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10 DOWNING STREET

From the Private Secretary

23 May 1984

SEMINAR ON INDUSTRY AND EMPLOYMENT

In my letter of 19 May I promised circulation of a DTI paper on export promotion. The Secretary of State for Trade and Industry will be unable to attend the meeting and will not therefore be circulating his paper for discussion at this time.

I attach a further annex on measures to encourage wider share ownership which should be attached to the Policy Unit paper you have already received.

I am copying this letter to David Normington (Department of Employment), Michael Reidy (Department of Energy), John Ballard (Department of the Environment), Elizabeth Hodkinson (Department of Education and Science), Callum McCarthy (Department of Trade and Industry), Alex Galloway (Chancellor of the Duchy of Lancaster s Office), David Young (Manpower Services Commission) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

David Peretz, Esq.,
H.M. Treasury.

VSCABS

Note 1

TAX AND OTHER LEGISLATION DESIGNED TO ENCOURAGE EMPLOYEE SHARE OWNERSHIP AND WIDER SHARE OWNERSHIP MORE GENERALLY

A. EMPLOYEE SHARE OWNERSHIP

(Annex A gives figures)

1. Profit Sharing

The reliefs available under the Finance Act 1978 for approved all-employee schemes were made more generous in 1980, 1982 and 1983. Annual limit on value of share allocation per employee is now £1250 or 10 per cent of salary (subject to a ceiling of £5000) compared to £500 in 1979. Minimum retention period for employee shareholdings to attract most favourable tax treatment is now 7 years compared to 10 years.

2. Share Option Reliefs

A new relief was introduced in 1980 for approved all-employee SAYE-linked share option schemes. In 1982 a 3-year instalment relief was provided to spread payment of income tax arising on share options exercised outside these approved schemes - typically by senior managers.

The 1984 Finance Bill:

(a) increases the monthly savings limit under the SAYE-linked schemes from £50 to £100;

(b) extends to 5 years the instalment relief for unapproved options granted before 6 April 1984; and

(c) introduces from 6 April 1984 a new relief for share options granted under schemes satisfying various conditions to qualify for Inland Revenue approval, the usual income tax charge on exercise of the option being replaced by CGT liability on disposal of shares.

3. Employment Act 1982

Companies with over 250 employees required to make an annual statement about employee involvement arrangements, including financial participation.

4. Interest Relief

Section 24 Finance Act 1983 provides relief for interest paid on loans taken out by employees to buy shares in their employee - controlled company as part of an employee buy-out. Other measures have been introduced to improve the relief available to people investing in their business: close companies (1982), co-operatives (1981) and partnerships (1981).

B. MEASURES ENCOURAGING WIDER EQUITY INVESTMENT GENERALLY

5. Stamp Duty

The cut in the rate of stamp duty to 1 per cent, announced in the 1984 Budget from the 2 per cent rate imposed by the Labour Government in 1974 removes an important disincentive to investment in equities. The reduction in the rate of duty on share transfers should encourage direct share ownership by individuals as well as institutions.

6. Capital Taxation Generally

Capital taxation has been reduced to encourage investment and enterprise. Since 1979:

(a) the <u>CGT threshold</u> has been increased from £1,000 to £5,600;

(b) the <u>CTT threshold</u> stands at more than double its 1979 level, (£64,000 rather than £25,000) and the cumulation period has been cut to 10 years. This is of particular value to family firms;

(c) the 1984 Budget cut the <u>top rates of CTT</u> from 75 per cent to 60 per cent (transfers on death) and from 50 per cent to 30 per cent (lifetime transfers). Again this helps family firms;

(d) an <u>indexation</u> allowance has been introduced for CGT, and CTT rate-bands index-linked.

7. Investment Income Surcharge

The investment income surcharge (chargeable for 1983-84 at 15 per cent on an individual's investment income in excess of £7,100) has been abolished with effect from 1984-85. The surcharge was a factor in discouraging individuals from saving or investing directly, in particular in equities, and abolition therefore removes one element of discrimination against direct investment. A total of some 280,000 taxpayers will benefit, at a cost of about £360 million in a full year.

8. Abolition of Life Assurance Premium Relief (LAPR)

The 1984 Finance Bill proposes to abolish LAPR on life assurance contracts made after 13 March 1984 (and existing ones, if subsequently enhanced). This will reduce the fiscal distortions which favoured investment in life assurance and, together with other tax reform measures, should remove biases which encouraged individuals to invest in institutions rather than directly in equities.

9. Venture Capital Scheme

This was introduced in 1980 to encourage the flow of risk capital into small businesses. It enables investment companies, as well as individuals, to set losses from investments in unquoted shares against income instead of capital gains, thereby enhancing the value of the loss for tax purposes. Thus the relief offers reassurance to those who provide risk capital by sharing with them any loss on the failure of their investment.

10. Business Expansion Scheme

The BES was introduced in 1983 and greatly extended the 1981 Business Start-Up Scheme. It is an unprecedented measure, more closely targetted but also far more generous than, for example, the Loi Monory. It offers income tax relief at full marginal rates on up to £40,000 a year to encourage individual outsiders to invest in the full-risk ordinary shares of new and expanding unquoted trading companies.

11. Purchase of Own Shares

The 1982 Finance Act eased the tax charge when unquoted companies buy back their own shares to the benefit of their trade. This encourages more equity investment because owners and investors are often understandably concerned about finding a way out. Thus, for example small companies should be encouraged to set up employee share schemes since with a buy-back provision their shares are more readily marketable. The measure can also assist "management buy-outs" - the managers purchasing a small number of shares and the company buying back (and cancelling) the balance held by existing shareholders.

INLAND REVENUE
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ANNEX A
to Note 1

TAKE-UP OF EMPLOYEE SHARE SCHEMES

1. By 30 April 1984 the total number of schemes qualifying for tax relief was 689 (397 Finance Act 1978 profit sharing and 292 Finance Act 1980 savings-related share option schemes). Compares with less than 30 approved schemes in 1979 when Government took office. No reliable figures for unapproved share option schemes but estimated there may be around 1000.

2. Number of approved schemes considerably understates number of companies since many schemes cover group of companies. No precise figures of total numbers but estimated that there are currently approaching 2000 companies participating in profit sharing schemes and over 45000 in SAYE-linked share option schemes; figures cannot be cumulated as some companies will participate in both but total must certainly be in excess of 5000.

3. Estimated that nearly ½ million employees have benefited under approved schemes since 1979 (ie have been allotted shares or given options to buy shares). A 1981 commercial survey estimated that companies employing total of over 1½ million employees had some form of scheme, approved or unapproved.

4. In money terms (on basis of estimated figures up to March 1983) employees have been allocated £m195 worth of shares under profit sharing schemes and been granted options under SAYE-linked schemes to value of £350m. No figures available for unapproved schemes.