



10 DOWNING STREET

Prime Minister ①

Treasury and Bank have redrafted the Notice and the Notes to Editors to make clear

- (i) that HMG is unique in being a borrower and a tax authority; that
- (ii) it needs time to make and announce decisions in a coherent way; that
- (iii) we are doing no more than restore the status quo.

Content?

AF
22/5
Yes not

CONFIDENTIAL

*LNO.
CC BT*

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

PRIME MINISTER

DISCLOSURE AND GILTS

... I attach a redraft of the Treasury Notice that takes account of the points raised at your discussion last week with the Governor and myself. The main changes from the previous draft are sidelined. They have been agreed with the Governor.

2. If you are content with the revised text I think the Notice should be issued as soon as possible; the precise timing will of course need to take account of any new issue of stock we are making and be agreed with the Bank.

3. I am copying this to the Governor.

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

N.L.

22 May 1985

CONFIDENTIAL

DRAFT TREASURY NOTICE

Disclosure of Tax decisions affecting Government Securities

The Government is in a unique position in that it both has responsibility for the tax system and is a major issuer of securities. From time to time, tax changes are considered that could specifically affect the terms of issue (express or implied) of those securities.

It has been understood that, for the orderly conduct of fiscal policy, it may not always be possible to disclose decisions on such tax changes as soon as they have been taken, for example if the changes need to be announced together with other decisions in a Budget statement. However, in the course of preparation for this year's Budget, it emerged that there was an element of doubt as to the point at which a decision on the tax treatment of accrued interest on fixed interest securities should be disclosed. Accordingly, immediately after the Government had made its decision, the measure was announced by the Inland Revenue on 28 February, despite the close link between this measure and the proposals for reform of Capital Gains Tax announced later, in the Budget on 19 March.

Although the occasions when tax changes giving rise to such doubts are under consideration are likely to be infrequent, it is desirable to clarify the position for the future. The Government must be able to take its tax decisions in an orderly manner and announce them, with any related policy decisions, at an appropriate time. This means that on occasion some time may elapse between the point when a tax decision that may specifically affect the terms of issue of Government securities is taken and its eventual announcement.

For the avoidance of doubt, therefore, the Treasury wishes to make it clear that in the interest of the orderly conduct of fiscal policy, neither HM Government nor the Bank of England

CONFIDENTIAL

CONFIDENTIAL

or their respective servants or agents undertake to disclose tax changes decided on but not yet announced, even where they may specifically affect the terms on which, or the conditions under which, Government securities are issued or sold by or on behalf of the Government or the Bank. No responsibility can therefore be accepted for any omission to make such disclosure and such omission shall neither render any transaction liable to be set aside nor give rise to any claim for compensation.

A reference to this statement will henceforth be included in the documentation upon which Government securities are issued or sold by or on behalf of the Government or the Bank.

NOTES FOR EDITORS

Today's statement by the Treasury clarifies the position of the Government and the Bank of England in relation to Government securities issued or sold by them or on their behalf.

It makes clear that, as has always been understood, in the interests of the orderly conduct of fiscal policy some time may on occasion elapse between the point when a decision on tax that may specifically affect the terms of issue of Government securities is taken and its eventual announcement. As the statement explains, an element of doubt about the point at which the decision should be disclosed in the particular case of the recent measure to change the tax treatment of accrued interest on fixed interest securities led the Inland Revenue to bring forward the announcement of that measure, which would otherwise have formed part of the Chancellor's Budget statement.

The Treasury statement clarifies the position, and explains that a new paragraph will be included in future Government stock prospectuses and related documents.

The Chief Secretary to the Treasury told the House of Commons on 8 May that there had been suggestions that the CGT indexation provisions could be used by those seeking to establish a short term CGT loss on gilts and other debt instruments where counterbalancing gains did not normally arise. He said that if the Government were to conclude that any countervailing action were necessary it would be ready to introduce amendments to the Finance Bill at a later stage. Apart from this, the Government has at present no intention to introduce, nor has under consideration, any tax change affecting the terms of issue of any of its securities.

CONFIDENTIAL

DRAFT PARAGRAPH FOR PROSPECTUS

Government Statement

"Attention is drawn to the statement issued by HMT on [date] which explained that in the interests of the orderly conduct of fiscal policy, neither HM Government nor the Bank of England or their respective servants or agents undertake to disclose tax changes decided on but not yet announced even where they may specifically affect the terms on which, or the conditions under which, this stock is issued or sold by or on behalf of the Government or the Bank; that no responsibility could therefore be accepted for any omission to make such disclosure; and that such omission would neither render any transaction liable to be set aside nor give rise to any claim for compensation."

CONFIDENTIAL

CONFIDENTIAL

888

file



10 DOWNING STREET

From the Private Secretary

24 May 1985

DISCLOSURE AND GILTS

The Prime Minister has seen the Chancellor's minute of 22 May. She is content with the revised text and agrees that the Notice should be issued as soon as market circumstances permit.

I am copying this letter to John Bartlett (Office of the Governor of the Bank of England).

Andrew Turnbull

Mrs. Rachel Lomax,
H.M. Treasury.

CONFIDENTIAL

ea