
Editorial

Budget Omissions

For those involved in the financial sector, the significance of the recent budget may well lie in what it leaves out.

Firstly, the Chancellor has refrained from imposing a further "windfall" tax on banks' profits. However, he clearly intends to "ensure a sufficient contribution to tax revenues from the banking sector" at a later date when solutions are found to technical problems such as preventing banks from passing the burden of any such tax on to customers.

Next, to the disappointment of industry, no action is being taken on the "Grylls" proposals for payment of interest by industry to banks net of corporation tax relief (to aid cash flow and utilisation of reliefs). The Chancellor stated that the proposals raised difficult questions of principle and that the Government was not convinced that they offered the best solutions to the problems that they were designed to solve. It is a pity that no action is being taken since under the proposals, as revised, the banks, rather than the Treasury, would effectively finance the acceleration of the tax relief which could have gone some way to mitigate banks' "windfall" profits while benefiting industry. Not only is the Chancellor failing to take action, he is also taking a step backwards. A "loophole" is being closed under which interest which varied with a company's results was treated as a distribution and was thus franked income for the recipient bank, the tax saving for the bank being reflected in the interest rate charged. The loss of these possibilities for small businesses to reduce the cost and the outgoings of raising finance is hardly compensated for by the improvements in tax reliefs for those investing in small companies — reliefs which have so far been little taken up. On a more positive note, however, small businesses will benefit from the increase in the ceiling for the Loan Guarantee Scheme for the year to May 1982 to £150 m and the making of a further £150 m available under the scheme for the following year.

Lastly, the financial sector will be

relieved that there will be no legislation this year to implement the Government's anti-avoidance proposals regarding tax havens — it had been envisaged that the proposals on "upstream loans" would have effect from April 1982. The Chancellor will defer legislation on this to "find the right middle course" as he recognises the need to avoid prejudicing legitimate business particularly in view of the importance of London as a financial centre. Shortly before the budget, the Chancellor received representations from major multinationals that the proposals would make it very disadvantageous for them to channel their international inter-subsidiary fund flows through London and there would be strong grounds for transferring their financial operations outside of the UK. The Revenue will be seeking ways to target the proposals more precisely on tax avoidance-oriented arrangements.

CSI under Fire

The Gower Green Paper on investor protection (see last month's editorial) has provoked considerable debate. To the discomfort of the Council for the Securities Industry, the debate seems to be giving rise to much criticism of the CSI for its low key approach and ill-judged pronouncements. In his paper, Professor Gower expressed surprise at the extent of the criticisms of the CSI which he encountered in his discussions and in his proposals he would only concede to the CSI a limited co-ordinating role under the DOT.

Clearly the CIS needs to strengthen its membership by adding to the Council members with a broader vision than that of the present membership which is mainly of a "representative" character. In Professor Gower's view, with which we agree, the bodies represented on the CSI need to be persuaded that the object of the Council is not to provide institutions with an additional means of promoting their sectional interest.