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PRIME MINISTER

UNIFORM BUSINESS RATE AND REVALUATION: TRANSITIONAL ARRANGEMENTS

I have seen Nick Ridley's minute to you of 29 November. ^{with R?} I agree with almost all of what he proposes and in particular with his view that the overriding need must be to make the transitional arrangements self-financing. I have only a few points.

First, I have doubts about his suggestion that gains for small premises should come through immediately in 1990-91. There would then be a very marked difference between properties with rateable values below the threshold, who would receive gains in full immediately, and properties with slightly higher rateable values who, in extreme cases, would still be waiting for their final gains five years later. This would be hard to defend, particularly since the distinction has to be based on the rateable value of each property, rather than on the size of the company owning it; this may mean that a chain of small shops benefits whereas a single but slightly larger store does not. I can see the case for a special concession for small properties among gainers, but I feel this should be held at a differential of no more than 5 percentage points, as Nick proposes for losers. The annual limits on gains or losses would then be:



	<u>Losers</u>	<u>Gainers</u> (estimated)
Large premises	20%	11%
Small premises	15%	16%

Second, I would go a little further than Nick suggests on the possibility of extending transition arrangements beyond the fifth year. There is, as he says, no point in committing ourselves to a particular scheme from 1995-96 now. But if the very few big losers from the present changes are still facing a very steep increase then - even allowing for an offsetting impact on rents - we will be bound to want to do something to moderate it. There is much to be said for acknowledging that now.

Third, there are some important related points that John Major and I have yet to agree with Nick, and which need to be sorted out before an announcement is made. (John's letter of 21 November and Nick's reply of 29 November were copied to you.) These points include, in particular, how we ensure that the reforms affect only the distribution of business rates and do not, through their impact on public sector payments, generate wider changes in the tax burden.

Finally, I would prefer not to publish even an edited version of the Inland Revenue's Survey at this stage. That survey was designed to give us the material we needed to decide on the transitional arrangements, and I see no advantage - and considerable potential damage - from publishing it now. It would undoubtedly be combed for selective examples of particular big losers. We can consider nearer the time what material, if any, Nick will need in the Summer when he is taking the regulations through the House.



I am copying this minute to Nicholas Ridley, other members of E(LF), John Wakeham and David Waddington, and to Sir Robin Butler.

NL

[N.L.]

7 December 1988

