

cc MASTER SET



10 DOWNING STREET

From the Private Secretary

1 March 1984

Dear John.

MPs' Expenses Payments and Tax

The Prime Minister held a meeting yesterday to discuss the tax treatment of MPs' expenses. Present were the Chancellor of the Exchequer, the Lord Privy Seal, the Chief Whip and the Financial Secretary.

The Chief Whip said that Inland Revenue, as they were quite entitled to do, were questioning whether some expenses incurred by MPs as a result of having two places of work, qualified for a deduction under the rule which said that they should be incurred "wholly, exclusively and necessarily" in the performance of the job. This had generated a great deal of friction between Inland Revenue and MPs. This had been held in check so far as there was an expectation that something would be done in the Finance Bill. He believed that the proposal put forward in the Chancellor's minute of 16 February was the best solution that could be achieved. Under this, MPs' ACA would be taken out of tax altogether from 1984-85 but MPs would no longer have the right to claim tax relief for expenditure over and above the ACA on living away from home in the constituency or in London.

The Prime Minister said it was important to be sure that what MPs provided for themselves could be defended to the general public. Their position was virtually unique in that they worked and lived in two places and had to provide their own accommodation in both places. Those working in two locations in the private sector nearly always had the costs in one centre met by their employer.

The Chief Whip said that the proposals could be defended at several levels. First, the £6,000 allowance was derived from the away-from-home allowance provided by the Civil Service; secondly, Inland Revenue agreed that this represented a reasonable level of expenses; thirdly, claims by MPs would in future be better documented.

The Lord Privy Seal said he attached great importance to the last point. Any impression that MPs could claim £6,000 tax free no questions asked should be avoided. At present, claims presented to the Fees Office were backed by very little documentation.

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It was important that, without going to detailed itemisation of expenses, Members should be required to provide a broad breakdown. Without this, the public would not be assured that claims being made were reasonable.

The meeting then considered the impact of the proposal on different groups of MPs. Those who would lose most would be those retaining expensive London homes, of whom there were thought to be around fifty. It was thought, however, that abolition of the right to claim expenses over £6,000 would be an important presentational component of the package. In most cases, those with expensive London homes were probably in a position to afford them. In general, the position of Ministers, and in particular Junior Ministers, would be improved. At present Inland Revenue allowed two-sevenths of their expenses automatically though after discussion they often permitted a higher figure. Under the new system Ministers would be put on the same footing as other MPs.

On the timing of the announcement, the Chancellor said he wanted to avoid introducing the proposal as part of the Budget as this would require a Ways and Means Resolution which would be voted on at the end of the Budget debate. One possibility would be to introduce a new clause at the Committee Stage of the Finance Bill. It was agreed, however, that it would be better to include the clause in the Finance Bill on publication, though with a Ways and Means Resolution outside the Budget. To delay publication would only create anxiety and agitation.

Summing up, the Prime Minister said that the Chancellor's proposals were agreed but that steps should be taken to ensure that MPs accounted more fully to the Fees Office. A clause would be included in the Finance Bill.

I am copying this letter to David Heyhoe (Lord Privy Seal's office) Murdo Maclean (Chief Whip's Office) and Andrew Hudson (Financial Secretary's office).

*Yours sincerely*  
*Andrew*

(Andrew Turnbull)

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HM Treasury