a loan guarantee scheme. The majority of small businessmen (unlike Sir Emmanuel Kaye) were clamouring for other schemes rather than a capital tax package. He would do 10 year cumulation, something on lifetime gifts since it was unlikely to be controversial and cost very little, and he would index the thresholds for the future. But he was wary of the full cost of the proposed package. Generally there might be a case for keeping back some attractive items for later Budgets.
4. The Chief Secretary thought the full package should be done over several Budgets. This year he would raise the thresholds in line with whatever was done on income tax, introduce 10 year cumulation, and bring in some of the technical measures on trusts. But he would not want to do everything on trusts, because it would be cumbersome and take up too much space. A package more limited in cost than the one proposed would be defensible.
5. The Minister of State (C) said that the political difficulties would be there right up to the next Election. The question was which was the right year to be brave. This year he would favour doing more on CTT than the level of uprating possible on income tax. If substantial increases in the chargeable bands and thresholds were not possible there might be a case for considering whether there were further situations where CTT might be paid by interest-free instalments. The technical complexity of parts of the package might make criticism from the present Opposition team less searching. He would not, however, favour action on avoidance (Vestey-type schemes and the defective market value rules) unless concessions were being offered elsewhere.
6. Mr Green thought it would be a pity to do less on the thresholds this year than for income tax. He would index for the future, and raise the annual exemption because it had ^{little} immediate cost. On trusts he would extend the annual and marriage gifts exemptions to trusts with interest in possession, but he would put off creating a

34 92

new regime for discretionary trusts to allow time for further consultation and the publication of draft clauses. A decision on the threshold should depend on what was done on income tax, but he would favour some action on rates at the bottom of the scale to ease the entry point slightly.

7. The Chancellor said he had spoken to the Prime Minister in general terms about capital taxation. She appeared more prepared to do something this year. Clearly it would be as well if changes could be presented as part of an enterprise/small firms package. This might enable decisions on rates and thresholds to be taken independently of what was decided about indexation of personal taxation.

8. There was some discussion about the problem of inflation and capital gains tax where the Chancellor felt he remained under pressure. The Chancellor asked the Inland Revenue to let him have a brief note summarising the position.

9. Summing up the discussion the Chancellor said that:

- i. 10 year cumulation should be introduced this year.
- ii. A final decision on CTT rates and thresholds, which was where the major cost lay, should be made in the light of the shape of the overall Budget and further figure-work by the Inland Revenue on the relationship between the present burden of the tax and that prevailing at the introduction of:
 - a. CTT in 1974 and
 - b. business relief in 1976.
- iii. The annual exemption should probably be raised from £2,000 to £3,000, but a final decision on the amount should depend on the outcome of ii. above.
- iv. The relationship between the lifetime and death rates should be examined in the light of the eventual recommendations on ii. above.
- v. The CTT bands (but not the cumulative total) should be indexed for the future along the lines of last year's provisions for higher rates of income tax.

35 93

- vi. This year's trust package should be confined to items i. to vi. in paragraph 11 of the Agenda of 15 January (ie the capital gains tax items, extension of the transitional period for discretionary trusts, extension of the annual and marriage gifts exemptions to trusts with interests in possession, with free and settled property remaining aggregated).
- vii. Complete reform of CTT discretionary trust regime should not be tackled this year, but should be preceded by further consultation and the publication of draft clauses.
- viii. A note on the state of play on the discussions on the reform of agricultural land tenure should be produced by the Inland Revenue. Depending on their progress the CTT agricultural package at one time under discussion for the 1980 Finance Bill should be reconsidered.

R.I.T.

R.I. TOLKIEN
21 January 1981

Circulation:

Those present
Sir Douglas Wass
Mr. Ryrie
Mr. Wren-Lewis

PS/Inland Revenue