

*ccp*



*NAPM at his steps.*

*RCCG*

Treasury Chambers, Parliament Street, SW1P 3AG

*13/11*

The Rt Hon David Waddington MP  
Home Secretary  
Queen Anne's Gate  
London SW1H 9AT

9 November 1989

*Dear David*

**BROADCASTING BILL: TAX IMPLICATIONS OF CHANNEL 4 TRUST**

*at hand*  
Douglas Hurd wrote to Nigel Lawson on 16 October about the tax position of Channel 4. He was concerned with two tax issues: the tax consequences of the proposed transfer of the Channel 4 company into a new statutory trust and the tax position of Channel 4 post-transfer.

Our officials are discussing the issues Douglas raised to sort out details of the legal status of the new bodies and the consequences for their tax treatment. But there is one point I should mention now. Prima facie, it would seem that Channel 4 will be taxable on the excess of its revenues (including any income in the form of the proposed levy in the event that the 14% budget baseline is not reached) over expenditure.

Douglas suggested that some special tax exemption might be justified because of the existence of the budget baseline and the potential for cross-subsidy between Channel 3 companies and Channel 4. That would require legislation. The budget baseline is not really relevant for tax purposes, and the subsidies and constraints on the use of profits are neither unprecedented nor in themselves a case for exemption. Many businesses would, and indeed do, argue that they need to create a general reserve against future deficits. I do not think there is a good case for a tax exemption, and I am sure you will understand that I would not want to set a precedent here.

Douglas suggested as an alternative a possible concession on the tax treatment of the cost of programmes made by Channel 4 pre-transfer but not yet transmitted at the time of transfer. It is possible that relief would be available to the Channel 4 company post-transfer, under current legislation: that is one of the issues officials will have to discuss. I also hope they will

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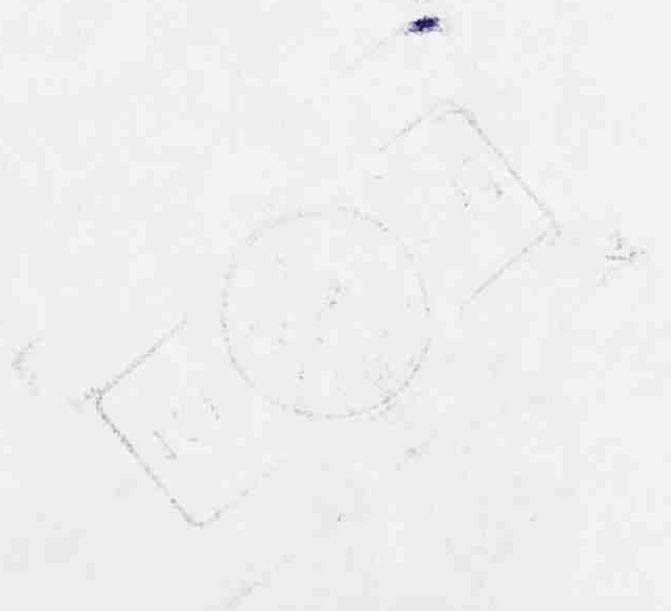
be able to find a way to avoid any immediate capital gains charge arising on the transfer of Channel 4, without introducing any special tax concessions.

I am copying this letter to MISC 128 colleagues and to Sir Robin Ibbs.

*Yours ever*

*Peter*

**PETER LILLEY**



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