

Subject: Econ Pol *cc Ops*
Unitary taxation *Master*
7183



10 DOWNING STREET

30 August, 1983

THE PRIME MINISTER

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T.123AA183

Dear Ron,

I am writing to you personally to stress our concern over the use by States of unitary taxation and to urge you to support legislation to ban it.

You will know that Nigel Lawson wrote to Donald Regan on 12 July, following the Supreme Court decision in the Container Corporation case. In that letter he drew attention to the very strong pressure that is building up here, both in the business community and in Parliament which approved the ratification of the 1980 Double Taxation Convention on the understanding that action to eliminate unitary taxation would soon be undertaken.

The spread of unitary taxation would hinder international trade and investment and the growing interdependence of Western economies. Briefly, our objections to it, which are shared, as you will know, by the other members of the European Community, are that it runs totally contrary to the internationally accepted arm's length method of attributing profits to members of a group for tax purposes; that it involves very heavy compliance costs; and that it undermines internationally accepted methods of relieving double taxation. Its spread would act as a severe disincentive to UK investment in those States which apply it, thus harming both our countries; and, since we abolished Exchange Control, there is now more UK investment available. Less developed countries would, we believe be tempted to follow suit and to adopt it as a method of taxing overseas investment. I am sure you will agree that this would not be in the interests of either of our countries.

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The strength of feeling in our Parliament was shown last month, when a Member sought to introduce legislation which would have had the effect of denying to US parent companies relief from UK tax which is given under the Double Taxation Convention. Pressure for retaliatory action of this kind is bound to grow if unitary tax remains unchecked.

I understand that there may be a re-hearing of the Container Corporation case, which would afford another opportunity for your Administration to file an amicus curiae brief. I would welcome this and would also urge you to lend the Administration's support to the application for a re-hearing and to file a brief for this purpose. I believe, however, that legislation against unitary taxation is also needed; and I am therefore urging you to support legislation which would ban it.

I fully recognise the serious constitutional issues which this matter raises for you. But I believe that the international implications are of very great importance. If the practice of unitary taxation is not curbed, it could do harm to the economic relations between our two countries and between the USA and the European Community and other industrialised countries.

Warm regards.

Yours ever

Rogers

The President of the United States of America