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C.(52) 148

The attached paper will
be considered at the meeting of
the Cabinet on Tuesday, 6th May,
under item 3 of the Agenda.

Cabinet Office, S. W. 1.,

5TH MAY, 1952.

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CABINET

EXCESS PROFITS LEVY

Memorandum by the Chancellor of the Exchequer

I have discussed with my colleagues the proposals set out in my memorandum of the 28th April.

2. I have carefully considered the various arguments in favour of including 1950 in the standard. There is, however, so much to be given away elsewhere that I could not afford to do this and I am satisfied that a fairer solution can be reached in other ways. I propose, therefore, that the trader should be given the option of basing his standard on any two of the three years 1947, 1948 and 1949, which would permit him to omit 1947 and take a standard based on 1948 and 1949 alone if he so wished. At the same time, I propose that the overriding maximum should be reduced from 18% to 15%. This will give relief in all cases of real hardship, while the inclusion of 1950 would give relief only where the profits of that year happen to be particularly favourable. For companies operating in Malaya and the Far East, where exceptional considerations apply, the standard would be based on 1949 and 1950.

3. My colleagues have pressed upon me the desirability of exempting altogether all companies operating overseas, or at least those engaged in the extractive and productive industries. I have the utmost sympathy with the point of view they put forward and I am deeply anxious that we should not create difficulties with Commonwealth and foreign Governments. I feel, however, that quite apart from such questions as the difficulty of definition, it would be quite unfair to our own people producing goods for export at home that British companies operating overseas should be wholly exempt from this tax. Moreover, any such exemption would raise in an acute form the question what to do about shipping companies and British companies which operate overseas not directly but through foreign subsidiaries. I am anxious, however, that we should do everything reasonable to meet the case of British enterprise abroad. Apart from the concession in favour of Malaya, which I have already mentioned, I would propose, therefore, examining with my colleagues the possibility of extending the output allowance proposed for metal mines to oil and certain other specified minerals such as asbestos. I am also prepared to consider reducing the overriding maximum in the case of British companies operating overseas to 10%.

4. I have also considered the question of what is represented to be the "double taxation" of investment income, with particular reference to the position of investment trusts. I am prepared to accept a proposal on the lines of that put on the Order Paper by Mr. Assheton for the exclusion of a fraction of the excess profit in the proportion that the franked investment income bears to the company's total income. This concession would be confined to investment companies. It would not extend to trading companies since its application there would produce indefensible results.

5. The other proposals put forward in my memorandum, namely, the new alternative standard based on capital employed; the increase in the minimum standard to £5,000; the increase in the allowance on profits ploughed back into the business and on new capital from 10% to 12% (with increases in the additional allowances given on metal mines and oil wells to 3% and 6%), and the proposal to give an additional allowance of 4% on borrowed money (as well as allowing the interest paid as a deduction), have all been accepted by my colleagues.

6. The total cost of these proposals, including the further relief for companies operating overseas, would be £m56. This would reduce the net yield of the Excess Profits Levy, allowing for the concessions made on the Profits Tax, to £m44. I could not defend reducing the yield to a figure as small as this and I propose, therefore, that the distributed rate of Profits Tax should be put back to 22½% which would then leave a net yield of £m76. While the 22½% rate on the dividend will still be less than the existing rate (which is about 25%), I greatly regret having to make this increase in the Profits Tax. The reductions I proposed in the Budget proceeded on the basis that as soon as the present emergency was over the taxation of industry ought to be reduced, and it is with regret that I am forced to reduce this prospective relief. But if substantial concessions are to be made on the Excess Profits Levy there is no alternative.

R.A.B.

Treasury Chambers, S.W.1.,

5TH MAY, 1952.