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CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

31 March 1987

Dear Nigel,

ABOLITION OF DOMESTIC RATES ETC (SCOTLAND) BILL
TIED HOUSES

We are under growing pressure on the treatment for taxation purposes of payments which employers may make in respect of the community tax liability of employees living in tied houses. The matter was raised during the Committee Stage and the Report Stage of the Bill in the Commons and during the Lords Second Reading Debate, and is now the subject of amendments to be discussed in Lords Committee.

So far, as agreed by E(LF) last September (E(LF) 86 3rd Meeting) we have taken a hard line. Both Michael Ancram and Simon Glenarthur have explained that there are no grounds for carrying over into the new system of personal local taxation reliefs appropriate to the present property-based system. They have indicated that the question of tax reliefs would not, in any case, be appropriate for the Abolition of Domestic Rates Etc (Scotland) Bill and have said no more than that the matter would be drawn to your attention. The prime purpose of this letter is simply to do that: my officials can provide yours with the relevant Hansard references if you wish.

The main representations on this subject are being made by the National Farmers' Union of Scotland, who are making two points on the taxation question. Their principal point of concern appears to be that any payments which an employer makes to an employee in respect of the employee and members of his family, should be treated as a business expense of the employer which may be set against tax. They are under the impression that the Inland Revenue would not allow this. The advice which my officials have from yours is that NFUS are being unduly pessimistic, and that such payments would be allowed as a business expense, provided that they are made as part of an employee's contract of service. I think it will be essential to be able to say that clearly and unequivocally when the matter is debated in the House of Lords and seek your agreement that we should do so.

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The second concern of NFUS relates to the tax position of employees who receive payments from their employers in respect of the community charge liability of themselves and their families. I intend that we should continue to maintain a firm line that a concession on this is out of the question, using the arguments we have already been making. I hope that we shall be able to win the day, but I have to point out that at a recent meeting with Michael Ancram, the NFUS representatives were beginning to think of amendments to the Bill which would simply shift the duty to pay community charges from the occupants of tied houses to their employers. This would clearly establish the payments as business expenses for the employer, would avoid any question of tax treatment in the hands of the employee, but would in my view be completely unacceptable on wider grounds: it would apply much more widely than in the farming industry, covering large parts of the public sector where employees occupy tied accommodation and would seriously undermine the accountability of the new system. If this approach is pressed - and there are no signs of amendments to that effect at the moment - I may have to come back to you on the question of tax concessions for employees in tied houses.

I am copying this letter to the Prime Minister, Willie Whitelaw, members of E(LF), Michael Jopling and Sir Robert Armstrong.

Yours ever,

Malcolm

MALCOLM RIFKIND

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