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C. (52) 135

28th APRIL, 1952.

CABINET

PURCHASE TAX

Memorandum by the Chancellor of the Exchequer

We are now under pressure in regard to Purchase Tax from two entirely distinct quarters.

2. First, and much the most important, is the movement to withdraw Purchase Tax altogether from textiles in view of the recession in that industry. This is largely psychological. As I stated in the Second Reading Debate on the Finance Bill there are strong reasons for believing that such a step would have little appreciable effect on the position. However, pressure for complete withdrawal still continues from Lancashire and Yorkshire, with support of Members on both sides of the House.

3. We are also under pressure from quite a different and less important direction to raise the D levels for several secondary trades which are on the fringe of the textile industry, e.g. footwear, gloves and furs. Here there are a number of factors to be considered.

(a) It must be remembered that the sole justification for the D Scheme in preference to an overall flat rate of tax was the need to maintain the ten year old exemption which the lower income groups had enjoyed on the more essential articles of clothing etc. The D list provides this. There have been virtually no complaints against it from the consumer angle.

(b) There has been no pressure of any importance to alter the D list from the textile trades proper as distinct from the secondary allied trades. The view is rightly taken that it would only cause confusion and create uncertainty as to the future. Even with furnishing fabrics where the D is rather low owing to their having to be grouped for technical reasons with cheaper fabrics, the remedy preferred is withdrawal of the tax or the reduction of the rate rather than interfering with the D list.

(c) With falling prices the D levels are automatically rising by the mere passage of time. This is a situation which may have to be reviewed in the autumn, and this would be made still more difficult if the D's were raised now.

(d) Even with fur gloves and fur garments where there is perhaps a case for relief from the trade angle, it would be better to meet this by a reduction of the rates of tax rather than by increasing the D levels.

(e) Last, but not least, to give relief to these secondary industries, while refusing any reduction to the great industries of Lancashire and Yorkshire where the recession is more serious, would only aggravate their grievances.

4. For all these reasons I consider that the proper course is to oppose the various amendments which are down for higher D's. (They are the only amendments which would be in order: an amendment from private Members to repeal the tax or reduce the rates on textiles would be out of order). On the other hand, these amendments have a considerable measure of support on the Government benches; and I feel that some concession may well have to be made. This, I think, should take the form of a general reduction in the rates of tax by a quarter over the whole D field. The cost in a full year would be £18 millions. In the general interests of the Budget this is as far as I should be prepared to go. Moreover a larger reduction would raise the problem of retail stocks in an acute form. It would be a step in the direction of reducing the burden of Purchase Tax as a whole, which as a matter of policy is greatly to be preferred to making discriminatory concessions to individual sections of the trade at the expense of the principles upon which the whole scheme of the Purchase Tax is founded. It would be a gesture of good will to the textile industry and it should help materially with the more expensive furnishing fabrics where the present rate is $66\frac{2}{3}\%$ on the value in excess of D is too high. It should also go a long way to meet the grievances in regard to footwear, gloves and furs.

5. There are two other Purchase Tax grievances which can be met. Two Clauses have been put down on retail stocks and valuation, which would have to be opposed. Rather than incur the odium of doing so on our own responsibility, I am proposing to offer to refer both these subjects to be impartially examined by an independent Committee. In this we should at least be showing willing and I should hope to avoid what otherwise might be two embarrassing divisions for many Government supporters.

R.A.B.

Treasury Chambers, S.W.1.

28th APRIL, 1952.