

BENEFITS IN KIND

RECORD OF A MEETING HELD IN THE TREASURY
AT 10.00 AM ON MONDAY 19 JANUARY 1981

Present:

Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Minister of State (Commons)
Minister of State (Lords)
Mr Middleton
Mr Battishill
Mr Corlett
Mr Cropper
Mr Kelly
— Mr Tolkien

Mr Green)
Mr Isaac)
Mr Taylor Thompson) Inland Revenue
Mr Driscoll)
Mr Lewis)

Sir Douglas Lovelock)
Mr Howard) Customs & Excise

The meeting was held to discuss the treatment of benefits in kind and took as its agenda Mr Bitton's minute of 15 January.

Earnings threshold for taxing benefits

2. Mr Green said that in principle there was little doubt that the earnings threshold should be abolished. But they could only do so gradually because of the implications for staffing. It was agreed that the threshold should be retained but not revalorised, so that it was left to wither on the vine. There would be no need to make any announcement about this.

Deduction of tax from benefits under PAYE

3. The Chancellor asked what the implications would be in terms of employers' reactions and staff costs if deduction of tax from benefits under PAYE was introduced for car benefits only. The general feeling was that most employers would accept it without difficulty. The use of the scale made it a very simple operation. Moreover, unlike ESSP, it was possible to argue that they brought it down on their own heads by providing the benefit in the first place. It would lead to staff savings of about 200, or 100 after taking account of the additional staff which would be needed because the earnings threshold was not revalorised.

4. The Chancellor said that in the light of this he agreed that the measure should be introduced for car benefits only. The Financial Secretary pointed out that it would be important to give no undertaking when this was done that further steps would not be taken later.

Cars and petrol

5. The Chancellor said he saw no case for VAT blocking other than for petrol. They had looked at this last year as a way of dealing with the free petrol abuse. As he recalled it they had decided against because of the effect on business costs, though they had undertaken to give it further consideration. It was suggested that a further factor had been the sharp increase in petrol prices which had then just taken place and the fact that there had also been an above average increase in petrol duty. The Revenue did not have any firm information about the extent to which employers provided free petrol, but thought that very roughly about two-thirds of those with company cars received it.

6. The Financial Secretary said that the issue was finely balanced. But he was in favour of introducing VAT blocking for petrol because of the need for revenue, because, however limited its effect on free petrol abuse, they were now clear that there was no other practical way of dealing with this and because it was easier to introduce in a year in which they were likely to provide substantial help in other areas to the company sector. The Minister of State (Lords) added that a further factor was its smaller RPI effect by comparison with, for example, an increase in excise duty.

7. The Chief Secretary said that the main objection was that the measure would be so patchy in its effect and relatively ineffective in dealing with the abuse. Moreover he thought that the fact that it would discriminate against unincorporated businesses using petrol-driven cars and light vans was politically important. If revenue was needed, he would prefer to get it by giving less to business through other measures. Mr Battishill added that the additional burden on businesses would be about the same as the reduction

expected as the result of the stock relief scheme. The Minister of States (Commons) pointed out that the burden on industry would be slightly mitigated, for those with taxable profits, by the fact that the VAT paid would be deductible for corporation tax. Moreover he was unmoved by an additional burden which was incurred only because of abuse.

8. The Minister of State (Lords) suggested that a possible alternative was a direct flat rate charge on petrol as a benefit, however much was provided.

9. The Chancellor said that it was not possible to take final decisions about VAT blocking except in the context of the overall effect of the Budget on businesses. In the meantime, he would like each of the packages put up by Customs and Excise to contain variants with and without it. If, on reflection, the Inland Revenue saw attraction in the idea of a flat rate charge on petrol, they should feel free to raise the issue again.

10. After a brief discussion, it was agreed to increase the car scales by 20%. This was the same as last year and should be justified in general terms rather than by reference to any particular change in the RPI. It was accepted that a much larger increase was justified in principle, but the general view was that the additional revenue which this would raise would not justify the uproar which would undoubtedly be caused. It was also agreed that the mileage by reference to which a car with low business use is subjected to a higher scale charge should be increased from 1,000 to 2,500 miles a year.

Season tickets

11. The Chancellor said that he agreed that the provision of season tickets for private travel should be made a taxable benefit in the hands of all employees. The general view of the meeting was that it was difficult to turn a blind eye to this in the face of the aggressive marketing of British Rail. The more common the provision of such season tickets became, the more difficult it would be to begin to tax them at a later stage. Moreover, to do otherwise could lead to greater pressure to provide relief for the cost of travel to work.

Credit cards

12. It was agreed that the use of credit cards provided by employers should be treated as a benefit in the hands of all employees, as recommended by the Inland Revenue.

Holiday schemes

13. The Minister of State (Commons) said that he was opposed to the recommendation that the provision of free holidays by employers not involving the use of vouchers should be taxable as a benefit in the hands of all employees. He thought it would be difficult to distinguish between abuse and, for example, legitimate theatre trips. The most blatant abuse of holiday schemes had already been dealt with. After a brief discussion, the Chancellor said that he tended to agree with the Minister of State. But if the Revenue wanted to look at this again, they should feel free to do so.

Medical insurance

14. The Minister of State (C) said that he was strongly in favour of giving capital allowances for private hospitals. The Minister of State (L) said that, whatever the merits of this, it could not be regarded as implementation of the Manifesto commitment. He would favour G(a)ii in the annotated agenda, exempting medical insurance premiums paid by employers only in the hands of lower paid employees, which was what the Secretary of State for Social Services also favoured. The Financial Secretary suggested that there was a strong case for doing more than this and exempting the benefit in the hands of all employees, though he recognised the difficulties. In many cases joining an employer's scheme was not voluntary and was insisted upon as much for the employer's benefit as the employee's. The Minister of State (C) said that G(a)ii was simply removing an existing discrimination against this form of benefit, reversing a change made in the last few years. The Financial Secretary's proposal would involve going to the opposite extreme, and logically ought to mean that relief should also be given for medical insurance premiums paid by individuals on their own behalf.

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15. Mr Isaac said that giving capital allowances for private hospitals raised problems in dealing with the disreputable fringe, and created the risk of adding to pressures to extend allowances more widely, which could be extremely expensive.

16. The Chancellor said that, on balance, he was in favour of exempting medical insurance premiums paid by employers only in the hands of lower-paid employees. He did not think that capital allowances for private hospitals was an acceptable alternative.

C W KELLY
20 January 1981

Distribution:
Those present
Sir Douglas Wass
Mr Ryrie
PS/Inland Revenue