



Econ Por 289

cc: Mr. Walters
cc J. Sparrow

~~SUBJECT~~
cc Madair

10 DOWNING STREET

From the Private Secretary

10 December 1982

TAXATION OF INTERNATIONAL BUSINESS: COMPANY RESIDENCE,
TAX HAVENS AND UPSTREAM LOANS

The Prime Minister held a meeting yesterday evening to discuss the proposals in the Chancellor's minute of 26 November on this subject. The Minister of State (R)(Mr. Wakeham), Mr. Middleton (H.M. Treasury), Mr. Green (Inland Revenue) and Mr. Alan Walters were also present.

The Prime Minister said that she was concerned that the Chancellor's proposals were too complicated and vexatious to the taxpayer; that they would lead to over-general avoidance clauses in the 1983 Finance Bill, and thus impose an arbitrary system on the taxpayer. The Chancellor said that the proposals he was now putting forward were a substantial modification of the original proposals, and represented a middle course which, while recognising the legitimate requirements of the Exchequer, would not damage UK business generally, nor the position of London as a financial centre. These proposals had been the subject of a series of informal discussions with influential and informed individuals outside the Government, and in the main these people had expressed themselves content. In addition, a number of the major representative bodies, including the CBI, the IOD, and the Consultative Committee of Accountancy Bodies, had also expressed themselves broadly in agreement.

In discussion it was noted that the proposals for a general re-definition of company residence had now been dropped. Instead it was now intended to take the more limited action of blocking the specific avoidance devices of profit and loss importation. Although the blocking action proposed might in the event not save the Exchequer the £50 million which had been estimated was being lost through this device, failure to take action would lead to a larger and growing revenue loss, since a number of large companies might well conclude that the Government saw nothing wrong in the employment of these devices. On upstream loans it was proposed to do precisely what the critics on the proposals had asked the Government to do - to think further how best to deal with the problem. The aim would be to identify the demonstrable abuses in this area, and to design action specifically to deal with these.

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On tax havens what was proposed was to publish revised draft clauses for the Finance Bill and so to initiate a further period of public consultation. These clauses would incorporate clear protections for genuine business transactions. Although the burden of proof would be on the company to show that it had good reason for operating in a tax haven, there would be a number of tests, qualification under any one of which would exempt a company from the proposed new tax charge.

In further discussion it was noted that the tax avoidance measures which had been taken in the past three Finance Bills had saved a revenue loss of around £1 billion. The problem was to block off abuses before they grew into large revenue losers, but at the same time not to damage genuine business activity. In principle, there would be much to be said for a regime with few exemptions and allowances and a much lower standard rate of company taxation levied across the board. Such a change, however, would be unwelcome to much of industry, in particular to manufacturing, and it was agreed that there was a strong case for preserving stability in the taxation of companies.

Summing up the discussion, the Prime Minister said she continued to have considerable misgivings about these proposals. Before the proposals on tax havens were introduced there would need to be an assessment of their effect on the territories concerned; this assessment should take account of the defence and overseas policy implications. She also remained very concerned about the proposals which had been made in relation to licenced depositories and rents and dividends from overseas. On this point it was agreed that there could be no question of returning to a licenced depository system and that it would be important to allay the fears aroused by the Consultative Document that the reimposition of exchange control was being prepared for. So far as company residence, tax havens and upstream loans were concerned, however, she was ready to agree to the publication of a further Consultative Document inviting comments on the new draft clauses on tax havens, and explaining what was proposed on the other two matters. She wished to be kept closely in touch with developments on these matters.

M. C. SCHOFAN

Miss Jill Rutter,
H.M. Treasury.

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Prime Minister

MS

International Taxation

This is the meeting the Chancellor
asked you to have to allow
John Wakeham and Peter Middleton
(and John Green from the Revenue)
to explain themselves.

Their presentation has, obviously,
been very poor; and they are
backtracking on the substance.

There is some way to go - but

PTO

we shall have to be careful

to avoid any accusation

- however ill-founded - that

the government's failure to act

will benefit the Postgate's etc.

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