

MR. SCHOLAR

KENNETH FLEET ARTICLE 21 FEBRUARY 1982, SUNDAY EXPRESS

In addition to the two points you mention in your covering note, I think it is worthwhile making four others.

1. The package entitled "International Tax Avoidance" has generated such uncertainty and suspicion in the City and elsewhere that it might be best simply to withdraw it in its entirety, not merely for this year, but sine die.
2. It would be wise to proceed with some of the items in the package by instituting fresh consultations. For example, there is a genuine case of tax avoidance in the up-stream loans. Since this is primarily a matter for Corporation Tax, it might be considered along with the changes in Corporation Tax law. Discussions are going on about the changes in Corporation Tax arrangements now.
3. The problem of UK resident management of portfolios has caused an enormous amount of concern. (I believe that the Prime Minister received a copy of Sir Eric Faulkner's representation to the Chancellor.) This is related to the issue of "deeming" which is, I believe, going to be changed in the current Budget. But clearly, even the most modest risk of CTT incidence would discourage any non-resident from holding funds and having those funds managed in the United Kingdom.
4. I think the general message is that we should proceed very cautiously. Other financial centres are becoming increasingly attractive as fund managers. For example, Hong Kong has recently abolished its withholding tax and should be well placed for a considerable expansion in her Asian, Dollar and Euro business. The City is becoming vulnerable.



ALAN WALTERS

26 February 1982