

NBPM AT 25/4

25 April 1984

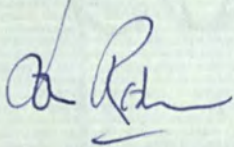
MR TURNBULL

I have read Michael Jopling's letter concerning competition policy and taxation.

I am sure he is right that it would not be realistic to extend VAT to all food items sold in the shops. The RPI consequences and the impact on the poorest members of the population would be severe. Some food items are, of course, already vatable - eg some kinds of sweets and chocolates. It might be possible to extend the definitions a little further to encompass more luxury and discretionary items.

A special pleading on behalf of the Scotch whisky industry is unreasonable. The main company, Distillers, has no financing difficulties.

The case for abating the capital allowance changes for agriculture is also not well made out. It might mean that more farming business incorporate in order to benefit from the lower Corporation Tax rate. Alternatively, there is a range of other ways of shielding tax which farmers will doubtless exploit to the full.



JOHN REDWOOD

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SEND

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From the Minister

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
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London SW1P 3AG

24 April 1984

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24/4

COMPETITION POLICY: TAXATION ASPECTS

I read with interest your letter of 11 April to Norman Tebbit and the accompanying note about the 1984 Budget and some possibilities for future changes in the tax system.

I note what you say about the possible extension of the VAT base as a means of eliminating distortions in consumer choice and of investment. I was glad, however, that you recognised the political difficulties which would be involved in any extension of VAT to food generally. It would, of course, affect most severely the poorest elements of the population, who are not well placed to exercise consumer choice, since food necessarily represents a much larger proportion of their total expenditure than it does for the majority. Moreover, at the present VAT rate, its extension to food generally would increase the RPI by over 2.5% - or about half the current rate of inflation. I do not believe that any improvement in competition which such a move was likely to achieve would justify the economic and social costs involved. In any case I believe the proposal is unthinkable for political reasons.

I should also mention my concern that the abolition of stock relief in the Budget risks causing some distortion of competition and inequity in the spirit drinks sector. This is because of the long periods for which Scotch whisky must mature, which results in the industry's investment in stocks of maturing whisky being necessarily out of all proportion to its investment in fixed assets. The abrupt change in the tax base could damage the industry's competitive position in relation to other spirit drinks not

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Competition Policy

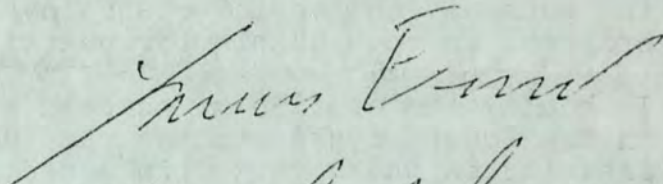
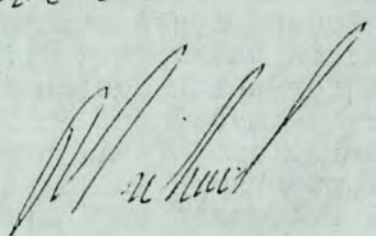
requiring maturation, many of them imported, and its ability to compete effectively overseas, where 80% of its market lies. I know that the industry has written to you about this, and I hope that you will give sympathetic consideration to their proposals for alleviating the impact of this change.

My further concern relates to the effect which the reduction in first year allowances will have in agriculture. In most sectors the reduction in capital allowances will be offset, at least partially, by the reductions in Corporation Tax but in agriculture less than 10% of businesses are incorporated. The overwhelming majority will not, therefore, be in a position to benefit from the changes in corporate taxation.

Agriculture has traditionally accounted for a major share of the first year allowances in the unincorporated sector and this investment has enabled the industry to improve its competitiveness and its labour productivity significantly. It would be most regrettable if the effect of the Budget measures was to deter unincorporated farming businesses from undertaking highly desirable capital investment because the taxation arrangements, particularly for those paying tax at the higher rates, made the project uneconomic.

I know that the National Farmers' Union is deeply concerned about the adverse effects of the changes in capital allowances and I understand that the President will be writing to you shortly on this point. I hope that here again you will feel able to consider his representations sympathetically.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

MICHAEL JOPLING



24 APR 1984