



NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM,
H.M. TREASURY ON TUESDAY, 10 FEBRUARY, 1981 AT 9.30 A.M.

Present:

Chancellor of the Exchequer
Financial Secretary
Minister of State (C)
Minister of State (L)
Mr. Middleton
Mr. Battishill
Ms. Masters
Mr. Cropper

Mr. Dalton - Inland Revenue
Mr. Isaac - Inland Revenue

The meeting considered the one outstanding major point on the proposals to reform the stock relief scheme - whether stock relief should be subject to a credit restriction. Lord Cockfield's note of 9 February was relevant to the discussion.

2. The Minister of State (L) continued to see force in the intellectual case for a credit restriction and thought that if the credit restriction were to be dropped the link which the accountants themselves had forged between the cost of sales adjustment (COSA) and monetary working capital adjustment (MWCA) would be severed. This would represent abandoning inflation accounting so far as the tax system was concerned. It would not be possible to impose a restriction at a later date, because of the absence of a suitable quid pro quo to the reduction and redistribution of relief which the restriction would bring. Finally, not imposing the credit restriction would cost £30 million in 1982-83 and £100 million in each subsequent year. The Financial Secretary strongly endorsed these points.

3. On the other hand, however, it was pointed out that, given the weight of representations against the credit restriction, such



a provision would almost certainly be very contentious and would turn something which was, among other things, envisaged as a political asset into a liability. Furthermore, it was not clear why the Government should seek to keep alive an "inflation-accounting" provision when the protagonists of inflation accounting, the accountants, were attacking it. In addition, whilst a credit restriction would represent one element of a MWCA, it would not provide relief for net debtors, as a full MWCA would. Given that such a comprehensive relief could not be introduced because it would be too expensive, it was arguable that it would be better not to make any move towards this adjustment rather than, in effect, partially admit it into the tax system. Indeed one of the reasons why the accountants had criticised the credit restriction was that it was partial. Finally, it was not absolutely clear that not imposing a credit restriction through the 1981 Finance Bill meant ruling it out for all time. The case for a restriction could be considered further in the promised Green Paper on the corporate tax system.

4. The Chancellor said, concluding the meeting, that:-

(i) a credit restriction on stock relief should not be included in the 1981 Finance Bill;

(ii) the presentation of this decision should avoid overprecise references to the Green Paper on the corporate tax system, whose timing and contents were uncertain;

(iii) he would minute the Prime Minister to inform her that, given the widespread opposition which the proposal for a credit restriction had provoked and the likelihood that this would substantially reduce the political attractiveness of the stock relief proposals as a whole, he had concluded that he should not include a credit restriction in the Finance Bill. The minute should make



the point that after the withdrawal of relief on increases in stock volumes and the fall in inflation the size of the "Tesco abuse", which had caused the Prime Minister concern in 1979, would be substantially reduced.

R.I.T.

(R.I. TOLKIEN)

10 February 1981

Distribution

Those present
PS/Chief Secretary
Sir Douglas Wass
Mr. Ryrie
Mr. Dixon
PS/Inland Revenue
Mr. de Waal - Parliamentary
Counsel