



10 DOWNING STREET

From the Private Secretary

12 September 1979

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Economic  
Policy

PERKS

The Prime Minister has read the draft passage on perks for the Chancellor's speech to the Institute of Directors which you enclosed with your letter of 11 September.

The Prime Minister is worried about the tone of the draft, which in her view gives the impression that the Government intend to increase or introduce the taxation of perks in such a way as to undermine the tax cuts which were given in the Budget. She is not so concerned about those on high incomes, but she believes that there could be a very adverse reaction from those on middle incomes who presently enjoy substantial benefits in kind. She also believes that in any discussion of perks, the implications of increasing taxation thereon for company finance and pay bargaining ought to be taken into account - i.e. if taxation of benefits is increased, companies will have to find additional cash to leave their employees no worse off; and the higher wage and salary increases which this will involve could have repercussions on pay bargaining generally.

The Prime Minister has asked that, as a minimum, the draft should be changed as follows:

- (i) It should rule out explicitly any action on the taxation of perks before the next Budget;
- (ii) it should make clear that any increase in taxes on perks will be part of the overall strategy to reduce taxation in net terms and improve incentives, and that accordingly offsetting action will be taken so as to leave people generally no worse off.

In addition, the Prime Minister could not understand the logic of the last two sentences on page 5.

I am copying this letter to Robin Willis (Board of Inland Revenue).

M A Hall Esq  
H.M. Treasury

T. P. LANKESTER

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