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PRIME MINISTER

Northern Ireland Industrial Bank

You may like warning of the possible collapse of a licensed deposit taker in Northern Ireland. The Northern Ireland Industrial Bank is a licensed deposit taker engaged mainly in hire purchase operations. It has deposits of £35 million, roughly £10 million from the private sector in Northern Ireland, and £25 million through a subsidiary in the Isle of Man.

It has been operating on the assumption that it is not liable for withholding tax on monies transferred from the Isle of Man. Indeed, the health of the business seems to be dependent on obtaining tax-free deposits. Inland Revenue have ruled that NIIB are liable to tax on these deposits, and that £1.7 million is due now plus a further £1.5 million next year.

NIIB does not have the capital and reserves to meet these liabilities. It is therefore insolvent. The Bank of Ireland considered taking over NIIB provided:-

(i) Inland Revenue waived both the £1.7 million and £1.5 million.

(ii) Inland Revenue dropped its insistence that the Bank of Ireland provide a list of depositors with the Isle of Man subsidiary.

The Inland Revenue Inspector was prepared to waive the £1.7 million, and the Bank of Ireland has been advised by its accountants that it should so arrange its affairs that it could avoid incurring the liability for £1.5 million. Inland

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Revenue is not prepared to drop its insistence on the list of depositors which it is entitled to have in order to establish the bona fides of the Isle of Man subsidiary.

In the absence of a rescue and with NIIB insolvent, the Bank of England would proceed to serve notice of its intention to revoke NIIB's licence. NIIB would then have a right of appeal but it would almost certainly mean the end of NIIB. The Treasury and the Northern Ireland Office agreed that it would not be right to rescue NIIB, either by taking it over, or by forcing the Inland Revenue to drop its demands for a list of Isle of Man depositors (this would undermine Inland Revenue's efforts to curtail tax avoidance).

There is one last ray of hope. It is possible that the outgoing proprietor of NIIB may agree to provide the list of Isle of Man depositors, relieving B.I. of the obligation to do so, in which case the rescue might be rescued. The Bank of England has stayed its hand until tomorrow.

If, however, NIIB folds, there could be some unpleasant consequences. Smaller depositors up to £10,000 will receive up to 75% of their deposits from the Deposit Protection Fund. Larger depositors may get only about 45 - 65%. Regrettably, amongst these is the Congregational Church who have £690,000 million at risk. This represents money accumulated to replace a church which was burned down.

It is possible that the story will break tomorrow as NIIB has not been taking or repaying deposits today. I have asked for briefing to answer the following questions:-

1. Is NIIB going to fold?
2. Has the Bank of England revoked its licence?

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3. Why is it being allowed to fold when JMB was rescued?
4. Why have Inland Revenue harried NIIB to the point of collapse?
5. What can be done to protect depositors?

Some of these questions will need to be answered very carefully if you are not to infringe NIIB's right to appeal, or extinguish what faint chance remains of a rescue. You may like to discuss some of the issues with the Chancellor at your bilateral.

Finally, you should be aware of the constructive though unsuccessful, involvement of Mr. Du Cann - see attached.

14 November 1984