

CONFIDENTIAL



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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

SCRUTINY OF BURDENS ON BUSINESS

You asked Ministers involved in this scrutiny to indicate their reactions to the broad thrust of the proposals in the relevant departmental scrutinies (Andrew Turnbull's letter of 23 January).

2. The conclusion of the Customs study has been described by Robin Ibbs as disappointing but realistic. I agree with his analysis but his comments reflect the fact that this is an area well ploughed by previous scrutinies.

3. That said, I think the scrutiny officer has come up with a number of useful, if not very fundamental, recommendations which I have asked Barney Hayhoe to pursue as a matter of urgency with Customs and Excise.

4. The Inland Revenue's departmental report looks at the PAYE and NIC deduction systems operated by employers (and was written jointly by scrutiny officers from the Revenue and the DHSS). Its main recommendation is that there should be a study of the case for changing to a non-cumulative system of PAYE. I agree entirely that such a study is needed and, indeed, the Inland Revenue set preliminary work in hand last year of which the scrutiny officers were, of course, aware. I shall ensure that this work is carried forward quickly, in the context of our medium term tax strategy. I have also commissioned work to establish what would be a realistic timetable for this very major change, if we were to decide to make it, following the computerisation of PAYE. The scrutiny



officers naturally concentrated on the possible benefits for smaller firms, since that was their remit. We would also need to consult at the appropriate time larger employers, who have tended in the past not to favour such a change.

5. The report makes a number of other and less far reaching proposals. Some of these are primarily for Norman Fowler: I have asked John Moore to consider the remainder. John has already written to Robin Ibbs indicating his doubts about the value of yet another full-scale review of the boundary between employment and self-employment.

✓ 6. I have seen a copy of David Young's minute to you of 11 February and I agree that it would be helpful if he were to chair a group to follow up the scrutiny as part of his work on deregulation. I should be grateful if the membership could include a Treasury Minister. I am content with the terms of reference David proposes. But I think it will need to be made clear at the outset (as was agreed at the start of the scrutiny exercise) that this further work cannot cover proposals which have immediate budgetary implications or which in the longer term would involve significant changes in the distribution or level of taxation. I therefore see very real difficulty with Robin Ibbs' proposal that the new committee should seek, as an early priority, to identify the elements of a package which could be incorporated in the Budget and for similar reasons I could not agree to publication of the report in its present form just before the Budget.

7. I am sending copies of this minute to Leon Brittan, Patrick Jenkin, Norman Fowler, Norman Tebbit, Tom King, David Young, Sir Robin Ibbs and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'N.L.' with a flourish.

N.L.

15 February 1985

Govt Mach — Rayner — Pt 17



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