

cc: PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Sir Douglas Wass
Mr. Ryrie
Mr. Middleton
Mr. Battishill
Mr. Corlett
Mr. Cropper



Treasury Chambers, Parliament Street, SW1P 3AG

PS/Inland Revenue

01-233 3000

3 February 1981

The Rt. Hon. Patrick Jenkin, M.P.,
Secretary of State for Social Services

A handwritten signature in cursive script, appearing to read 'Patrick Jenkin'.

You wrote to me on 8 January about the tax treatment as a benefit of private medical insurance provided by employers, the proposal to extend capital allowances to all hospital buildings and the proposal to allow tax relief for individuals' contributions to private health schemes.

I have considered the capital allowances proposal carefully. As you indicate, there are some difficulties with this and I have decided that, on balance, this is not something I would wish to proceed with this year. However, we are, as you know, reviewing the whole of the structure of corporation tax and at a later stage will be looking at capital allowances. One of the major issues will be whether capital allowances should be introduced for non-industrial buildings and if so, on what basis; and I will certainly keep in mind the proposal for capital allowances for private hospitals in that context.

I have also given very careful consideration to your proposal for a system of tax relief on private medical insurance premiums paid by individuals, such as is given for life insurance premiums. I agree that such a relief would be an encouragement to growth in the private sector. The difficulty is however that the proliferation of tax reliefs on life assurance lines works directly against our principal aim, which is to reduce levels of direct taxation across the board. Every time the tax base is diminished by a fresh tax relief, so too is the chance of bringing down the rates of tax or improving the thresholds.

No doubt we could seek to justify the relief on the grounds that it would encourage a development of general social value. But if social desirability is to be the criterion it is difficult to know where the line is to be drawn. We should doubtless be faced with demands for tax relief for permanent health insurance and private education, not to mention the cost of providing basic necessities. Such claims would be hard to resist and the cumulative effect on the tax base could be very damaging.

The continued validity of the only comparable existing relief - that for life assurance - is, as you know, increasingly

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questioned on the grounds that it erodes the tax base and distorts the pattern of savings. In these circumstances it may prove difficult to argue in favour of any extension of the same kind of relief.

I take your point that the wider the field over which incentives are given to private health insurance, the more difficult it may be for a future Government to reverse the policy. But there is also the danger that the introduction of tax relief might provoke an Opposition commitment to its withdrawal upon their return to office. The ensuing uncertainty might be counter-productive for the long term planning of private medical provision.

I am afraid therefore that, as things stand at present, it seems to me that on balance the argument points firmly against the introduction of such a relief.

You will be glad to know, however, that I have decided that this year would be an appropriate time to repeal (with effect from 6 April 1982) the provisions of the 1976 Finance Act which charge as emoluments expenditure incurred by employers in providing insurance against the cost of medical treatment for their employees and their families. This will give effect to our Manifesto commitment to exempt all lower paid employees (currently those earning less than £8,500 per annum). Directors and higher paid employees will remain within the charge to tax.

GEOFFREY HOWE

A handwritten signature in black ink, appearing to read 'Geoffrey Howe', with a horizontal line underneath.