The War Cabinet had before them copies of a Memorandum by the Chancellor of the Exchequer which were handed round at the Meeting and later returned.

The following were the main points made in the Chancellor's statement and the subsequent discussion:

1. It would be undesirable to vary the rate of tax, or to introduce amendments into the basis on which the tax was charged, apart from the Budget.

2. There would be every advantage in the Chancellor making his Budget Statement at an earlier date than usual, even although, for Parliamentary reasons, it might not be possible to make progress with the Budget Resolutions until the normal season. There was much to be said for giving taxpayers as long notice as possible of the proposals which would have to be included in the forthcoming Budget. Many people were finding it difficult to adjust themselves to the burdens imposed upon them by increases in taxation.

3. The Chancellor's Memorandum set out two main possibilities:

   a. Reduction in the rate of tax:

   b. Introduction of various amendments in the statutory basis on which the tax was charged.

The view generally expressed was that there would be great difficulty in any scheme which did not maintain the principle of the 100% rate of tax.
(4) In practice the best plan would almost certainly be a combination of the two methods. The essential feature of the scheme would be that, while the full 100% would continue to be collected, some proportion say 20% would be regarded as a loan repayable at the end of the war, subject to certain conditions, for the purposes of reconstruction and reconditioning.

(5) THE MINISTER WITHOUT PORTFOLIO, who had sent a personal letter to the Chancellor of the Exchequer, which was read out, emphasised the importance of industry being in a position to carry out the necessary reconditioning and re-adaptation for peace purposes after the war, and of having sufficient funds to enable research to be re-started; otherwise we should be faced with a heavy period of unemployment. Such a scheme would, in the Minister's view, be feasible if combined with a scheme for limiting dividends.

(6) THE MINISTER OF LABOUR AND NATIONAL SERVICE said that it was necessary to make sure that any loans repayable out of Excess Profits Tax after the war were not used for inflationary flotations, as had happened at the end of the last war. The money must be spent in the national interest.

THE CHANCELLOR OF THE EXCHEQUER observed that this principle had already been embodied in the War Damage Bill.

It was also suggested that one of the conditions of the repayment by the Exchequer after the war of that part of Excess Profits Tax which represented a loan should be that the firms should at the same time use their own reserves for the work of reconstruction and expansion.

(7) Some discussion took place on the various alternative amendments which might be made in the statutory basis of the tax (Paragraph 5 of the Chancellor's Memorandum). It was pointed out that not all of them provided incentive to the Management.

The War Cabinet's Conclusions were as follows:

(i) It would not be desirable to amend the 100% Excess Profits Tax, except as part
of the Chancellor's general Budget proposals:

(ii) There would be every advantage in the Chancellor making his Budget speech at an earlier date than usual.

(iii) The Chancellor of the Exchequer was asked to continue the examination of the possibilities set out in his Memorandum, together with any further suggestions which might be communicated to him by Ministers.

(iv) The Chancellor was also asked to consult the Minister of Supply and the President of the Board of Trade as to whether his proposals would provide the necessary increased incentive.

(v) When this examination and consultation had taken place, the matter should again be brought before the War Cabinet, perhaps as part of the Chancellor's general Budget proposals.
WAR CABINET.
Excess Profits Tax.
Memorandum by the Chancellor of the Exchequer.

1. In accordance with the invitation of the War Cabinet (W.N.(41) 3rd Conclusions, Minute 2) I submit the following comments on the possibilities of amending 100% Excess Profits Tax with a view to the provision of increased incentive.

2. There are two main possibilities -
(a) reduction in the rate of the tax, or
(b) the introduction of various amendments, in the statutory basis on which the tax is charged, designed to mitigate the present effect of the tax.

3. The reduction in the rate, to be of any real effect, ought not to be less than say 20%, i.e. a reduction to 80%. The remaining 20% would continue to be subject to Income Tax. The political difficulties of such a proposal need no emphasis; at the best I should not myself have thought that it was possible for this alternative to be considered unless it were to be accompanied by some arrangement under which the 100% would continue to be collected, but with 80% regarded as a tax and 20% as a loan repayable to the trader at the end of the war (subject to the retention of Income Tax at the rate in force when the profit was made).

4. The second alternative, of amendments in the structure of the tax without alteration in the rate, obviously has considerable political and psychological advantages as compared with any proposal which reduces the rate below 100%. There is, moreover, reason to expect that if the detailed amendments were properly constructed and explained they might still be capable of achieving the object in view without provoking, to anything like the same extent, the criticism which would inevitably follow a reduction of the rate.

5. The principal amendments might take the following form:-
(a) Businesses which make an excess profit in one period and a deficiency of profit below their standard in another period are allowed under the existing law to set off the deficiency against their excess profits. An undertaking might be given that whatever the date of repeal of the duty, it should at any event remain in force for a period of two years after the war for the purpose of claiming relief for deficiencies of post-war profit. The relief would have to be not the whole deficiency but a percentage of it not exceeding 80%, lest an incentive should be given to firms to reduce their profits immediately after the war to an excessive extent for the benefit of subsequent profits, e.g. by an excessive outlay on advertising.

This would intrinsically be a valuable and important concession. One of the great anxieties of businesses at the present time is that they may be faced with very serious deficiencies of profits, and indeed very serious losses, after the war. If they feel that they can recoup against these losses a high proportion of the excess profits which they have meanwhile surrendered to the State it will be a great advantage to them.

(b) An improved allowance for increased capital employed in the business and for capital of new businesses.

(c) The grant of an allowance in respect of increased borrowed capital.

(d) Some alteration in the present treatment of the management fees which are paid to companies for undertaking the management of Government-owned factories.

(e) It may be desirable to make more specific (so as to give greater assurance to traders) the statutory provisions covering the depreciation in value of war installations which will not be required or will only be of limited value after the war.
Large sizes of it are not necessary, but it is important that it be of suitable dimensions. The method of construction does not depend on the size of the structure, but depends on the suitability of the size chosen for the particular structure. The method of construction is important, as it affects the stability and durability of the structure. The method of construction is also important in determining the cost of the structure.

In determining the cost of construction, the method of construction is an important factor. The method of construction affects the cost of materials, labor, and equipment. The method of construction also affects the time required to complete the structure. Therefore, it is important to choose a method of construction that is both economical and efficient.

In addition to the method of construction, the size of the structure is also important. The size of the structure affects the cost of materials, labor, and equipment. Therefore, it is important to choose a size that is both economical and efficient.

In conclusion, the method of construction and the size of the structure are both important factors in determining the cost of construction. Therefore, it is important to choose a method of construction and a size that are both economical and efficient.

For more information on the selection of materials, labor, and equipment, please refer to the enclosed reference materials.
(f) There are also serious and complicated questions affecting companies working wasting assets such as tin and copper mines. The subject is extremely difficult in its technical aspects and discussions are pending between the Board of Inland Revenue and representatives of industry. No doubt some solution could be found.

6. I am apprehensive of the idea that I should deal in isolation with the Excess Profits Tax without regard to the general financial problem and to the proposals for increased taxation which in one form or another must inevitably figure in my next Budget. It would be better to deal with the whole matter at one time.

7. I suggest, therefore, that the examination of the possibilities set out in the preceding paragraphs of this memorandum (and of other suggestions such as that mentioned orally by the Minister of Labour) should be continued by the Treasury and by the Board of Inland Revenue as a matter of urgency. I should also propose to have discussions, in confidence, with three or four leading industrialists. I shall then be in a position to make positive recommendations to the Cabinet and, if my enquiries show that action is possible, I would propose to take action in my next Budget which I propose to expedite.

K.W.

Treasury Chambers,
13th January, 1941.
W.M. (41) 6TH CONCLUSIONS, MINUTE 2.

Confidential Annex.

(14th January, 1941 - 12.30 p.m.)

THE BALKANS.

German Intentions.

The Secretary of State for Foreign Affairs said that he had received a Minute from the Prime Minister in regard to Telegrams Nos. 61, 62 and 64 from our Minister at Belgrade. Prince Paul of Yugo-Slavia was alarmed at our proposal to send increased military assistance to Greece, and to build up a Salonika front. He took the view, apparently, that this would provoke the Germans into making a strong attack on Salonika; whereas if we continued as at present they were unlikely to do so, at least for the present.

In his Minute, the Prime Minister had said that it was for the Greeks to say whether they wanted General Wavell to visit Athens, and to be the judges of the German reactions. All the evidence pointed to a German move south.

The Foreign Secretary said that he viewed this matter in exactly the same light as the Prime Minister. He then read to the War Cabinet a draft telegram which had been prepared before the three telegrams from Belgrade had been received. He proposed still to send this telegram, and to follow it with a further telegram saying that our views were entirely unaltered by the views expressed by Prince Paul. We were not proposing to send a force capable of carrying out offensive operations against Germany, but only of helping to defend Greece against a German attack through Bulgaria.

The Foreign Secretary said that he proposed to show the draft telegrams, before they were despatched, to the Chiefs of Staff and to obtain their concurrence.

The War Cabinet approved the line of action proposed.

Great George Street, S.W.1.

†See Telegrams 64 and 66 to Belgrade.