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PART A

BUDGET PACKAGES 1983

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PO -CH

PART A

CONFIDENTIAL

ANNEX 1

**BUDGET PACKAGES****Enterprise and small firms**

There are two items which have become regular features of enterprise packages:-

- (a) **Revalorisation of VAT registration and deregistration limits** (starters list number 4, category B2). The EC Sixth VAT Directive rules out increase in real terms. But should be able to raise registration threshold from £17,000 to £18,000, which will assist small businesses, particularly new ones. The cost would be around £5 million. Can now be done by SI, negative resolution, under powers taken in FA 1982, s13. Minister in lead - EST; official responsible - Mrs Strachan, C & E.
- (b) **Corporation tax: "small companies" profits limits and rate** (starters list number 103, category A). The profits limits could be increased in line with inflation (which would cost £10 million) or by more. The "small companies" rate will be considered along with the main rate of corporation tax. Minister in lead - MST(R); official responsible - Mr Battishill IR.

2. A number of measures in the context of finance for small firms are currently being examined in an exercise under the FST and MST(R). These include:-

- (a) **Business Start-Up Scheme - extension to existing companies.** Mr Jenkin has also make a number of detailed proposals for changes in the scheme in his letter of 6 December.
- (b) The CBI proposal for **Small Firms Investment Companies**, also advocated by DOI Ministers.
- (c) **Interest-rate subsidies.** A scheme linking (public expenditure) subsidies to new equity remains on the table and is being worked up.
- (d) **Debt-equity conversion.** The Bank has been asked to provide a note on the scope for action.

3. In the broad context of finance, decisions on the future of the **Loan Guarantee Scheme** and **Enterprise Allowance** might also form components of a package. IA Group are responsible for these. The possibility of providing for an accruals basis for taxation of **zero and deep-discount corporate bonds** is also being examined.



## CONFIDENTIAL

4. In addition, there are a number of, mainly minor, items in the current starters list which might be candidates for an enterprise package:-

- (a) VAT annual accounting (starters list number 5, category B2). This would introduce VAT returns and payments on an annual (instead of quarterly) basis for small businesses. Once-for-all cost of £190 million would benefit cash flow of some 350,000 businesses. Could save about 140 staff. Main drawback would be harmful effect on compliance (already unsatisfactory) and on fraud. Could be done by SI, negative resolution.

Ministers will recall that a working party sponsored by Mr Michael Grylls has been set up "to study VAT in other European countries to see what lessons Britain can draw which would result in the simplification of the system for our own smaller businesses". Their aim is to reduce the burden of tax accounting and collection on such businesses, and they are particularly interested in the operation of the French "forfait" system. The group's report was supposed to be available "towards the end of the summer" but there is no sign of it yet. Minister in lead - EST; official responsible - Mrs Strachan C & E.

- (b) Allowance of relief for Schedule D Case V trading losses against other income (starters list number 124, category C2). Losses of a trade, profession or vocation carried on wholly overseas (Case V) can be carried forward for relief against future profits of the same activity but, unlike losses within Cases I and II, cannot in general be set against other income. Following Small Business Bureau conference early this year the Chancellor informed Mr Grylls that the case for some relaxation was already under consideration in the light of a Budget representation by Institute of Directors that the rules for UK and overseas trading losses should be brought into line. Length of legislation would depend on whether unrestricted relief on Cases I and II lines allowed (2½ pages) or relief confined to set off against income from substantially similar activity in UK (1 page). Either way cost thought to be under £1 million. Minister in lead - FST; official responsible - Mr Taylor-Thompson IR.

- (c) De minimis limit for assessment of apportioned income of an individual (starters list number 152, category D). Income which is apportioned to the proprietor of a close company is not actually assessed if it is less than £200. This limit was fixed in 1972: revalorised it would be over £500. The change would have a negligible revenue cost and would require only 2 or 3 lines of legislation. Minister in lead - FST; official responsible: Mr Battishill IR.

- (d) Close companies; ACT limit on loans to employees etc. (starters list number 181, category E). The limit was fixed at £15,000 in 1971: revalorised



## CONFIDENTIAL

limit would be £70,000. The limit is an extension of that in Section 286(3)(ii) Taxes Act 1970 which exempted certain housing loans from the operation of Section 286. An increase was considered in 1981, but - although there is no direct link therewith - was not made for fear of inviting comparison with the decision to leave the mortgage interest relief limit unchanged. Might be considered if Ministers wished to increase the latter. Cost would be small, and only 2 or 3 lines of legislation would be required. Minister in lead - MST(R); official responsible - Mr Battishill IR.

- (e) Relief for interest - employee buy-outs (starters list number 189, category E). Relief is available to 5 per cent shareholders or managers in close companies for interest on loans to buy shares in the company. The Financial Secretary has undertaken (letter to Sir William Clark) to review the possibility of an extension to cover cases where the company is not close but is controlled by its employees and the employees are borrowing to buy shares. Revenue cost of about £5 million (though wider repercussions could increase) and about 1 page of legislation required. Minister in Lead - FST; official responsible - Mr Crawley IR.

5. Another item, which has recently arisen and is not with current starters list, might also be a candidate for the package. This is:-

CTT business relief. The Financial Secretary would like to increase the relief for minority shareholdings in unquoted companies from 20 per cent to 30 per cent, which would have a cost of £2 million. he has also requested examination of the Unquoted Companies Group proposal for deferring the liability on transfers of business interests until sold outside the group. This would cost perhaps £50 million, assuming agricultural relief has to follow suit. Minister in lead - FST; official responsible - Mr Beighton IR.

6. The Financial Secretary effectively ruled out the Institute of Directors' proposal for a £5,000 tax-free starter in discussions with officials prior to the meeting with the IOD on 21 October. But formally, the IOD has been invited to re-examine the problems identified and report back. A separate issue which has stemmed from the examination of the IOD proposal is that of the burden of PAYE operations for the small employer: the Financial Secretary is examining this with officials.



## CONFIDENTIAL

7. Finally, there are a number of other items in Mr Jenkin's letter of 6 December. These comprise:-

- (a) Enterprise bonds, an idea examined and rejected for the 1982 Budget.
- (b) further extensions of interest relief, to unquoted companies and all full-time employees.
- (c) further extensions of the pre-trading expenditure reliefs.
- (d) extension of CGT rollover relief to include unquoted trading company shares
- (e) relief for losses in the first few years of business should be available to companies.

8 December 1982



THE STATE OF NEW YORK, in SENATE,

January 15, 1870.

REPORT OF THE COMMISSIONERS OF THE LAND OFFICE, IN ANSWER TO A RESOLUTION PASSED BY THE SENATE, APRIL 18, 1869.

ALBANY: PUBLISHED BY THE STATE PRINTING OFFICE, 1870.

**BUDGET PACKAGES****Wider Share Ownership**

Changes in the tax arrangements for share option and profit sharing schemes are a priority item in Mr Jenkin's proposals for the 1983 Budget. In particular, he advocates the reintroduction of the 1972 relief for "top hat" schemes. The proposals detailed in his letter of 6 December are as follows:-

- (i) a new scheme increasing the permitted maximum of approved share incentive or option schemes to £10,000 p.a or £50,000 overall.
  - (ii) companies to be able to restrict eligibility for approved schemes to key executives if they wish.
  - (iii) deferral until the shares are sold of any charge to tax arising on exercise of an option. Such charge to be to capital gains rather than income tax.
  - (iv) a review of the rules relating to the growth in value charge particularly the definition of "restrictions" and the application of this charge to transactions involved in management buy-outs.
  - (v) particular consideration to be given to charges facilitating schemes within groups of companies.
  - (vi) particular consideration to be given to relaxing the present tax treatment of "partly-paid" schemes which can at present be adversely affected by the 1972 and 1976 Finance Acts.
2. The topic is covered by a generalised entry in the starters list (number 169, category E). The Inland Revenue submission of 19 November (Mr R Martin to FST) indicated that the reintroduction of the 1972 "top hat" relief would have a revenue cost in the range £50-£100 million and a legislation requirement of up to 7 pages.
3. In this context, HF have also suggested that consideration might be given to the possibility of raising the monthly limit (at present £50) on SAYE contributions linked to share option schemes for employees. This might be limited to compensating for a reduction in the effective return on such SAYE contracts or be used to extend the scope for tax relief for ordinary employees on share option schemes, though there has been no pressure for the latter. There are, however, complications arising from the participation of building societies in SAYE and there is no certainty that any change would be needed.

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## CONFIDENTIAL

4. Changes in employee share schemes have usually formed part of enterprise packages. We have so far been unable to identify additional candidates which might enable a free-standing package, other than a number which have been rejected in the past. These include:

- (a) relief from stamp duty for "small parcel" share transactions, examined and rejected for the 1982 Budget. The cost would be likely to be large, because transactions would be split to get the relief.
- (b) the Institute of Director's proposal for "employee bonds", designed to reward employees without diluting share ownership; again, examined and rejected for the 1982 Budget.
- (c) the various proposals for a "Loi Monory" type relief for investment in the new equity of UK trading companies, rejected on several occasions in the past and most recently for the 1982 Budget. The cost would depend on the detailed arrangements and take up, but might be of the order of £150 million per million claimants. Mr Isaac's minute of 7 December reported on discussions with Mr Ferdinand Mount on this topic, following Mr Mount's note to the Chancellor of 22 November.

8 December 1982



**BUDGET PACKAGES****Technology and Innovation**

There was a fairly substantial innovation package in the 1982 Budget, but to date there are very few candidates for a successor.

2. The continuation of 100 per cent first-year capital allowances for rented TV sets equipped with teletext was one item in 1982 package. In his letter of 6 December Mr Jenkin suggests a further extension of the present favourable regime for rented teletext and viewdata sets, which is also being strongly pressed by the TV manufacturers and renters. DOI officials are to provide a paper on this; the official responsible in IR is Mr Battishill.

3. Also on the tax side Mr Jenkin proposes allowances for research and development, in the form of a broadening of the eligibility definition for the present scientific research allowance. (This was examined and rejected for the 1982 Budget). And the following item might also be squeezed in under the technology heading:-

Capital allowances for British films - extending the transitional relief. Ministers are already attracted by the possibility of extending the two-year transitional period in this year's legislation for which British films continue to qualify for 100 per cent first year allowances. There is a good deal of pressure from the film and commercial television industries. The case for more generous treatment turns to an extent on the Government's policy towards cable and satellite transmission systems. Minister in lead - FST; official responsible - Mr Battishill IR.

4. On the expenditure side Mr Jenkin proposes the reintroduction of the Small Engineering Firms Investment Scheme (SEFIS). In addition, his letter of 6 December indicates that he is also considering the following:-

- (i) support for other innovation-linked investment in addition to SEFIS;
- (ii) an expansion of support for R&D, possibly including a response to the Alvey (Fifth Generation Computers) proposals;
- (iii) increased support for technology transfer;
- (iv) support for the development and improvement of management skills.

5. IA Group will be examining these ideas, which could require substantial amounts of expenditure (SEFIS and Alvey could alone require something of the order of £50 million in



CONFIDENTIAL

each year of the Survey - the SEFIS expenditure could be front-loaded and declining, while the computer expenditure would be on a rising trend).

8 December 1982





**BUDGET PACKAGES**Construction

There are several items in the starters list which might form components of a construction package:-

- (a) Mortgage interest relief limit (starters number 105, category A). This will, of course, be strongly pressed by the industry, though there are strong arguments against raising the limit. Costings in this area are highly uncertain, but the cost of an increase to £30,000 is in the range of £50 to £75 million in 1983-84 (and £100 to £200 million eventually, taking account of the extra borrowing generated). Only 3 or 4 lines of legislation are required. Minister in lead - FST; official responsible - Mr Crawley IR.
- (b) Revalorisation of the stamp duty thresholds is subsumed in starters number 140 (category D; Stamp duty: reform proposal's). In the 1982 Budget action here was preferred to (a). The cost would be in the range £10 to £30 million, depending on whether done by reference to RPI or to house price movements. Minister in lead - MST(R); official responsible - Mr O'Leary IR. (In his letter of 6 December Mr Jenkin also suggests that stamp duty should be reduced for first time buyers.)
- (c) DLT: own use deferment (starters number 178, category E). The 1981 Finance Act included a DLT deferment for developments for the owner's own use started before April 1984. A decision will be needed on whether the relief is to be extended for a further period, made permanent or whether it should come to an end as planned in 1984. The 1983-84 revenue cost is nil and the length of legislation involved depends on whether the relief is made permanent, which would require 3-4 pages. Given its nature, this item might alternatively form part of an enterprise package: indeed, it could be argued that there is a greater incentive to new construction in keeping the terminal date. MST(R) is seeking Mr John Stanley's views. Official responsible - Mr Beighton IR.

2. The NFBTE and others would like to see VAT zero-rating extended to building repairs and maintenance. Apart from the cost of such relief (about <sup>as much as £425</sup> £150 million a year), a significant objection is that any more in this direction would be challenged by the EC Commission on the grounds that it is contrary to the UK's obligations under the Sixth VAT Directive. In the past action has been directed towards limiting (rather than extending)



## CONFIDENTIAL

relief, by narrowing the definition of zero-rates alterations. The Chancellor outlined such changes in the 1982 Budget Statement, but in the event they had to be deferred as a result of doubt caused by litigation currently before the courts.

3. Pending any proposals from Mr Heseltine we have so far identified no other candidates for a construction package. The action in the 1982 Budget and subsequently on improvement grants has proved successful but has exhausted this area. The industry will no doubt press for an increase in the industrial buildings allowance to 100 per cent and, with others, for improvements in the allowances for commercial buildings etc<sup>1</sup>. These have been rejected in the past and in any event fall in the context of decisions on the Corporation Tax Green Paper. A broadening of the definition of qualifying premises for the Small Workshops Scheme may also be pressed, but again there was a fairly substantial change in this context in the 1982 Budget.

8 December 1982

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<sup>1</sup> A proposal for initial allowances to be made available for commercial buildings in inner-city areas at a rate of 20 per cent is currently being examined in the Review of Regional Economic Policy. Mr Quinlan chairs the interdepartmental official group conducting this review.



**BUDGET PACKAGES****Oil Taxation**

There are a number of items in the starters list which are candidates for a package here. These comprise:-

- (a) North Sea regime: structure and rate (starters number 109, category B2). Interdepartmental discussions are concluding and a submission will shortly be made to the Chancellor and Secretary of State for Energy.
- (b) PRT expenditure reliefs and receipts (including pipeline tariffs) from oil related assets (starters number 115, category C1). The purpose of the legislation will be to allow full PRT relief for expenditure on oil-related assets (whether or not they are used only for the purposes of the owner's oil field) and to bring incidental receipts including pipeline tariffs within scope of PRT (rather than, as now, restrict relief to reflect own field use only, and to leave incidental receipts outside scope of PRT). Commitment to 1983 legislation in 1982 Budget Speech. Consultative document issued 7 May 1982, envisaging legislation (backdated to 7 May) in FB 1983. Cost/yield in first few years heavily dependent on nature of transitional provisions; yield likely to rise thereafter (to c. £75 million pa by end 1980s). Up to 15 pages of legislation will be required, though Ministers have requested that as much as possible should be in a schedule.
- (c) Recovery of over-allowed PRT expenditure reliefs (starters number 164, category D).
- (d) PRT: direct exports from tanker-loading fields (starters number 163, category D).
- (e) Recovery of over-allowed PRT expenditure reliefs (starters number 164, category D).
- (f) PRT exempt gas and payback (starters number 166, category E).
- (g) Transfers of gas between fields in some ownership (starters number 167, category D).
- (h) Recovery of corporation tax unpaid by non-residents from licensees (starters number 184, category E).
- (i) Oil valuation (starters number 187, category E).
- (j) Abortive exploration expenditure - extension of time limits for claims (starters number 188, category E).



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**BUDGET PACKAGES****Tourism/Holiday**

In his letter of 29 October the Secretary of State for Trade proposed an increase in the initial building allowance for hotels from 20 per cent to 50 per cent and its extension "to other buildings where tourist or tourist-related activity takes place". This is currently being examined, alongside a number of other potential candidates for such a package. These include:-

- (a) extension of the existing hotel allowances to hotels with less than 10 bedrooms (also proposed by Lord Cockfield).
- (b) extension of allowances to certain self-catering accomodation (a proposal in the letter of 4 November to the Chancellor from the Chairman of the English Tourist Board).
- (c) VAT reliefs for the tourism industry.
- (d) extending domestic de-rating to hotels and restaurants.
- (e) an increase in the grants available under the Development of Tourism Act 1969, specifically for projects upgrading tourism facilities rather than for new hotels.

FP, in conjunction with IA and Inland Revenue, are currently examining these, with a view to an early submission to the Chancellor.

8 December 1982





**BUDGET PACKAGES****Agriculture**

The Financial Secretary has asked Inland Revenue to examine several items in the context of the capital tax treatment of agricultural land, which might form the basis of an agriculture package. At present the potential tax candidates for such a package are:-

- (a) increase the CTT agricultural relief for let land to 30 per cent. This would have a cost of £3 million.
- (b) increase from 8 to 10 years the period over which CTT can be paid by interest-free instalments. The cost is yet to be estimated. Some of the benefit would go to businesses, so this could alternatively form part of an enterprise package.
- (c) CGT rollover relief for let agricultural land, which would have a full-year cost of £5 million.
- (d) allow management expenses to be deducted from rental income from agricultural land and/or treat rental income as earned income. The latter might, in the context of self-catering holiday accommodation, be of relevance to any tourism package.

Mr Beighton is the official responsible for these items. To date we have identified no other potential candidates for such a package.

8 December 1982



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**BUDGET PACKAGES****Betting and breeding**

The Chancellor has asked (Miss Rutter's minute of 26 November) that, in the light of the representations received from the various sectional interests, consideration should be given to all the problems of betting and breeding with a view to a package if possible. The Economic Secretary has expressed the preliminary view (Mr Harrison's minute of 2 December) that he finds it very hard to believe that cash devoted to such a package would be well spent, but he is examining with Customs and Excise and will report to the Chancellor in due course.

8 December 1982



## BUDGET PACKAGES

1 year costs  
- Inland Revenue

Caring and charities

This is also now a traditional area for Budget packages, and as a result the cupboard is fairly bare at present.

- 2 On the "caring" side there is one potential candidate in the starters list:

Widow's bereavement allowance - extension to year after bereavement (starters number 129, category D). The Financial Secretary has asked Inland Revenue to look at the case for giving the allowance in full for the year after the husband's death (instead for the year of bereavement only) or for a carry-over of the unused allowance into the year after bereavement. This could have a revenue cost in the range £20 million to £30 million, but require only a few lines of legislation. Minister in lead - FST; official responsible - Mr Blythe IR.

3. There are also two potential "caring" candidates in the social security area:-

- (a) restoration of the 5 per cent abatement of invalidity benefit (which would cost nearly £20 million in 1983-84 and £56 million in 1984-85);
- (b) removal of the invalidity benefit "trap" (by allowing recipients to qualify for long-term supplementary benefit). This would cost nearly £7 million in 1983-84 and £15 million in 1984-85.

It is possible that the work of the Family Policy Group might provide additional candidates; if it does so to any degree, a free-standing "family" package might be an alternative.

4. As regards the charities side, the Financial Secretary has asked (Mr Kwiecinski's note of 8 December) that abolition of the £250,000 ceiling on CTT relief for bequests (and gilts within the year of death) to charities should be considered a starter. Another possibility might be to raise the ceiling on the amount of payments to charities under deeds of covenant which qualifies for higher rate relief. The limit is at present £3,000.

5. As regards VAT and charities, the Economic Secretary requested (Mr Harrison's minute of 15 November) a study of the practicalities and implications of a scheme to pay grants to charities to compensate for VAT, in those cases where charities provide a service which is also carried out by the public sector: this was contained in Mr Knox's submission of 25 November. The Chief Secretary and the Economic Secretary indicated that they would



## CONFIDENTIAL

strongly hope to avoid the introduction of such grants. The Chancellor has since had a meeting with Mr John Hannam MP and has commented (Miss Rutter's minute of 1 December) that the charities case - much better presented than last year - will need careful consideration. He has asked for comments on the figures adduced by Mr Hannam on the number of charities likely to be involved, the staffing implications and the effects of a de minimus threshold of £150 of VAT paid in a financial year. He has also asked Customs to consider with the Revenue the possibilities for a more streamlined way of dealing with the tax affairs of charities.

6. Measures for further fiscal relief which are still being pressed by the voluntary sector (or on their behalf by the social policy Departments) include:-

- (a) tax relief on "pay-roll" giving;
- (b) tax relief on individual donations above a certain minimum level;
- (c) for companies, relief up to a limit of, say, 2 per cent of taxable profits for charitable giving, or for giving which matches employees' contributions;
- (d) for companies again, relief for the cost of seconding staff to voluntary bodies;
- (e) covenanted payments to charities by companies to be paid gross (to save paper work).

Some of these proposals would have substantial costs and/or involve administrative and other difficulties and on these grounds have been rejected in the past. Here, too, it is possible that the Family Policy Group might produce other potential candidates.

7. There are also one or two possible ideas which would involve additional public expenditure:-

- (a) "investment grants" to the voluntary sector (for example, for new equipment or for day centres to provide "community" care), paid under Section 64 of the 1968 Health Services Act;
- (b) a central grant to the National Association of Councils of Voluntary Service, to assist the development of local voluntary service councils by meeting their administrative and management costs.

The 1983-84 cost of each might be of the order of £5 million, though both approaches would more naturally take the form of longer-term programmes rather than one-year exercises.

8 December 1982





**BUDGET PACKAGES****Fairness in Taxation**

The 1982 Budget included a section on fiscal justice, and there are a number of items in the starters list which might form a similar package. These comprise:-

- (a) **VAT: Blocking input tax on petrol and, possibly, derv** (starters number 3, category B.1). Case rests both on revenue-raising possibilities and on need to deal effectively with abuse through diversion of petrol to private use while the VAT input tax is claimed. The case has been examined in each of the last three years, but rejected on the grounds that it would increase business costs considerably and fall arbitrarily on abusers and non-abusers alike. Effect on business costs could be limited by blocking of petrol only; this would also concentrate more on the abuse which is still prevalent among smaller traders in particular, although recent evidence suggests that, overall, the level of abuse may not be quite as bad as once feared. Blocking petrol only would raise about £330 million in 1983-84 and £470 million in a full year; petrol and derv about £565 million and £775 million respectively. Could be done by S.I., but at 13 October starters' meeting Ministers expressed preference for Financial Bill provision (1½ pages) to avoid protracted procedural debate. Minister in lead - EST; official responsible - Mr Knox C&E.
- (b) **Application of PAYE to earnings from offshore employment** (starters number 106, category B1). Legislation to apply PAYE to offshore employment may be needed if a current House of Lords case is decided against the Revenue. Some £10-20 million of tax would be at risk without legislation. Minister in lead - FST; official responsible - Mr Blythe IR.
- (c) **Life assurance chargeable events: secondhand bonds** (starters number 110, category C1). An announcement of the intention to legislate in the 1983 Finance Bill was given on 24 June 1982, in the wake of increased exploitation of these bonds by higher rate tax-payers. The legislation would be retrospective to 1 October 1982. It will prevent the use of this device by which profits from the sale of a life policy or life annuity contract can be moved from income tax to capital gains tax. There would probably be a small revenue yield and the measure will require 2 to 3 pages of legislation. Minister in lead - FST; official responsible - Mr O'Leary IR.



## CONFIDENTIAL

- (d) Group relief: avoidance (BL) (starters number 119, category C2). British Leyland's scheme involves buying a company with a large capital gain and using this to cover trading losses from within the acquiring group. There is a large potential revenue cost if such avoidance is not prevented. Minister in lead - MST(R); official responsible - Mr Battishill IR.
- (e) Fringe benefits (starters numbers 133 and 134, category D). The Budget Statement will, as in previous years, contain an announcement about the uprated car and car fuel benefit scales to apply in 1984-85. Ministers will also shortly receive a note reviewing the whole fringe benefit area which might lead to legislation on, inter alia, abuse of the present rules on company loans and accommodation (eg Marks & Spencer buy-back options). But it is not yet possible to estimate the revenue yield or length of any legislation. Minister in lead - FST; official responsible - Mr Blythe IR.
- (f) Capital gains tax: capital loss buying and groups of companies (starters number 142, category D). In their simplest form such schemes involve the passing of assets within a group to enable a gain from a sale to be set off against the capital losses of a newly acquired company. They are, therefore, similar to the BL scheme (see (c) above). Legislation would require 3 to 4 pages; there is a possible overall loss of £30 million of tax if no action is taken. Minister in lead - FST; official responsible - Mr Beighton IR.
- (g) Development land tax - disposals by non-residents (starters number 149, category D). Where a purchaser acquires development land from a non-resident, he is required to deduct a payment on account of DLT. Without this provision it would rarely be possible to collect the tax. However, over 50% of non-residents are managing to avoid the deduction. Legislation to prevent this would be ½ page long, and would yield perhaps £5 million per annum. Minister in lead - MST(R); official responsible -
- (h) Deny stock relief to commodity/bullion dealers (starters number 153, category D). Commodity and bullion dealers operate on small profit margins, but have a high turnover of stocks, which are largely financed by borrowing. They receive excessive stock relief. Legislation to deny stock relief would be 1 to 2 pages long and, if applied to all dealers would yield £20 to 40 million. Minister in lead - MST(R); official responsible - Mr Battishill IR.
- (i) Clarify meaning of "payments on account" for stock relief (starters number 154, category D). Payments on account are deducted from stock values in computing stock relief. In recent cases these have been dressed up as loans so as to entitle to stock relief traders who are not themselves financing the costs of their



## CONFIDENTIAL

stockholding. Potentially substantial amount of revenue at stake if scheme spreads, particularly among property developers. At present, best estimate of revenue loss is £15 million. Legislation would require 4 page. Minister in lead - MST(R); official responsible - Mr Battishill IR.

- (j) Late payment of tax on directors' remuneration (starters number 131, category D). In general, employers pay fairly promptly PAYE tax deducted from employees' pay. However, there is an increasing problem with companies (often smaller companies) failing to deduct tax from directors' remuneration and subsequently delaying payment of tax for months or even years. The only effective deterrent is likely to be a charge to interest, dating from the time when the tax liability is formally determined. This would be unwelcome to the companies concerned, but would provide an acceleration of revenue and staff savings. The Keith Committee are considering the question. Minister in lead - FST; official responsible - Mr Blythe IR.

8 December 1982



## BUDGET PACKAGES

### Technology and Innovation

There was a fairly substantial innovation package in the 1982 Budget, but to date there are very few candidates for a successor.

2. The continuation of 100 per cent first-year capital allowances for rented TV sets equipped with teletext was one item in 1982 package. In his letter of 6 December Mr Jenkin suggests a further extension of the present favourable regime for rented teletext and viewdata sets, which is also being strongly pressed by the TV manufacturers and renters. DOI officials are to provide a paper on this; the official responsible in IR is Mr Battishill.

3. Also on the tax side Mr Jenkin proposes allowances for research and development, in the form of a broadening of the eligibility definition for the present scientific research allowance. (This was examined and rejected for the 1982 Budget). And the following item might also be squeezed in under the technology heading:-

Capital allowances for British films - extending the transitional relief. Ministers are already attracted by the possibility of extending the two-year transitional period in this year's legislation for which British films continue to qualify for 100 per cent first year allowances. There is a good deal of pressure from the film and commercial television industries. The case for more generous treatment turns to an extent on the Government's policy towards cable and satellite transmission systems. Minister in lead - FST; official responsible - Mr Battishill IR.

4. On the expenditure side Mr Jenkin proposes the reintroduction of the Small Engineering Firms Investment Scheme (SEFIS). In addition, his letter of 6 December indicates that he is also considering the following:-

- (i) support for other innovation-linked investment in addition to SEFIS;
- (ii) an expansion of support for R&D, possibly including a response to the Alvey (Fifth Generation Computers) proposals;
- (iii) increased support for technology transfer;
- (iv) support for the development and improvement of management skills.

5. LA Group will be examining these ideas, which could require substantial amounts of expenditure (SEFIS and Alvey could alone require something of the order of £50 million in





CONFIDENTIAL

Each year of the Survey - the SEFIS expenditure could be front-loaded and declining, while the computer expenditure would be on a rising trend).

8 December 1982



## BUDGET PACKAGES

Construction

There are several items in the starters list which might form components of a construction package:-

- (a) Mortgage interest relief limit (starters number 105, category A). This will, of course, be strongly pressed by the industry, though there are strong arguments against raising the limit. Costings in this area are highly uncertain, but the cost of an increase to £30,000 is in the range of £50 to £75 million in 1983-84 (and £100 to £200 million eventually, taking account of the extra borrowing generated). Only 3 or 4 lines of legislation are required. Minister in lead - FST; official responsible - Mr Crawley IR.
- (b) Revalorisation of the stamp duty thresholds is subsumed in starters number 140 (category D; Stamp duty: reform proposal's). In the 1982 Budget action here was preferred to (a). The cost would be in the range £10 to £30 million, depending on whether done by reference to RPI or to house price movements. Minister in lead - MST(R); official responsible - Mr O'Leary IR. (In his letter of 6 December Mr Jenkin also suggests that stamp duty should be reduced for first time buyers.)
- (c) DLT: own use deferment (starters number 178, category E). The 1981 Finance Act included a DLT deferment for developments for the owner's own use started before April 1984. A decision will be needed on whether the relief is to be extended for a further period, made permanent or whether it should come to an end as planned in 1984. The 1983-84 revenue cost is nil and the length of legislation involved depends on whether the relief is made permanent, which would require 3-4 pages. Given its nature, this item might alternatively form part of an enterprise package: indeed, it could be argued that there is a greater incentive to new construction in keeping the terminal date. MST(R) is seeking Mr John Stanley's views. Official responsible - Mr Beighton IR.

2. The NFBTE and others would like to see VAT zero-rating extended to building repairs and maintenance. Apart from the cost of such relief (about £150 million a year), a significant objection is that any more in this direction would be challenged by the EC Commission on the grounds that it is contrary to the UK's obligations under the Sixth VAT Directive. In the past action has been directed towards limiting (rather than extending)



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relief, by narrowing the definition of zero-rates alterations. The Chancellor outlined such changes in the 1982 Budget Statement, but in the event they had to be deferred as a result of doubt caused by litigation currently before the courts.

3. Pending any proposals from Mr Heseltine we have so far identified no other candidates for a construction package. The action in the 1982 Budget and subsequently on improvement grants has proved successful but has exhausted this area. The industry will no doubt press for an increase in the industrial buildings allowance to 100 per cent and, with others, for improvements in the allowances for commercial buildings etc<sup>1</sup>. These have been rejected in the past and in any event fall in the context of decisions on the Corporation Tax Green Paper. A broadening of the definition of qualifying premises for the Small Workshops Scheme may also be pressed, but again there was a fairly substantial change in this context in the 1982 Budget.

8 December 1982

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<sup>1</sup> A proposal for initial allowances to be made available for commercial buildings in inner-city areas at a rate of 20 per cent is currently being examined in the Review of Regional Economic Policy. Mr Quinlan chairs the interdepartmental official group conducting this review.



**BUDGET PACKAGES****Oil Taxation**

There are a number of items in the starters list which are candidates for a package here. These comprise:-

- (a) North Sea regime: structure and rate (starters number 109, category B2). Interdepartmental discussions are concluding and a submission will shortly be made to the Chancellor and Secretary of State for Energy.
- (b) PRT expenditure reliefs and receipts (including pipeline tariffs) from oil related assets (starters number 115, category C1). The purpose of the legislation will be to allow full PRT relief for expenditure on oil-related assets (whether or not they are used only for the purposes of the owner's oil field) and to bring incidental receipts including pipeline tariffs within scope of PRT (rather than, as now, restrict relief to reflect own field use only, and to leave incidental receipts outside scope of PRT). Commitment to 1983 legislation in 1982 Budget Speech. Consultative document issued 7 May 1982, envisaging legislation (backdated to 7 May) in FB 1983. Cost/yield in first few years heavily dependent on nature of transitional provisions; yield likely to rise thereafter (to c. £75 million pa by end 1980s). Up to 15 pages of legislation will be required, though Ministers have requested that as much as possible should be in a schedule.
- (c) Recovery of over-allowed PRT expenditure reliefs (starters number 164, category D).
- (d) PRT: direct exports from tanker-loading fields (starters number 163, category D).
- (e) Recovery of over-allowed PRT expenditure reliefs (starters number 164, category D).
- (f) PRT exempt gas and payback (starters number 166, category E).
- (g) Transfers of gas between fields in some ownership (starters number 167, category D).
- (h) Recovery of corproation tax unpaid by non-residents from licensees (starters number 184, category E).
- (i) Oil valuation (starters number 187, category E).
- (j) Abortive exploration expenditure - extension of time limits for claims (starters number 188, category E).





**BUDGET PACKAGES****Tourism/Holiday**

In his letter of 29 October the Secretary of State for Trade proposed an increase in the initial building allowance for hotels from 20 per cent to 50 per cent and its extension "to other buildings where tourist or tourist-related activity takes place". This is currently being examined, alongside a number of other potential candidates for such a package. These include:-

- (a) extension of the existing hotel allowances to hotels with less than 10 bedrooms (also proposed by Lord Cockfield).
- (b) extension of allowances to certain self-catering accomodation (a proposal in the letter of 4 November to the Chancellor from the Chairman of the English Tourist Board).
- (c) VAT reliefs for the tourism industry.
- (d) extending domestic de-rating to hotels and restaurants.
- (e) an increase in the grants available under the Development of Tourism Act 1969, specifically for projects upgrading tourism facilities rather than for new hotels.

FP, in conjunction with IA and Inland Revenue, are currently examining these, with a view to an early submission to the Chancellor.

8 December 1982



**BUDGET PACKAGES****Agriculture**

The Financial Secretary has asked Inland Revenue to examine several items in the context of the capital tax treatment of agricultural land, which might form the basis of an agriculture package. At present the potential tax candidates for such a package are:-

- (a) increase the CTT agricultural relief for let land to 30 per cent. This would have a cost of £3 million.
- (b) increase from 8 to 10 years the period over which CTT can be paid by interest-free instalments. The cost is yet to be estimated. Some of the benefit would go to businesses, so this could alternatively form part of an enterprise package.
- (c) CGT rollover relief for let agricultural land, which would have a full-year cost of £5 million.
- (d) allow management expenses to be deducted from rental income from agricultural land and/or treat rental income as earned income. The latter might, in the context of self-catering holiday accommodation, be of relevance to any tourism package.

Mr Beighton is the official responsible for these items. To date we have identified no other potential candidates for such a package.

8 December 1982



**BUDGET PACKAGES****Betting and breeding**

The Chancellor has asked (Miss Rutter's minute of 26 November) that in light of the representations received from the various sectional interests, consideration should be given to all the problems of betting and breeding with a view to a package possible. The Economic Secretary has expressed the preliminary view (Mr H's minute of 2 December) that he finds it very hard to believe that cash devoted to a package would be well spent, but he is examining with Customs and Excise and will report the Chancellor in due course.

8 December 1982



## BUDGET PACKAGES

### Caring and charities

This is also now a traditional area for Budget packages, and as a result the cupboard is fairly bare at present.

2. On the "caring" side there is one potential candidate in the starters list:

Widow's bereavement allowance - extension to year after bereavement (starters number 129, category D). The Financial Secretary has asked Inland Revenue to look at the case for giving the allowance in full for the year after the husband's death (instead for the year of bereavement only) or for a carry-over of the unused allowance into the year after bereavement. This could have a revenue cost in the range £20 million to £30 million, but require only a few lines of legislation. Minister in lead - FST; official responsible - Mr Blythe IR.

3. There are also two potential "caring" candidates in the social security area:-

- (a) restoration of the 5 per cent abatement of invalidity benefit (which would cost nearly £20 million in 1983-84 and £56 million in 1984-85);
- (b) removal of the invalidity benefit "trap" (by allowing recipients to qualify for long-term supplementary benefit). This would cost nearly £7 million in 1983-84 and £15 million in 1984-85.

It is possible that the work of the Family Policy Group might provide additional candidates; if it does so to any degree, a free-standing "family" package might be an alternative.

4. As regards the charities side, the Financial Secretary has asked (Mr Kwiecinski's note of 8 December) that abolition of the £250,000 ceiling on CTT relief for bequests (and gilts within the year of death) to charities should be considered a starter. Another possibility might be to raise the ceiling on the amount of payments to charities under deeds of covenant which qualifies for higher rate relief. The limit is at present £3,000.

5. As regards VAT and charities, the Economic Secretary requested (Mr Harrison's minute of 15 November) a study of the practicalities and implications of a scheme to pay grants to charities to compensate for VAT, in those cases where charities provide a service which is also carried out by the public sector: this was contained in Mr Knox's submission of 25 November. The Chief Secretary and the Economic Secretary indicated that they would





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strongly hope to avoid the introduction of such grants. The Chancellor has since had a meeting with Mr John Hannam MP and has commented (Miss Rutter's minute of 1 December) that the charities case - much better presented than last year - will need careful consideration. He has asked for comments on the figures adduced by Mr Hannam on the number of charities likely to be involved, the staffing implications and the effects of a de minimus threshold of £150 of VAT paid in a financial year. He has also asked Customs to consider with the Revenue the possibilities for a more streamlined way of dealing with the tax affairs of charities.

6. Measures for further fiscal relief which are still being pressed by the voluntary sector (or on their behalf by the social policy Departments) include:-

- (a) tax relief on "pay-roll" giving;
- (b) tax relief on individual donations above a certain minimum level;
- (c) for companies, relief up to a limit of, say, 2 per cent of taxable profits for charitable giving, or for giving which matches employees' contributions;
- (d) for companies again, relief for the cost of seconding staff to voluntary bodies;
- (e) covenanted payments to charities by companies to be paid gross (to save paper work).

Some of these proposals would have substantial costs and/or involve administrative and other difficulties and on these grounds have been rejected in the past. Here, too, it is possible that the Family Policy Group might produce other potential candidates.

7. There are also one or two possible ideas which would involve additional public expenditure:-

- (a) "investment grants" to the voluntary sector (for example, for new equipment or for day centres to provide "community" care), paid under Section 64 of the 1968 Health Services Act;
- (b) a central grant to the National Association of Councils of Voluntary Service, to assist the development of local voluntary service councils by meeting their administrative and management costs.

The 1983-84 cost of each might be of the order of £5 million, though both approaches would more naturally take the form of longer-term programmes rather than one-year exercises.

8 December 1982



**BUDGET PACKAGES****Fairness in Taxation**

The 1982 Budget included a section on fiscal justice, and there are a number of items in the starters list which might form a similar package. These comprise:-

- (a) **VAT: Blocking input tax on petrol and, possibly, derv** (starters number 3, category B.1). Case rests both on revenue-raising possibilities and on need to deal effectively with abuse through diversion of petrol to private use while the VAT input tax is claimed. The case has been examined in each of the last three years, but rejected on the grounds that it would increase business costs considerably and fall arbitrarily on abusers and non-abusers alike. Effect on business costs could be limited by blocking of petrol only; this would also concentrate more on the abuse which is still prevalent among smaller traders in particular, although recent evidence suggests that, overall, the level of abuse may not be quite as bad as once feared. Blocking petrol only would raise about £330 million in 1983-84 and £470 million in a full year; petrol and derv about £565 million and £775 million respectively. Could be done by S.I., but at 13 October starters' meeting Ministers expressed preference for Financial Bill provision (1½ pages) to avoid protracted procedural debate. Minister in lead - EST; official responsible - Mr Knox C&E.
- (b) **Application of PAYE to earnings from offshore employment** (starters number 106, category B1). Legislation to apply PAYE to offshore employment may be needed if a current House of Lords case is decided against the Revenue. Some £10-20 million of tax would be at risk without legislation. Minister in lead - FST; official responsible - Mr Blythe IR.
- (c) **Life assurance chargeable events: secondhand bonds** (starters number 110, category C1). An announcement of the intention to legislate in the 1983 Finance Bill was given on 24 June 1982, in the wake of increased exploitation of these bonds by higher rate tax-payers. The legislation would be retrospective to 1 October 1982. It will prevent the use of this device by which profits from the sale of a life policy or life annuity contract can be moved from income tax to capital gains tax. There would probably be a small revenue yield and the measure will require 2 to 3 pages of legislation. Minister in lead - FST; official responsible - Mr O'Leary IR.



## CONFIDENTIAL

- (d) Group relief: avoidance (BL) (starters number 119, category C2). British Leyland's scheme involves buying a company with a large capital gain and using this to cover trading losses from within the acquiring group. There is a large potential revenue cost if such avoidance is not prevented. Minister in lead - MST(R); official responsible - Mr Battishill IR.
- (e) Fringe benefits (starters numbers 133 and 134, category D). The Budget Statement will, as in previous years, contain an announcement about the uprated car and car fuel benefit scales to apply in 1984-85. Ministers will also shortly receive a note reviewing the whole fringe benefit area which might lead to legislation on, inter alia, abuse of the present rules on company loans and accommodation (eg Marks & Spencer buy-back options). But it is not yet possible to estimate the revenue yield or length of any legislation. Minister in lead - FST; official responsible - Mr Blythe IR.
- (f) Capital gains tax: capital loss buying and groups of companies (starters number 142, category D). In their simplest form such schemes involve the passing of assets within a group to enable a gain from a sale to be set off against the capital losses of a newly acquired company. They are, therefore, similar to the BL scheme (see (c) above). Legislation would require 3 to 4 pages; there is a possible overall loss of £30 million of tax if no action is taken. Minister in lead - FST; official responsible - Mr Beighton IR.
- (g) Development land tax - disposals by non-residents (starters number 149, category D). Where a purchaser acquires development land from a non-resident, he is required to deduct a payment on account of DLT. Without this provision it would rarely be possible to collect the tax. However, over 50% of non-residents are managing to avoid the deduction. Legislation to prevent this would be 1 page long, and would yield perhaps £5 million per annum. Minister in lead - MST(R); official responsible -
- (h) Deny stock relief to commodity/bullion dealers (starters number 153, category D). Commodity and bullion dealers operate on small profit margins, but have a high turnover of stocks, which are largely financed by borrowing. They receive excessive stock relief. Legislation to deny stock relief would be 1 to 2 pages long and, if applied to all dealers would yield £20 to 40 million. Minister in lead - MST(R); official responsible - Mr Battishill IR.
- (i) Clarify meaning of "payments on account" for stock relief (starters number 154, category D). Payments on account are deducted from stock values in computing stock relief. In recent cases these have been dressed up as loans so as to entitle to stock relief traders who are not themselves financing the costs of their



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stockholding. Potentially substantial amount of revenue at stake if scheme spreads, particularly among property developers. At present, best estimate of revenue loss is £15 million. Legislation would require  $\frac{1}{2}$  page. Minister in lead - MST(R); official responsible - Mr Battishill IR.

- (j) Late payment of tax on directors' remuneration (starters number 131, category D). In general, employers pay fairly promptly PAYE tax deducted from employees' pay. However, there is an increasing problem with companies (often smaller companies) failing to deduct tax from directors' remuneration and subsequently delaying payment of tax for months or even years. The only effective deterrent is likely to be a charge to interest, dating from the time when the tax liability is formally determined. This would be unwelcome to the companies concerned, but would provide an acceleration of revenue and staff savings. The Keith Committee are considering the question. Minister in lead - FST; official responsible - Mr Blythe IR.

8 December 1982





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(Pup)

FROM: D J L MOORE  
DATE: 9 December 1982

1. MR MIDDLETON
2. CHANCELLOR OF THE EXCHEQUER

cc for information:

Copies attached for:

Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Mr Ridley  
Mr French  
Mr Harris  
Sir Douglas Wass  
Mr Burns  
Sir Anthony Rawlinson  
Mr Bailey

PS/Inland Revenue  
PS/Customs & Excise

Mr Kemp  
Mr Mountfield  
Mr Lovell  
Mr Monger (annex 9 only)  
Mr Monck (annex 2)  
Mr Pestell (annex 4)  
Mr Evans  
Mr Cassell  
Mr Griffiths  
Mr Robson  
Mr G Smith  
Mr Martin ✓  
Mr Painter - IR  
Mr Howard - C&E

BUDGET PACKAGES

You asked for an agenda to enable you to review all possible areas for which packages might be devised for the 1983 Budget. This note has been prepared in consultation with the Revenue Departments, Central Unit, GEP and other Treasury Groups.

- ... 2. The annexes attached summarise some possibilities for packages under the following headings:

- (i) enterprise and small firms;
- (ii) wider share ownership;
- (iii) technology and innovation;
- (iv) construction;
- (v) oil;
- (vi) tourism/holiday industry;
- (vii) agriculture;
- (viii) betting and breeding (or some less exciting title);
- (ix) caring and charities;
- (x) fairness in taxation.

They take account of the proposals put to you by the Secretary of State for Industry in his letter of 6 December, though these (like a number of the other ideas listed) have yet to be examined in detail.



3. At this stage we have thought it right to list all relevant proposals which have not been positively ruled out, even though some of them have been given low priority in the preliminary examination of the starters list, others may well be unlikely runners, and a number of them are very small. But we hope that the annexes will give you a picture of the possibilities which have emerged so far and that they will serve as a basis for discussing whether there are any gaps which we should be moving to fill, whether it is possible to indicate priorities at this stage, and whether any of the possibilities should be ruled out.
4. The following paragraphs raise some general questions on the approach to packages and the concluding paragraph lists some questions which might serve as an agenda for a meeting.

#### Themes and packages

5. As instructed, the note is directed primarily to potential "packages". But to judge the adequacy, and desirability, of packages it is important to think of them in the context of the likely main themes of your Budget for personal and corporate taxation. Clearly packages must be consistent with these themes and reinforce and supplement them.
6. Some apparent gaps in the packages are most likely to be dealt with by action under main themes. On personal tax, for example, we do not have much under the package headings which is helpful to people, families, poverty and unemployment traps and so on. But in practice the main response on these issues is likely to be considered in the context of examination of the options for increasing personal tax thresholds and, later on, the levels of social security benefits and child benefit. You now have preliminary papers on the options for personal tax - the Revenue's note of 6 December and mine of 7 December.
7. On corporate taxation there is much more in the annexes - though much of it is relatively minor. Papers will be put to you shortly on the general position of the company sector and on the main tax options - primarily corporation tax, NIS and industrial rates and, at a later stage, the case (if any) and the options for reductions in car tax.



PSBR costs

8. You will recall that the 1982 Budget packages had a total first year PSBR cost of over £300 million, of which about £240 million was for construction. We cannot yet put firm costs on all the items in the annexes but there is already well over £500 million worth. This suggests:

- (i) you will wish to guard against any premature commitment to packages which might pre-empt too much of whatever might become available for your main objectives (e.g. £300 million would buy about 2 per cent on personal allowances and thresholds above indexation or getting on for  $\frac{1}{2}$  per cent off NIS);
- (ii) you might want to consider whether, at least provisionally, a view can be taken on priorities both between packages and within them and whether the options might be narrowed down at this stage.

Further Budget representations

9. As well as considering whether the present lists can be cut, and ranked, you will want to consider whether there are any gaps. For the moment the annexes draw primarily on the Budget starters list and an in-house trawl together with the DOI representations. Other ideas will undoubtedly emerge as proposals come in from other Ministers individually and maybe collectively (e.g. from the Family Policy Group) and also from outside bodies.

10. Following Mr Kerr's minute of 29 November, Trade, Energy and Environment and the Governor are being asked to put in their ideas in good time. Nearer the Budget time you will also be talking to the Secretary of State for Social Services. Are there any other Ministers you want to prompt, or any major outside bodies? On possible gaps you will note that there is nothing specific on employment measures or on energy prices.



Public expenditure

11. In this preliminary trawl for potential candidates we have not ruled out smallish public expenditure measures, which have been components of previous packages. GEP point out that the planning total for 1983-84 was £121.1 billion in the 1982 PEWP and £120.1 billion in the Autumn Statement and that it now looks like coming down further, to about £119.6 billion allowing for expected shortfall and <sup>a</sup>Contingency Reserve of £1.5 billion. So there is room for modest additional expenditure without breaching the planning total: up to £0.5 billion if we stick with the AS figure, or up to £1.5 billion if we go up to the PEWP level. But GEP advise that the AS total should be maintained; the Government has taken credit publicly for keeping the total within the 1982 PEWP limit, and there is always a risk of new public expenditure claims arising outside the field of Budget packages.

12. A second point in this context is the treatment of "tax expenditures". When this was discussed earlier this year, your inclination was to build on the teletext precedent. Last year, £100 million extra was set aside in the Budget for assistance to industry, and Mr Jenkin was invited to choose between additional expenditure or tax reliefs. This year you could adopt the same technique (subject to the constraint of the "planning total") with him and others, or you could invite spending Ministers to offer up savings from approved expenditure programmes to pay for the tax reliefs they propose (e.g. the Secretary of State for Trade, who in his letter of 29 October proposed an extension of the industrial buildings allowance as an aid to tourism).

Finance Bill

13. Ministers have already indicated that they want a shorter and simpler Finance Bill in 1983. For the moment we have not ruled out possibilities on that count although we have indicated where possible what would be the length and complexity involved.





Questions

14. Bearing in mind the need to relate packages to themes, and to avoid the risk of pre-empting too much for packages (paragraphs 5-8(i)), you may like to consider the following questions in particular:

- (i) Do you wish to take a view, at least provisionally, on priorities between packages and within them and on whether the options might be narrowed down at this stage? (Paragraph 8(ii))
- (ii) Do you wish to stimulate any further representations? (Paragraph 10)
- (iii) Are there any gaps on which you would want to commission work? (Paragraph 10)
- (iv) Are you content that modest public expenditure should not be ruled out of court at this stage? (Paragraph 11)
- (vi) Do you wish to approach "tax expenditures" as suggested in paragraph 12?
- (vii) Are there any points you wish to register at this stage on Finance Bill length and complexity, or are you content that this should be left open for the moment? (Paragraph 13)
- (viii) In practice pretty well all the particular items are already under the eye of a particular Junior Minister, but are there any points you wish to make about supervision of further work on particular packages?



D. J. L. MOORE



**BUDGET PACKAGES****Enterprise and small firms**

There are two items which have become regular features of enterprise packages:-

- (a) **Revalorisation of VAT registration and deregistration limits** (starters list number 4, category B2). The EC Sixth VAT Directive rules out increase in real terms. But should be able to raise registration threshold from £17,000 to £18,000, which will assist small businesses, particularly new ones. The cost would be around £5 million. Can now be done by SI, negative resolution, under powers taken in FA 1982, s13. Minister in lead - EST; official responsible - Mrs Strachan, C & E.
- (b) **Corporation tax: "small companies" profits limits and rate** (starters list number 103, category A). The profits limits could be increased in line with inflation (which would cost £10 million) or by more. The "small companies" rate will be considered along with the main rate of corporation tax. Minister in lead - MST(R); official responsible - Mr Battishill IR.

2. A number of measures in the context of finance for small firms are currently being examined in an exercise under the FST and MST(R). These include:-

- (a) **Business Start-Up Scheme - extension to existing companies.** Mr Jenkin has also make a number of detailed proposals for changes in the scheme in his letter of 6 December.
- (b) The CBI proposal for **Small Firms Investment Companies**, also advocated by DOI Ministers.
- (c) **Interest-rate subsidies.** A scheme linking (public expenditure) subsidies to new equity remains on the table and is being worked up.
- (d) **Debt-equity conversion.** The Bank has been asked to provide a note on the scope for action.

3. In the broad context of finance, decisions on the future of the **Loan Guarantee Scheme** and **Enterprise Allowance** might also form components of a package. IA Group are responsible for these. The possibility of providing for an accruals basis for taxation of **zero and deep-discount corporate bonds** is also being examined.



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4. In addition, there are a number of, mainly minor, items in the current starters list which might be candidates for an enterprise package:-

- (a) VAT annual accounting (starters list number 5, category B2). This would introduce VAT returns and payments on an annual (instead of quarterly) basis for small businesses. Once-for-all cost of £190 million would benefit cash flow of some 350,000 businesses. Could save about 140 staff. Main drawback would be harmful effect on compliance (already unsatisfactory) and on fraud. Could be done by SI, negative resolution.

Ministers will recall that a working party sponsored by Mr Michael Grylls has been set up "to study VAT in other European countries to see what lessons Britain can draw which would result in the simplification of the system for our own smaller businesses". Their aim is to reduce the burden of tax accounting and collection on such businesses, and they are particularly interested in the operation of the French "forfait" system. The group's report was supposed to be available "towards the end of the summer" but there is no sign of it yet. Minister in lead - EST; official responsible - Mrs Strachan C & E.

- (b) Allowance of relief for Schedule D Case V trading losses against other income (starters list number 124, category C2). Losses of a trade, profession or vocation carried on wholly overseas (Case V) can be carried forward for relief against future profits of the same activity but, unlike losses within Cases I and II, cannot in general be set against other income. Following Small Business Bureau conference early this year the Chancellor informed Mr Grylls that the case for some relaxation was already under consideration in the light of a Budget representation by Institute of Directors that the rules for UK and overseas trading losses should be brought into line. Length of legislation would depend on whether unrestricted relief on Cases I and II lines allowed (2½ pages) or relief confined to set off against income from substantially similar activity in UK (1 page). Either way cost thought to be under £1 million. Minister in lead - ; official responsible - Mr Taylor-Thompson IR.

- (c) De minimis limit for assessment of apportioned income of an individual (starters list number 152, category D). Income which is apportioned to the proprietor of a close company is not actually assessed if it is less than £200. This limit was fixed in 1972: revalorised it would be over £500. The change would have a negligible revenue cost and would require only 2 or 3 lines of legislation. Minister in lead - FST; official responsible: Mr Battisill IR.

- (d) Close companies; ACT limit on loans to employees etc. (starters list number 181, category E). The limit was fixed at £15,000 in 1971: revalorised



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limit would be £70,000. The limit is an extension of that in Section 286(3)(ii) Taxes Act 1970 which exempted certain housing loans from the operation of Section 286. An increase was considered in 1981, but - although there is no direct link therewith - was not made for fear of inviting comparison with the decision to leave the mortgage interest relief limit unchanged. Might be considered if Ministers wished to increase the latter. Cost would be small, and only 2 or 3 lines of legislation would be required. Minister in lead - MST(R); official responsible - Mr Battishill IR.

- (e) Relief for interest - employee buy-outs (starters list number 189, category E). Relief is available to 5 per cent shareholders or managers in close companies for interest on loans to buy shares in the company. The Financial Secretary has undertaken (letter to Sir William Clark) to review the possibility of an extension to cover cases where the company is not close but is controlled by its employees and the employees are borrowing to buy shares. Revenue cost of about £5 million (though wider repercussions could increase) and about 1 page of legislation required. Minister in Lead - FST; official responsible - Mr Crawley IR.

5. Another item, which has recently arisen and is not with current starters list, might also be a candidate for the package. This is:-

CTT business relief. The Financial Secretary would like to increase the relief for minority shareholdings in unquoted companies from 20 per cent to 30 per cent, which would have a cost of £2 million. He has also requested examination of the Unquoted Companies Group proposal for deferring the liability on transfers of business interests until sold outside the group. This would cost perhaps £50 million, assuming agricultural relief has to follow suit. Minister in lead - FST; official responsible - Mr Beighton IR.

6. The Financial Secretary effectively ruled out the Institute of Directors' proposal for a £5,000 tax-free starter in discussions with officials prior to the meeting with the IOD on 21 October. But formally, the IOD has been invited to re-examine the problems identified and report back. A separate issue which has stemmed from the examination of the IOD proposal is that of the burden of PAYE operations for the small employer: the Financial Secretary is examining this with officials.





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7. Finally, there are a number of other items in Mr Jenkin's letter of 6 December. These comprise:-

- (a) Enterprise bonds, an idea examined and rejected for the 1982 Budget.
- (b) further extensions of interest relief, to unquoted companies and all full-time employees.
- (c) further extensions of the pre-trading expenditure reliefs.
- (d) extension of CGT rollover relief to include unquoted trading company shares
- (e) relief for losses in the first few years of business should be available to companies.

8 December 1982



**BUDGET PACKAGES****Wider Share Ownership**

Changes in the tax arrangements for share option and profit sharing schemes are a priority item in Mr Jenkin's proposals for the 1983 Budget. In particular, he advocates the reintroduction of the 1972 relief for "top hat" schemes. The proposals detailed in his letter of 6 December are as follows:-

- (i) a new scheme increasing the permitted maximum of approved share incentive or option schemes to £10,000 p.a or £50,000 overall.
- (ii) companies to be able to restrict eligibility for approved schemes to key executives if they wish.
- (iii) deferral until the shares are sold of any charge to tax arising on exercise of an option. Such charge to be to capital gains rather than income tax.
- (iv) a review of the rules relating to the growth in value charge particularly the definition of "restrictions" and the application of this charge to transactions involved in management buy-outs.
- (v) particular consideration to be given to charges facilitating schemes within groups of companies.
- (vi) particular consideration to be given to relaxing the present tax treatment of "partly-paid" schemes which can at present be adversely affected by the 1972 and 1976 Finance Acts.

2. The topic is covered by a generalised entry in the starters list (number 169, category E). The Inland Revenue submission of 19 November (Mr R Martin to FST) indicated that the reintroduction of the 1972 "top hat" relief would have a revenue cost in the range £50-£100 million and a legislation requirement of up to 7 pages.

3. In this context, HF have also suggested that consideration might be given to the possibility of raising the monthly limit (at present £50) on SAYE contributions linked to share option schemes for employees. This might be limited to compensating for a reduction in the effective return on such SAYE contracts or be used to extend the scope for tax relief for ordinary employees on share option schemes, though there has been no pressure for the latter. There are, however, complications arising from the participation of building societies in SAYE and there is no certainty that any change would be needed.



CONFIDENTIAL

4. Changes in employee share schemes have usually formed part of enterprise packages. We have so far been unable to identify additional candidates which might enable a free-standing package, other than a number which have been rejected in the past. These include:

- (a) relief from stamp duty for "small parcel" share transactions, examined and rejected for the 1982 Budget. The cost would be likely to be large, because transactions would be split to get the relief.
- (b) the Institute of Director's proposal for "employee bonds", designed to reward employees without diluting share ownership; again, examined and rejected for the 1982 Budget.
- (c) the various proposals for a "Loi Monory" type relief for investment in the new equity of UK trading companies, rejected on several occasions in the past and most recently for the 1982 Budget. The cost would depend on the detailed arrangements and take up, but might be of the order of £150 million per million claimants. Mr Isaac's minute of 7 December reported on discussions with Mr Ferdinand Mount on this topic, following Mr Mount's note to the Chancellor of 22 November.

8 December 1982



## BUDGET PACKAGES

### Technology and Innovation

There was a fairly substantial innovation package in the 1982 Budget, but to date there are very few candidates for a successor.

2. The continuation of 100 per cent first-year capital allowances for rented TV sets equipped with teletext was one item in 1982 package. In his letter of 6 December Mr Jenkin suggests a further extension of the present favourable regime for rented teletext and viewdata sets, which is also being strongly pressed by the TV manufacturers and renters. DOI officials are to provide a paper on this; the official responsible in IR is Mr Battishill.

3. Also on the tax side Mr Jenkin proposes allowances for research and development, in the form of a broadening of the eligibility definition for the present scientific research allowance. (This was examined and rejected for the 1982 Budget). And the following item might also be squeezed in under the technology heading:-

Capital allowances for British films - extending the transitional relief. Ministers are already attracted by the possibility of extending the two-year transitional period in this year's legislation for which British films continue to qualify for 100 per cent first year allowances. There is a good deal of pressure from the film and commercial television industries. The case for more generous treatment turns to an extent on the Government's policy towards cable and satellite transmission systems. Minister in lead - FST; official responsible - Mr Battishill IR.

4. On the expenditure side Mr Jenkin proposes the reintroduction of the Small Engineering Firms Investment Scheme (SEFIS). In addition, his letter of 6 December indicates that he is also considering the following:-

- (i) support for other innovation-linked investment in addition to SEFIS;
- (ii) an expansion of support for R&D, possibly including a response to the Alvey (Fifth Generation Computers) proposals;
- (iii) increased support for technology transfer;
- (iv) support for the development and improvement of management skills.

5. IA Group will be examining these ideas, which could require substantial amounts of expenditure (SEFIS and Alvey could alone require something of the order of £50 million in





## CONFIDENTIAL

h year of the Survey - the SEFIS expenditure could be front-loaded and declining, while the computer expenditure would be on a rising trend).

8 December 1982



## BUDGET PACKAGES

Construction

There are several items in the starters list which might form components of a construction package:-

- (a) Mortgage interest relief limit (starters number 105, category A). This will, of course, be strongly pressed by the industry, though there are strong arguments against raising the limit. Costings in this area are highly uncertain, but the cost of an increase to £30,000 is in the range of £50 to £75 million in 1983-84 (and £100 to £200 million eventually, taking account of the extra borrowing generated). Only 3 or 4 lines of legislation are required. Minister in lead - FST; official responsible - Mr Crawley IR.
- (b) Revalorisation of the stamp duty thresholds is subsumed in starters number 140 (category D; Stamp duty: reform proposal's). In the 1982 Budget action here was preferred to (a). The cost would be in the range £10 to £30 million, depending on whether done by reference to RPI or to house price movements. Minister in lead - MST(R); official responsible - Mr O'Leary IR. (In his letter of 6 December Mr Jenkin also suggests that stamp duty should be reduced for first time buyers.)
- (c) DLT: own use deferment (starters number 178, category E). The 1981 Finance Act included a DLT deferment for developments for the owner's own use started before April 1984. A decision will be needed on whether the relief is to be extended for a further period, made permanent or whether it should come to an end as planned in 1984. The 1983-84 revenue cost is nil and the length of legislation involved depends on whether the relief is made permanent, which would require 3-4 pages. Given its nature, this item might alternatively form part of an enterprise package: indeed, it could be argued that there is a greater incentive to new construction in keeping the terminal date. MST(R) is seeking Mr John Stanley's views. Official responsible - Mr Beighton IR.

2. The NFBTE and others would like to see VAT zero-rating extended to building repairs and maintenance. Apart from the cost of such relief (about £150 million a year), a significant objection is that any more in this direction would be challenged by the EC Commission on the grounds that it is contrary to the UK's obligations under the Sixth VAT Directive. In the past action has been directed towards limiting (rather than extending)



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relief, by narrowing the definition of zero-rates alterations. The Chancellor outlined such changes in the 1982 Budget Statement, but in the event they had to be deferred as a result of doubt caused by litigation currently before the courts.

3. Pending any proposals from Mr Heseltine we have so far identified no other candidates for a construction package. The action in the 1982 Budget and subsequently on improvement grants has proved successful but has exhausted this area. The industry will no doubt press for an increase in the industrial buildings allowance to 100 per cent and, with others, for improvements in the allowances for commercial buildings etc<sup>1</sup>. These have been rejected in the past and in any event fall in the context of decisions on the Corporation Tax Green Paper. A broadening of the definition of qualifying premises for the Small Workshops Scheme may also be pressed, but again there was a fairly substantial change in this context in the 1982 Budget.

8 December 1982

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<sup>1</sup> A proposal for initial allowances to be made available for commercial buildings in inner-city areas at a rate of 20 per cent is currently being examined in the Review of Regional Economic Policy. Mr Quinlan chairs the interdepartmental official group conducting this review.



**BUDGET PACKAGES****Oil Taxation**

There are a number of items in the starters list which are candidates for a package here. These comprise:-

- (a) North Sea regime: structure and rate (starters number 109, category B2). Interdepartmental discussions are concluding and a submission will shortly be made to the Chancellor and Secretary of State for Energy.
- (b) PRT expenditure reliefs and receipts (including pipeline tariffs) from oil related assets (starters number 115, category C1). The purpose of the legislation will be to allow full PRT relief for expenditure on oil-related assets (whether or not they are used only for the purposes of the owner's oil field) and to bring incidental receipts including pipeline tariffs within scope of PRT (rather than, as now, restrict relief to reflect own field use only, and to leave incidental receipts outside scope of PRT). Commitment to 1983 legislation in 1982 Budget Speech. Consultative document issued 7 May 1982, envisaging legislation (backdated to 7 May) in FB 1983. Cost/yield in first few years heavily dependent on nature of transitional provisions; yield likely to rise thereafter (to c. £75 million pa by end 1980s). Up to 15 pages of legislation will be required, though Ministers have requested that as much as possible should be in a schedule.
- (c) Recovery of over-allowed PRT expenditure reliefs (starters number 164, category D).
- (d) PRT: direct exports from tanker-loading fields (starters number 163, category D).
- (e) Recovery of over-allowed PRT expenditure reliefs (starters number 164, category D).
- (f) PRT exempt gas and payback (starters number 166, category E).
- (g) Transfers of gas between fields in some ownership (starters number 167, category D).
- (h) Recovery of corproation tax unpaid by non-residents from licensees (starters number 184, category E).
- (i) Oil valuation (starters number 187, category E).
- (j) Abortive exploration expenditure - extension of time limits for claims (starters number 188, category E).





FROM: D J L MOORE  
DATE: 9 December 1982

- Em 10/12*
1. MR MIDDLETON
  2. CHANCELLOR OF THE EXCHEQUER

cc for information:

Copies attached for:

Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State (C)  
 Minister of State (R)  
 Mr Ridley  
 Mr French  
 Mr Harris  
 Sir Douglas Wass  
 Mr Burns  
 Sir Anthony Rawlinson  
 Mr Bailey  
 PS/Inland Revenue  
 PS/Customs & Excise

Mr Kemp  
 Mr Mountfield  
 Mr Lovell  
 Mr Monger (annex 9 only)  
 Mr Monck (annex 2)  
 Mr Pestell (annex 4)  
 Mr Evans  
 Mr Cassell  
 Mr Griffiths  
 Mr Robson  
 Mr G Smith  
 Mr Martin  
 Mr Painter - IR  
 Mr Howard - C&E

BUDGET PACKAGES

You asked for an agenda to enable you to review all possible areas for which packages might be devised for the 1983 Budget. This note has been prepared in consultation with the Revenue Departments, Central Unit, GEP and other Treasury Groups.

*I have set up a meeting, full dress, with an IR and a C&E rep. for next Wednesday. This begins your time for an earlier internal political discussion. If you want to be having seen budgeted amounts as a good - answer.*

*2/10  
17/11*

... 2. The annexes attached summarise some possibilities for packages under the following headings:

- (i) enterprise and small firms;
- (ii) wider share ownership;
- (iii) technology and innovation;
- (iv) construction;
- (v) oil;
- (vi) tourism/holiday industry;
- (vii) agriculture;
- (viii) betting and breeding (or some less exciting title);
- (ix) caring and charities;
- (x) fairness in taxation.

*See summary - Training: has worth need to be done in the future at \* (i) (ii) (iii)*

They take account of the proposals put to you by the Secretary of State for Industry in his letter of 6 December, though these (like a number of the other ideas listed) have yet to be examined in detail.



3. At this stage we have thought it right to list all relevant proposals which have not been positively ruled out, even though some of them have been given low priority in the preliminary examination of the starters list, others may well be unlikely runners, and a number of them are very small. But we hope that the annexes will give you a picture of the possibilities which have emerged so far and that they will serve as a basis for discussing whether there are any gaps which we should be moving to fill, whether it is possible to indicate priorities at this stage, and whether any of the possibilities should be ruled out.
4. The following paragraphs raise some general questions on the approach to packages and the concluding paragraph lists some questions which might serve as an agenda for a meeting.

#### Themes and packages

5. As instructed, the note is directed primarily to potential "packages". But to judge the adequacy, and desirability, of packages it is important to think of them in the context of the likely main themes of your Budget for personal and corporate taxation. Clearly packages must be consistent with these themes and reinforce and supplement them.
6. Some apparent gaps in the packages are most likely to be dealt with by action under main themes. On personal tax, for example, we do not have much under the package headings which is helpful to people, families, poverty and unemployment traps and so on. But in practice the main response on these issues is likely to be considered in the context of examination of the options for increasing personal tax thresholds and, later on, the levels of social security benefits and child benefit. You now have preliminary papers on the options for personal tax - the Revenue's note of 6 December and mine of 7 December. ?
7. On corporate taxation there is much more in the annexes - though much of it is relatively minor. Papers will be put to you shortly on the general position of the company sector and on the main tax options - primarily corporation tax, NIS and industrial rates and, at a later stage, the case (if any) and the options for reductions in car tax.



PSBR costs

8. You will recall that the 1982 Budget packages had a total first year PSBR cost of over £300 million, of which about £240 million was for construction. We cannot yet put firm costs on all the items in the annexes but there is already well over £500 million worth. This suggests:

- (i) you will wish to guard against any premature commitment to packages which might pre-empt too much of whatever might become available for your main objectives (e.g. £300 million would buy about 2 per cent on personal allowances and thresholds above indexation or getting on for  $\frac{1}{2}$  per cent off NIS);
- (ii) you might want to consider whether, at least provisionally, a view can be taken on priorities both between packages and within them and whether the options might be narrowed down at this stage.

Further Budget representations

9. As well as considering whether the present lists can be cut, and ranked, you will want to consider whether there are any gaps. For the moment the annexes draw primarily on the Budget starters list and an in-house trawl together with the DOI representations. Other ideas will undoubtedly emerge as proposals come in from other Ministers individually and maybe collectively (e.g. from the Family Policy Group) and also from outside bodies.

10. Following Mr Kerr's minute of 29 November, Trade, Energy and Environment and the Governor are being asked to put in their ideas in good time. Nearer the Budget time you will also be talking to the Secretary of State for Social Services. Are there any other Ministers you want to prompt, or any major outside bodies? On possible gaps you will note that there is nothing specific on employment measures or on energy prices.

*The continuing costs of some of these measures is, of course also important. Especially in their tax package*

*added again*

*ditto*

*But why that all be embraced is a fundamental question?*



Public expenditure

11. In this preliminary trawl for potential candidates we have not ruled out smallish public expenditure measures, which have been components of previous packages. GEP point out that the planning total for 1983-84 was £121.1 billion in the 1982 PEWP and £120.1 billion in the Autumn Statement and that it now looks like coming down further, to about £119.6 billion allowing for expected shortfall and <sup>8</sup>Contingency Reserve of £1.5 billion. So there is room for modest additional expenditure without breaching the planning total: up to £0.5 billion if we stick with the AS figure, or up to £1.5 billion if we go up to the PEWP level. But GEP advise that the AS total should be maintained; the Government has taken credit publicly for keeping the total within the 1982 PEWP limit, and there is always a risk of new public expenditure claims arising outside the field of Budget packages.

12. A second point in this context is the treatment of "tax expenditures". When this was discussed earlier this year, your inclination was to build on the teletext precedent. Last year, £100 million extra was set aside in the Budget for assistance to industry, and Mr Jenkin was invited to choose between additional expenditure or tax reliefs. This year you could adopt the same technique (subject to the constraint of the "planning total") with him and others, or you could invite spending Ministers to offer up savings from approved expenditure programmes to pay for the tax reliefs they propose (e.g. the Secretary of State for Trade, who in his letter of 29 October proposed an extension of the industrial buildings allowance as an aid to tourism).

Finance Bill

13. Ministers have already indicated that they want a shorter and simpler Finance Bill in 1983. For the moment we have not ruled out possibilities on that count although we have indicated where possible what would be the length and complexity involved.





Questions

14. Bearing in mind the need to relate packages to themes, and to avoid the risk of pre-empting too much for packages (paragraphs 5-8(i)), you may like to consider the following questions in particular:

- (i) Do you wish to take a view, at least provisionally, on priorities between packages and within them and on whether the options might be narrowed down at this stage? (Paragraph 8(ii))
- (ii) Do you wish to stimulate any further representations? (Paragraph 10) X
- (iii) Are there any gaps on which you would want to commission work? (Paragraph 10)
- (iv) Are you content that modest public expenditure should not be ruled out of court at this stage? (Paragraph 11) ?
- (vi) Do you wish to approach "tax expenditures" as suggested in paragraph 12? ✓
- (vii) Are there any points you wish to register at this stage on Finance Bill length and complexity, or are you content that this should be left open for the moment? (Paragraph 13) ✓
- (viii) In practice pretty well all the particular items are already under the eye of a particular Junior Minister, but are there any points you wish to make about supervision of further work on particular packages?

*Is the allocation comprehensive + all-inclusive? And inclusive? Or not the same as allocation?*

*2/*

*D J L*

D J L MOORE



DATE: 10 DECEMBER 1982



→ PRINCIPAL PRIVATE SECRETARY

cc. Financial Secretary  
 Economic Secretary  
 Minister of State (C)  
 Minister of State (R)  
 Sir Douglas Wass  
 Sir A Rawlinson  
 Mr Burns  
 Mr Bailey  
 Mr Middleton  
 Mr Moore  
 Mr Kemp  
 Mr Mountfield  
 Mr Ridley  
 Mr French  
 Mr Harris

BUDGET PACKAGES

The Chief Secretary has seen Mr Moore's minute of 9 December. The Annexes will no doubt be the subject of discussion, but he would like to comment straight-away on the scope for public expenditure measures in the Budget (which is dealt with in para 11 of Mr Moore's draft).

2. He has pointed out, first, that the planning total for 1983-84 of £121.1 billion in the 1982 PEWP was out of date by the time it was published and that the baseline for the new Survey, incorporating the effects of the 1982 Budget, was £120.7 billion. That figure was published in the Autumn Statement and is the one to be compared with the revised plans of £120.1 billion. The Autumn Statement also provided for shortfall of £1 billion (although this was not included in the public expenditure tables themselves) so that the planning total, allowing for shortfall, which was agreed as a result of the Survey was in effect £119.1 billion. Since the publication of the Autumn Statement, an addition of about £500 million has had to be made to those plans. At the same time, the forecasts of likely outturn in 1982-83 have been revised downwards. The very latest estimate is about £113 billion.

3. As a result of these substantial changes, it now seems likely that planned expenditure in 1983-84, even allowing for shortfall, will be higher in real (cost) terms than expenditure in 1982-83. It is likely also that expenditure in proportion to GDP will fall



scarcely at all between 1982-83 and 1983-84: perhaps from 44% to 43½%.

4. In the Chief Secretary's view, these developments are extremely unfortunate both because Ministers have made a good deal in the last few months of having turned the public expenditure tide and, substantively, because they show once again how difficult it is to achieve reductions in the total. In his view it is therefore most important not to make further additions to the total at the time of the Budget. He does not wish to rule out entirely at this stage the possibility of some very minor measures. But in his view, there should be no question of including a substantial public expenditure increase, on anything beginning to approach the scale canvassed in Mr Moore's minute.

JG

JOHN GIEVE

10 December 1982



CONFIDENTIAL



FROM: C D HARRISON  
DATE: 13 DECEMBER 1982

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State (C)  
PS/Minister of State (R)  
Sir D Wass  
Sir A Rawlinson  
Mr Burns  
Mr Bailey  
Mr Middleton  
Mr Moore  
Mr Kemp  
Mr Mountfield  
Mr Ridley  
Mr French  
Mr Harris

#### BUDGET PACKAGES

The Economic Secretary has seen Mr Moore's submission of 9 December, and the Chief Secretary's comments recorded in his private secretary's minute to you of 10 December.

2. On paragraph 5 of Mr Moore's submission, the Economic Secretary would dissent from the view that "packages" must be consistent with general budgetary "themes", and "reinforce and supplement them"; this was not so in the last budget - packages can surely be presented in their own right.

3. He endorses the Chief Secretary's view about the undesirability of additions to the public expenditure total at the time of the budget; and has pointed out that one reason why public expenditure in 1983-84 will be higher in real terms than in 1982-83 is because of the expected shortfall in 1982-83 - ie because of slippage (for example, of deliveries to nationalised industries).

CDH

C D HARRISON





(MWP)

FROM: I WALTON  
13 December 1982

*Glyles*

*Pt. make this amendment,  
and ensure that the other  
2 minutes are in tonight's  
folder for tomorrow's 4 pm  
meeting. I.M.*

cc	Chief Secretary	Mr Middleton
	Financial Secretary	Mr Moore
	Economic Secretary	Mr Kemp
	Minister of State (C)	Mr Mountfield
	Minister of State (R)	Mr Lovell
	Mr Ridley	Mr Pestell
	Mr French	Mr Evans
	Mr Harris	Mr Cassell
	Sir Douglas Wass	Mr Griffiths
	Mr Burns	Mr Robson
	Sir Anthony Rawlinson	Mr G Smith
	Mr Bailey	Mr Martin
	PS/Inland Revenue	Mr Painter - IR
	PS/Customs & Excise	Mr Howard - C&E

PS/CHANCELLOR

BUDGET PACKAGES

Further to Mr Moore's minute of 9 December, would you please make the following amendment to Annex 4 (Construction) to that minute:

Annex 4, paragraph 2 (VAT zero-rating extended to building repairs and maintenance) - in line 2 amend the words in parentheses to read "as much as £425 million a year".

*I Walton*

I WALTON

Mr Kerr  


NOTE OF A MEETING ON WEDNESDAY 15 DECEMBER AT 4.00 P.M.  
IN THE CHANCELLOR'S ROOM IN THE TREASURY

Present: Chancellor of the Exchequer  
Chief Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir A Rawlinson  
Mr Burns  
Mr Middleton  
Mr Bailey  
Mr Kemp  
Mr Moore  
Mr Mountfield  
Mr Cassell  
Mr Robson  
Mr Martin  
Mr Ridley  
Mr French  
Mr Kerr  
  
Mr Green - IR  
Mr Isaac - IR  
  
Sir D Lovelock - C&E  
Mr Howard - C&E

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**BUDGET PACKAGES**

The meeting had before it Mr Moore's minute of 9 December.

2. The Chancellor said he had noted the reservations about this exercise expressed by the EST in his Private Secretary's minute of 13 December. The Chancellor had also seen the Chief Secretary's comment contained in his Private Secretary's minute of 10 December. The Chancellor underlined the general message of the Chief Secretary's note. But he pointed out that some Revenue decisions had been made in the Autumn Statement and in the past some public expenditure decisions had been included in the Budget. There was a presumption against including public expenditure in the Budget, but some modest changes were possible. The Minister of State (Civil Service) pointed out that although the figures



involved in the public expenditure measures in last year's budget had been very modest indeed, they had attracted much of the political attention and had been useful in debates in the House. The Chancellor agreed.

3. The Chancellor then focussed on the questions outlined in paragraph 14 of Mr Moore's minute. The Chancellor did not think it was necessary to stimulate further representations. Mr Jenkin had already written with his views, and Mr Heseltine, Lord Cockfield and Mr Lawson had been asked. Discussion with Mr Fowler was going on in the context of MISC 88 and he would have to write anyway on up rating. Employment measures were being discussed at a separate meeting.

4. On the question of treating tax expenditures as in Mr Moore's paragraph 12, the Chancellor thought this approach should be kept in reserve. He would not wish to deploy it at this stage. In general his disposition this year would be towards a shorter and simpler Finance Bill.

5. On Annex 1 of Mr Moore's minute on enterprise and small firms, Sir Douglas Lovelock said that Customs would be pressing on VAT registration and deregistration limits. It posed no legislative problems because of the change in modalities. Mr Middleton said that the most significant measure in the second paragraph was the extension of the business start-up scheme. If that went ahead the others would be less necessary. The Chancellor noted that VAT annual accounting had been rejected before. Sir Douglas Lovelock said that Customs would be arguing for it because of its manpower implications. The Economic Secretary said that the problem was that it would have a harmful effect on compliance at a time when this was deteriorating anyway. The Chancellor agreed not to rule this option out at the moment. On the Grylls forfait proposal, the Economic Secretary said that he thought it would be unpopular with small businessmen and that it would be wrong to raise Mr Grylls' expectations. The Chancellor said he would see how that ran. Mr Green said that the allowances of relief for schedule D case v. trading losses against other income was relatively unimportant. The revalorisation of the de minimis limit for assessment of a portioned income of an individual was a small goody. The Chancellor asked that Ministers in charge report on the proposals in that paragraph. On CTT business relief Mr Isaac said that the Inland Revenue would be minuting the FST shortly. His own preference would be to do something on CTT rates and bands rather than to give special reliefs. The Chancellor agreed that the Inland Revenue should pursue this with the Financial Secretary. The



Chancellor said he did not think that the £5,000 tax free starter put forward by the IOD was a runner. The FST was already looking at the burden of PAYE on small employers. The items suggested by Mr Jenkin in paragraph 7 had not yet been looked yet. The Minister of State (Revenue) said that he wondered whether it would be worth floating the idea of including disincorporation of companies in the Finance Bill. He understood that the Institute of Chartered Accountants were about to make a fuss on this. Mr Green explained that this would need a lot of pages in the Finance Bill. On this basis it was agreed it should not be pursued.

6. On wider share ownership the Chancellor noted Mr Jenkin's advocacy of "top hat" schemes. The Chancellor said that this had been reexamined but he had tended to shy away because it was provocative and likely to be repealed. But he thought it worth probing Mr Jenkin's argumentation. Mr Isaac pointed out that neither the CBI nor Mr Copeman had argued in favour. The Chancellor would be having a meeting on wider share ownership next week. On SAYE Mr Isaac said that modest increase would be consistent with present policies. The Chancellor was unenthusiastic about the measures in paragraph 4 and thought they could be put on one side.

7. On technology and innovation the Chancellor thought it would be useful if the Chief Secretary could exercise an oversight on measures involving expenditure. The first two measures were suggested by Mr Jenkin. The extension of the transitional relief for films had already been agreed. The Chancellor had already given a clear indication that SEFIS might be acceptable. The Minister of State (Civil Service) wondered if there might be some way of ensuring that more of the benefit from SEFIS went on home produced products.

8. On construction the Chancellor noted that mortgage interest relief and stamp duty would be discussed at his meeting of 16 December [to be rearranged]. Zero-rating was in baulk until the result of the appeal were known. The Chancellor asked the Chief Secretary to take a general look at the items in paragraph 3. It was agreed that there would have to be discussions with the Department of Environment.

9. On oil taxation the Chancellor said he would be grateful for the Minister of State (Revenue)'s advice.



10. On tourism and holiday packages the Chancellor asked the Economic Secretary to supervise.

11. On Agriculture it was noted that the FST was already pursuing matters, although there was a general lack of enthusiasm for any of the measures listed. The case on CTT was analogous to that for business relief.

12. On betting and breeding the Chancellor would wait for the outcome of his discussion with the representative bodies on 16 December before considering further.

13. The Chancellor noted that a whole variety of measures were involved in the caring and charities package. He asked the Chief Secretary to exercise a general oversight. The Economic Secretary said that he felt that the case on the widows bereavement allowance was becoming untenable. The present situation was very anomalous. The Chief Secretary endorsed this: it had been difficult to defend the position in the Finance Bill Committee. The Chancellor agreed that this was worth another look. The social security items were being looked at in the context of MISC 88. The debate on VAT and charities continued. The Chancellor was worried about the frontier with the Charity Commissioners. He would like the work the FST was doing with the Inland Revenue to link across to any work Customs were doing.

14. On "fairness in taxation" the Chancellor said that he thought that blocking input tax on petrol and derv should be ruled out now. He noted that the application of PAYE to earnings from offshore employment awaited the outcome of a House of Lords decision. The Minister of State (Revenue) was looking at group relief. The Inland Revenue would be submitting to the Financial Secretary on fringe benefits, but Mr Isaac did not think that this would be a major starter. On the other items the Chancellor awaited reports from the Minister in the lead.

Distribution

15. The meeting closed at 5.00 p.m.

*JJR*  
JILL RUTTER

Those Present  
PS/Financial Secretary  
Sir D Wass  
Mr Lovell  
Mr Monger  
Mr Monck  
Mr Pestell  
Mr Evans  
Mr Griffiths  
Mr G Smith  
PS/IR  
PS/C&E

# CONFIDENTIAL

NOTE B

## BU. ET PACKAGES: COSTS SUMMARY TABLE

	<u>1983-84</u>	<u>1984-85</u>	<u>£ million</u> <u>Full year</u>
Enterprise and Small Firms	49	77	118
of which public expenditure:	5	5	-
Wider Share Ownership	55-60	55-60	55-60
of which public expenditure:	-	-	-
Technology and Innovation	45	85	115 (85-
of which public expenditure:	45	75	75
Construction	77-102	108-133	105-140
of which public expenditure:	-	-	-
Oil Taxation	40-200	158-498	345 (85-
of which public expenditure	-	-	-
Tourism	3-4	3-4	-
of which public expenditure:	3-4	3-4	-
Agriculture	-	3	5-6
of which public expenditure:	-	-	-
Betting and Breeding	21-26	21-26	21-26
of which public expenditure	-	-	-
Caring and Charities	55-60	125-130	130-143
of which public expenditure:	54	117	122
Fairness in Taxation <u>yields</u>	5	58-78	73-98
of which public expenditure:	-	-	-
<b>TOTALS</b>	<b>340-540</b>	<b>577-938</b>	<b>830-855</b>
of which public expenditure	107-108	200-201	197

# CONFIDENTIAL

24 January 1983

CONFIDENTIAL





Minister in lead: FST unless otherwise stated  
Official in lead: Mr Bailey

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Business Start-Up Scheme (Business Expansion Scheme)	Extension of life of Scheme already agreed. Revenue submission (Mr Battishill) to FST on extension of coverage and possible other changes submitted on 17.1.83. <u>Cannot be costed at this stage</u> : later year costs could be significant. Meeting fixed for 24 or 25.1.83.	na	na	na
(b) Small Firms Investment Companies.	Chancellor's meeting on 12.1.83 agreed that this should now be dropped from the package.	-	-	-
(c) Joint venture vehicles for institutional investment.	Discussed in Revenue (Mr Prescott) submission of 4.1.83 and FP (Mr Moore) submission of 11.1.83. FST asked FP and IR to sound out institutions on possible constraints on their investment in small firms.	na	na	na
(d) Equity linked subsidised loans.  (Continued/..)	FST minuted Chancellor 30.12.82; discussed at Chancellor's meeting on 12.1.83, which agreed that work should continue but unlikely runner. FST meeting 20.1.83. See next item	-	-	-



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(e) Debt-equity conversion.	Bank paper forwarded to FST (Mr Moore's minute of 11.1.83); Chancellor's meeting 12.1.83 considered unlikely runner, but agreed that work should continue. FST meeting 20.1.83. FST minuted Chancellor 24.1.83 recommending this and item (d) be dropped.	-	-	-
(f) Zero and deep-discounted stock	Consultative document issued 12.1.83. Not costed since no definite proposal yet identified. Paper also covers shelf issues, and comments requested by 11.2.83.	na	na	na
(g) Disincorporation. MST(R)	Examined in Revenue submission (Mr Battishill) of 20.12.82 to MST(R); Chancellor's meeting of 12.1.83 agreed that not a runner for 1983 Budget.	-	-	-
(Continued/...)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(h) Simplification of PAYE and NIC payment rates: Schedule E/D frontiers.	Discussed at FST meeting 17.1.83. Revenue (Mr Isaac) to report on means of making it easier for employers to operate net of tax system. No costs involved. Revenue also to report on Schedule E issues.	-	-	-
(i) Capital Transfer Tax	Various Revenue (Mr Beighton) submissions on rates reductions and further business/agricultural reliefs discussed at FST's meeting on 13.1.83; FST minuted Chancellor 18.1.83.	27	45	85
(j) Loan Guarantee Scheme CST	Discussed at Health of Industry meeting on 11.1.83. DOI letter with detailed proposals awaited.	(pe) 5	(pe) 5	-
(k) Kreditanstalt etc.  (Continued/..)	Chancellor's meeting 12.1.83 agreed that this this should be dropped from the package.	-	-	-



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(1) Enterprise agencies: widening of qualifying conditions for relief.	Discussed at Chancellor's meeting on 12.1.83, where presumption against Revenue (Mr Battishill) do not, therefore, intend to make a submission and no cost figures are included.	-	-	-
(m) VAT registration/ de-registration thresholds. EST	Customs submission 24.12.82: Ministerial decision reached.	5	10	10
(n) Corporation tax: small companies profits limits and rates. MST(R)	Revenue submission (Mr Green) pending. 1% point reduction in small companies' rate would cost £10 million in 1983-84 and £15 million in full year. Cost of revalorisation of profits limits shown opposite.	10	15	16
(Continued/..)				





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(o) Schedule D Case 5 trading losses (starter number 161)	Revenue submission (Mr Taylor Thompson) of 22.12.82 to FST; Chancellor's meeting 12.1.83 agreed that should remain on the table.	under 1	under 1	under 1
(p) De minimus limit for assessment of apportioned income (starter number 152) MST(R)	Revenue submission (Mr Prescott) to MST(R) 18.1.83	under 1	under 1	under 1
(q) Relief for interest-employee buy-outs (starter number 189)	Revenue submission (Mr Crawley) to FST pending. Wider repercussions could increase cost.	under 1	2	5
(r) Close companies: ACT limit on loans (starter number 181) MST(R)	Revenue submission (Mr Battishill) of 7.12.83 to MST(R); Chancellor's meeting on 12.1.83 agreed that this should be examined alongside mortgage interest relief ceiling.	under 1	under 1	under 1
(Continued/...)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(s) Enterprise Bonds	FP (Mr Reed) submission to FST 17.1.83 : recommending against. Cost not quantifiable.	-	-	-
(t) CGT: monetary limits package.	Revenue submission (Mr Bryce) to FST 13.1.83. FST (17.1.83) commended package to Chancellor.	under 1	under 1	under 1
	TOTALS	49	57	118
(u) VAT annual accounting (starters number 5) EST	Remains on starters list and Customs (Mr Fraser) submission 20.1.82 to EST. But in view of substantial 1983-84 cost (up to £190 million) and Ministers' lukewarm reaction at 15.12.82 meeting, not costed into package.	-	-	-



BUDGET PACKAGES  
SUMMARY NOTE**CONFIDENTIAL**

PACKAGE: WIDER SHARE OWNERSHIP

DATE : 24 January 1983

Minister in lead: FST

Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
a) Reintroduce "top hat" reliefs scheme	Chancellor's meeting (12.1.83) rejected Mr Jenkin's proposal (his letter of 6.12.82)	-	-	-
b) Minor changes to existing schemes	Mr Jenkin's letter (6.12.82). Revenue (Mr Martin) submission 21.1.83. Potential cost up to £100m, not included at this stage.			
c) Major options for change:				
i) Increase annual upper limit for profit sharing schemes from £1250.	Chancellor's meeting (12.1.83) discussed. Revenue (Mr Martin) submission 21.1.83. Parallel submission on (ii) from HF division (Mr Monck) to EST 24.1.83	25	25	25
ii) Increase monthly limit savings-related share option schemes		-	-	-
iii) Extend instalment period under share option schemes		10-15	10-15	10-15

**CONFIDENTIAL**



CONFIDENTIAL

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
d) Options tax shares scheme	Bank of England paper (10.1.83) discussed briefly at Chancellor's meeting (12.1.83). Revenue (Mr Martin) submission 21.1.83. Costs imponderable; likely maximum shown opposite.  Rejected at Chancellor's meeting (12.1.83)	20	20	20
e) Relief from stamp duty for "small parcel" share transactions		-	-	-
f) Employee bonds		-	-	-
g) "Loi Monary" relief		-	-	-
	TOTAL	55-60	55-60	55-60

CONFIDENTIAL





BUDGET PACKAGES  
SUMMARY NOTE

**CONFIDENTIAL**

PACKAGE: TECHNOLOGY AND INNOVATION

DATE : 24 January 1983

Minister in lead: CST unless otherwise stated  
Official in lead: Mr Bailey

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Extension of transitional period for capital allowances on British films.  FST	Financial Secretary agreed extension 12.1.83 following Revenue (Mr Battishill) submission 3.12.81: may be announced in week ending 21.1.83.	nil	10	- (10 in 1985-86, 35 over 1984-87 period)
(b) Extension of transitional period for capital allowances for rented teletext/viewdata televisions.  FST	Financial Secretary agreed extension 7.1.83 following Revenue (Mr Battishill) submission of 23.12.82.	nil	nil	- (30 in 1985-86, 65 over 1985-88 period)
(continued/..)				

**CONFIDENTIAL**



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(c) Small Engineering Firms Investment Scheme.	) Mr Jenkin's proposals contained in his letter of 12.1.83: involve expenditure of £33 million in 1983-84 and £60 million in 1984-85 and 1985-86.	(pe) 45	(pe) 75	(pe) 75 (1985-86)
(d) "Alvey" - support for research in advanced IT.				
(e) "Support for Innovation" programme.				
(f) Other expenditure items.	The letter also contained proposals for 9 other items, involving expenditure of £34 million in 1983-84, £68 million in 1984-85 and £85 million in 1985-86. This gives total DOI bids of £67 million, £128 million and £145 million respectively. A submission on Mr Jenkin's letter is in preparation in IA (Mr Lovell) who suggest bids be costed at 45,75, 75..			
	TOTALS	45	85	115 (1985-86)



BUDGET PACKAGES  
SUMMARY NOTE

**CONFIDENTIAL**

PACKAGE: CONSTRUCTION  
DATE : 24 January 1983

Minister in lead: CST  
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Mortgage Interest Relief ceiling (starter no 105) FST	Revenue (Mr Stewart) submission 3.12.82 to FST Chancellor's meeting 24.1.83 to discuss. Cost figures assume <u>increase to £35,000</u>	75-100	100-125	75-100
(b) Stamp duty threshold MST(R)	Consultative document to be issued this month. Chancellor to have a meeting to discuss. Minister in lead - MST(R). Official in lead - Mr O'Leary (IR). Usually regarded as an alternative to (a) - costs not therefore included in total cost of package. Increase in threshold of £5,000 would cost £60m in 1983-84 and £70m in 1984-85 and a full year.			
(c) DLT - own use deferment (starter no 178) MST(R)	Revenue (Mr Beighton) submission 13.1.83 to MST(R) recommends extension of existing deferment provision.	-	less than 1	5

**CONFIDENTIAL**



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(d) Home Improvement - repair grants or enveloping.	Mr Heseltine's letter of 6.1.83. CST has recently turned down proposals to extend both (letter of 10.1.83 to Secretary of State for Wales).	-	-	-
(e) Extend capital allowances for assured tenancies to shared ownership.	Mr Heseltine's letter of 6.1.83. FST minuted Chancellor (19.1.83) advising against action.	less than 1	1	5





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(f) Minor items in Mr Heseltine's 6.1.83 letter including:				
(ii) capital allowances for refurbishment of industrial and commercial buildings.	) Revenue submission pending )	less than 1	na	na
(ii) increase proportion of office space qualifying for Industrial Building Allowance.		less than 1	na	15-25
(Continued/..)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(iii) Allow private landlords to offset repair costs against <u>all</u> income	<p>Revenue submission pending.</p> <p>Note: FP (Mr Robson) to prepare submission on package as a whole for CST.</p> <p>Note: Possible increases in local authority expenditure, which would reduce shortfall but not add to public expenditure, are not costed into package.</p>	less than 1	2	5
	TOTALS	77-102	108-133	105-140



BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: OIL TAXATION

DATE : 19 January 1983

Minister in lead: MST(R)

Official in lead: Mr Middleton

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
A) North Sea Regime, phasing out APRT etc. (Starter no. 109)	Chancellor agreed package (meeting 5/1/83). Secretary of State for Energy pressing for more. Revenue (Mr Crawley) submission of 18/1/83 on APRT: further submission to MST(R) shortly.	40-200*	160-500*	345 (1985-86) 310 (1986-87)
B) PRT expenditure reliefs and receipts (Starter no. 115)	Consultative document issued (May 1982). Revenue (Mr Crawley) submission 17/12/82. Costs very dependent on options; could be <u>yields</u> of £15m in 83-84, £70m in 84-85 and £100m in later years. Costs not included in package total.	-	-	-
C) PRT: recovery of over-allowed expenditure reliefs (Starter no. 164)	MST(R) agreed (meeting 15.12.82) subject to review of priorities for FB.	less than 1 <u>yield</u>	2 <u>yield</u>	2 <u>yield</u>

Note - higher figures reflect cost of proposals of Secretary of State for Energy. Full year consequentials of these are not quantified. PAGE NUMBER 1



BUDGET PACKAGES  
SUMMARY NOTE**CONFIDENTIAL**PACKAGE: OIL TAXATION  
DATE : 19 January 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
D) PRT: relief for direct exports from tanker-loading fields (Starter no. 163).	MST(R) agreed (mtng. 15/12/82), subject to Finance Bill space. Nil cost	-	-	-
E) PRT: oil allowance: option to take against oil only (Starter no. 162).	MST(R) agreed (mtng. 15/12/82), subject to review of priorities for FB space. Nil cost.	-	-	-
F) PRT: exempt gas & payback (Starter no. 166)	Inland Revenue awaiting details from a company of possible injustice. Submission from Mr Crawley next month. No costings possible until details received.	na	na	na
G) PRT: relief for transfer of gas between fields in same ownership (Starter no. 167).	MST(R) agreed (meeting 15.12.82) subject to review of priorities.	1	less than 1	less than 1

**CONFIDENTIAL**





BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: OIL TAXATION  
DATE : 19 January 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
H) Recovery of corporation tax unpaid by non-residents from licensees (Starter no. 184).	MST(R) agreed (minute of 6/1/83) subject to review of priorities for FB space.	less than 1 <u>yield</u>	less than 1 <u>yield</u>	less than 1 <u>yield</u>
I) Oil valuations to reflect normal credit terms (Starter no. 187).	MST(R) has advised Chancellor (22/12/82) that legislation needed to counter risk of loss of £200m of revenue. Nil cost.	-	-	-
J) Relief for gas sales direct to industrial consumers (Starter no. 192).	MST(R) doubtful (note 30.11.82) if proposal merits space in Finance Bill but will review. Nil cost.	-	-	-
	TOTAL	40-200	158-498	345 (85-86) 310 (86-87)

CONFIDENTIAL



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) VAT reliefs	<p>FP (Mr Robson) submission of 13.1.83 to EST examined the case for a tourism package and the measures it might include. These are:-</p> <p>In view of the very high costs and the strong presumption against such action, this item has not been costed into the package.</p>	-	-	-
(b) Rating reliefs	<p>Because of the difficulties involved with his proposal, it has not been costed into the package.</p>	-	-	-
(c) Capital allowances	<p>There are two main proposals:-</p> <p>(i) an increase in the existing 20% initial allowance to, say, 50%;</p> <p>(ii) extension of allowances to smaller hotels and self-catering accommodation.</p>	nil	nil	(around 10 after 4 years)
(continued/..)		nil	nil	(around 5 after 4 years)



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(d) Increased grants under Sector 4 of Development of Tourism Act.	The EST minuted the Chancellor on 19.1.83 recommending against all of these measures.	(pe) 3-4	(pe) 3-4	-
	TOTALS	(pe) 3-4	(pe) 3-4	-



BUDGET PACKAGES  
SUMMARY NOTE

**CONFIDENTIAL**

PACKAGE: AGRICULTURE  
DATE : 24 January 1983

Minister in lead: FST  
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) CTT agricultural relief for let land.	)Both recommended in FST's minute to Chancellor of 18.1.83. They are also part of the CTT item (i) in the Small Firms and Enterprise package, and therefore <u>not</u> costed here.	-	-	-
(b) CTT payment by instalments		-	-	-
(c) CGT rollover relief for let agricultural land.	Revenue (Mr Byrce) submission to FST pending on latest round of correspondence with outside advocates. Potential repercussions could increase costs.	nil	3	5-6
(d) Rental income to be treated as earned income.	This was included in the packages note of 9.12.82. But in view of the fact that it has been examined and rejected on many previous occasions, Revenue suggest it should be deleted without a submission. Proposals in MAFF letter of 21.1.83 to FST <u>not</u> included in package as yet.	-	-	-
	TOTALS	-	3	5-6

**CONFIDENTIAL**





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) VAT on bloodstock	EST's preliminary view is that package should have low priority (minutes of 2.12.82 and 9.12.82), but three items are being examined. EST to minute Chancellor on package in due course  Customs (Mr Knox) submission of 7.12.82 explained difficulties; Chancellor commented (9.12.82) that objections seemed pretty decisive.	6	6	6
(b) General betting duty	Customs submission (Mr Knox) of 11.1.83 analysed implications of 2% reduction in duty (cost £65-75 million a year) and recommended against. EST minute to Chancellor (18.1.83) agreed and suggested that any concession should be on "tax on tax" point. Latter therefore costed in package.	15-20	15.20	15.20
(c) GAMING: redistribution of taxes towards larger casinos.	Customs submission pending.	na	na	na
TOTALS		21-26	21-26	21-26



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Extension of Widows' Bereavement Allowance for further year.	FST recommended (11.1.83) following Revenue (Mr Isaac) submission of 23.12.82. Chancellor (12.1.83) said that decision should be taken in context of this package, so decision pending	20-25	25+30	25-30
(b) Restoration of 5% abatement of invalidity benefit.	} Neither currently included in package emerging from MISC 88. But discussions on small changes continuing: (c) a possibility but (b) unlikely.	(pe) 20	(pe 56)	60 (1985-86)
(c) Removal of invalidity benefit "trap".		(pe) 7	pe 16	17 (1985-86)
(continued/...)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(d) Development of voluntary etc care services for elderly.	} Proposals in Mr Fowler's paper, for discussion at Family Policy Group (no date fixed) , on care of the elderly.	(pe) 8	(pe) 8	(pe) 8 (1985-86, 25 over 3 years)
(e) Extension of Invalid Care Allowance.		(pe) 4	(pe) 12	(pe) 12 (1985-86)
(f) Abolition of Dependent Relatives Allowance.		20 <u>saving</u>	20 <u>saving</u>	20 <u>saving</u>
(g) Abolition of £250,000 ceiling for CTT exemption on gifts to charities.	Revenue submission (Mr Beighton) pending, following FST and CST (minutes of 20.12.82 and 21.12.82) agreement that should be considered.	under 1	under 1	under 1
(h) Deeds of covenant: increase in ceiling for higher rate relief.	A Revenue suggestion, but no submission to date. Costs are for increase from £3,000 to £3,500.	nil	1-2	1-2
(Continued/...)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(i) VAT relief for charities.	Customs submission (Mr Knox) of 4.1.83 discussed at Chancellor's meeting on 11.1.83; agreed that there should be no extension of relief.	-	-	-
(j) Other fiscal measures:	To be covered in planned ST (Mr Monger) submission on package, although all have been rejected in the past. Items (iii) and (iv) advocated in Mr Heseltine's letter of 6.1.83. Not costed at this stage. Mr Heseltine's proposal that charitable status be extended to sport and recreational bodies <u>not</u> included.	-	-	-
(i) relief for payroll giving;				
(ii) relief for individual donations;				
(iii) relief for company donations;				
(iv) relief for seconded staff;				
(v) covenanted payments gross.				
(Continued/...)				





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(k) Other public expenditure measures:	) ) ) To be covered in planned ST (Mr Monger) ) submission on package. ) ) ) Note: Additional provision has been added ) as a contingency margin against expected ) bids by Mr Fowler for minor benefit changes.	(pe) 5	(pe) 5	(pe) 5 (1985-86)
(i) investment grants to voluntary sector;		(pe) 5	(pe) 5	(pe) 5 (1985-86)
(ii) central grant to National Association of Councils of Voluntary Service.		(pe) 5	(pe) 15	(pe) 15 (1985-86)
	TOTALS	55-60	125-130	130-143
	of which public expenditure	54	117	122



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Fringe benefits: scholarships (starter no 197)	Chancellor decided (meeting 22.12.82) to legislate. Revenue (Mr Blythe) submission on 13.1.83. Potential revenue loss of £100m without legislation: small <u>yield</u> if legislated for.	under 1 <u>yield</u>	under 1 <u>yield</u>	under 1 <u>yield</u>
(b) Fringe benefits: other (starter nos 133 and 134)	Budget Statement will contain announcement about uprated car and car fuel benefit scales for 1984-85. Minister in lead - FST. Revenue (Mr Blythe) submission shortly. Costs depend on options for change and are not yet quantifiable.	na	na	na
(c) CGT: capital loss buying and groups of companies. (starter no 142)  (continued/..)	Revenue (Mr Beighton) submission pending. Minister in lead - FST. Current annual revenue loss of £30m, but <u>yield</u> from measure depends on indexation and is not quantifiable.	na	na	na



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(d) Group relief: avoidance (BL) (Starters no 119)	Revenue (Mr Battishill) submission shortly. Minister in lead - MST(R). Identified current revenue loss of £30m: yield in first year not quantifiable.	na	30 <u>yield</u>	30 <u>yield</u>
(e) Life assurance: chargeable events: secondhand bonds (starters no 110)	Announcement of intention to legislate given on 24.6.82. Drafting of legislation nearly complete. Minister in lead - FST; official in lead - Mr O'Leary (IR).	under 1 <u>yield</u>	under 1 <u>yield</u>	under 1 <u>yield</u>
(f) DLT: disposals by non-residents (starters no 149)	Revenue (Mr Beighton) submission on 5.11.82. Discussions being held with Law Society and RICS.	2 <u>yield</u>	2 <u>yield</u>	2 <u>yield</u>
(Continued/..)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(g) Stock relief: payments on account (Starters no 154)	Revenue (Mr Battishill) submission 2.12.82. MST(R) authorised drafting of legislation (19.1.83); item to be reviewed in light of other measures affecting construction industry.	under 1 <u>yield</u>	10-15 <u>yield</u>	15 <u>yield</u>
(h) Stock relief: deny to commodity/bullion dealers (Starters no 153)	Revenue (Mr Battishill) submission shortly. Minister in lead - MST(R)	under 1 <u>yield</u>	15-30 <u>yield</u>	20-40 <u>yield</u>
(i) Interest charges on late payments of directors PAYE.	Revenue (Mr Blythe) submission shortly. Minister in lead - FST.	under 1 <u>yield</u>	under 1 <u>yield</u>	5-10 <u>yield</u>
(j) Application of PAYE to earnings from offshore employment.  (Continued/..)	Case won in courts. No legislation needed.	-	-	-





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(k) VAT: blocking input tax on petrol and derv.	Rejected at Chancellor's meeting (15.12.82)	-	-	£
(l) Taxation of international Business (Starter 157)	Draft legislation published December 1982; comments sought by mid-February. Minister in lead - MST(R); official in lead - Mr Taylor Thompson (IR). Current tax loss through avoidance estimated at around £100m; yields on an April 1983 start date would be less than £1m for 1983-84 and £100m in a full year.			
	<u>TOTAL YIELDS</u>	5 yield	58-78 yield	73-98 yield



24 January 1983

## OTHER FISCAL RISKS

£ million

		<u>1983-84</u>		<u>1984-85</u>
<b>Possible Public Expenditure</b>				
<b>Unemployment.</b> Two candidates may be proposed:-				
i. Extension and modification of TSTWCS	115		100	
ii. Continuation of Enterprise Allowance Pilot Scheme	<u>2</u>	117	<u>3</u>	103
<b>Coal Prices.</b> There are preliminary discussions with Department of Energy on an idea that coal prices might be reduced to world level. The idea is unlikely to get very far before the Budget				
		250		500
<b>Petrochemicals.</b> A review of current problems may lead to proposals to give assistance either by way of PRT modification or by public expenditure means				
		<u>100</u>		<u>100</u>
		<u>467</u>		<u>703</u>
<b>Possible Tax</b>				
<b>Industrial Rates.</b> In theory ruled out, but a continuing candidate in many quarters. There would be practical problems, including a need for legislation. A notional 10 per cent reduction would cost				
		140		140
<b>Car Tax.</b> Suggestions have been made that this tax (currently 10 per cent) should be reduced or abolished. A 2½ per cent reduction would cost.				
		<u>120</u>		<u>160</u>
		<u>260</u>		<u>300</u>
<b>TOTAL</b>		<u><u>727</u></u>		<u><u>1003</u></u>

Scored at NIL as either not likely to proceed or charged to the Reserve.

Other risks

(i) There are continuing calls for abolition of the Investment Income Surcharge (most recently from Lord Cockfield and the Institute of Directors), and there are pressures for an easing in stamp duty or its abolition.

(ii) The forecast allows for a \$2 fall in oil prices early this year. Beyond this each \$1 fall estimated to reduce revenue by £200-250 million in 1983-84. Figures depend however on v uncertain assumptions about, for example, any change in the exchange rate resulting from the in oil prices. A change of 3% in the dollar/\$ exchange rate might have about the same effect revenues as a \$1 change in oil prices.





INLAND REVENUE  
CENTRAL DIVISION  
SOMERSET HOUSE

24 JAN 1983

From: A W Kuczys  
24 January 1983

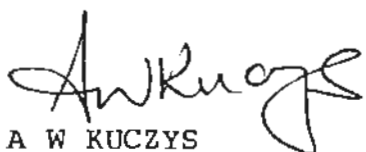
PS/CHANCELLOR

BUDGET PACKAGES:

MR JENKIN'S AND MR HESELTINE'S PROPOSALS

1. We understand, through Mr Moore, that the Chancellor has asked for a note on those items in the Secretary of State for Industry's Budget representations which could form part of an Enterprise and Small Firms package, and on which we have not put a submission to Ministers. The items concerned were listed in paragraph 7 of Annex 1 to Mr Moore's minute of 9 December on Budget Packages. Mr Reed put a submission to the Financial Secretary on 17 January on Enterprise Bonds: notes on the other four items are attached.

2. There were also some of Mr Heseltine's proposals, which might be appropriate to a Construction Package, on which the Chancellor might similarly find it helpful to have brief notes: these are also attached.

  
A W KUCZYS

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State (R)  
Sir Douglas Wass  
Mr Middleton  
Mr Moore  
Mr Robson  
Mr Martin  
PS/IR

Mr Green  
Mr Isaac  
Mr Battishill  
Mr Beighton  
Mr Crawley  
Mr Painter  
Mr Stewart  
Mr Bryce  
Mr Corlett  
Mr Lusk  
Mr Prescott



(D) CGT ROLLOVER RELIEF

Proposal

To introduce a rollover relief for capital gains tax purposes for acquisition and disposals of unquoted shares in trading companies.

Comments

- i. Indexation of capital gains tax and substantial increase in the threshold now (£5,000) reduces need for special reliefs.
- ii. The cost of the proposal could be substantial. About half the total yield of the tax (estimate £m850 for 1982/83) comes from share disposals, of which about one quarter are unquoted. Maximum cost would be £m100, although unlikely that all transactions would qualify.
- iii. Serious risk that the relief would be used simply as a shelter from the tax without leading to the expansion and re-equipping of firms, which is the primary purpose of the existing reliefs for replacing business assets.
- iv. Many other areas where reinvestment is not covered by rollover relief, special tax reliefs must be directed to point of maximum impact.

Recommendation

Government not persuaded that the benefits which might result from this proposal are commensurate with the tax likely to be at stake.

Official responsible: Mr Bryce

(E) LOSS RELIEF CARRY BACK FOR NEW COMPANIES

1. Where an individual makes a tax loss in the first 4 years of an unincorporated business, he may obtain relief for such a loss by carrying it back against income (eg from employment) in the previous 3 years (Section 30 Finance Act 1978). This





relief is an alternative to carrying the loss forward against future profits from the trade, or setting it against other income of the year of loss or the next year.

2. Mr Jenkin suggests that this relief should be available to participants - presumably shareholders - in a newly-trading company.

3. We see little merit in this, and would recommend that it is not pursued.

4. The main objections are:-

a. The company is a legal entity distinct from its shareholders. It is therefore taxed in its own right, while the shareholder or director is taxed only on his income from the company. So the position is not the same as in the unincorporated business, where the proprietor's income is the profits.

b. As the company is taxed separately, a tax loss is an unrelieved expense of the company's trade - it has no connection with the income of the proprietor, and should not affect the taxation of that income.

c. A single company with a trading loss may carry that loss forward against future profits from that trade. But more immediate relief is available; the company can set the loss against other profits (income and chargeable gains) of that period, and the preceding one.

d. The new business may well have only 1 or 2 shareholders. If so, they will almost certainly be the directors of the company. Directors' remuneration (unless wholly unrealistic) is an allowable deduction in calculating the company's profit or loss. If the shareholder-directors were allowed relief for the company's losses, the company would pay no corporation tax, and they would be relieved from income tax on some of the remuneration which had gone to create that loss.

#### Example

Trading profits before director's remuneration	£10,000
director's remuneration (sole proprietor)	20,000
	<hr/>
tax loss	£10,000

Company pays nil CT.

Director has actually received £20,000, but obtains relief for company's "loss" and pays tax on only £10,000.

Official responsible: Mr Battersby



A. INCREASE THE PROPORTION OF OFFICE SPACE THAT CAN BE INCLUDED IN AN INDUSTRIAL BUILDING WITHOUT RESTRICTION OF INDUSTRIAL BUILDING ALLOWANCE

1. Proposal Increase the office-use disregard from 10 per cent of the building to 25 per cent.
  
2. Present position An industrial building qualifies for industrial building allowances (initial allowance 75 per cent, annual allowances 4 per cent). Where the non-industrial space in an industrial building (eg space used for offices or shops) does not exceed 10 per cent of the total, capital allowances are given, on a de minimis basis, on the full cost of the building, including the non-qualifying part. If the non-qualifying space exceeds 10 per cent, the expenditure is apportioned and allowances given on the qualifying part. The purpose of the 10 per cent disregard is not to give relief for non-qualifying expenditure, but to avoid the complications involved in apportionment where the amounts of non-qualifying expenditure are small.
  
3. Recommendation Important to bear in mind that where office space exceeds 10 per cent, no question of allowance being lost; all industrial-use parts still qualify. Raising the 10 per cent limit would mean that the disregard could hardly be described as de minimis, especially if raised to 25 per cent. It would have to be viewed as extending the relief to non-qualifying expenditure. Would increase the anomaly between the case which fell just below the limit (24 per cent) where allowances on 100 per cent of cost were allowed, and the case which fell just the wrong side (26 per cent) where only 74 per cent of cost was allowed. And with the case where 2 buildings were constructed - one to house the qualifying activity and one to house the non-qualifying part.
  
4. Cost DOE estimate £50m. This may be too high, given tax exhaustion.

Official responsible: Mr Corlett



B. CAPITAL ALLOWANCES FOR THE REFURBISHMENT OF  
COMMERCIAL AND INDUSTRIAL BUILDINGS

1. Proposal The introduction of a system of capital allowances for the major refurbishment of both industrial and commercial buildings.
  
2. Present position Capital allowances (the industrial building allowance) are already available for the cost of refurbishing any building for use as an industrial building. No allowances are available for refurbishing a building for use as a commercial building.
  
3. Recommendation No justification for giving allowance for refurbishment of building for commercial use, so long as no allowance for the cost of constructing or purchasing such a building. Needs to be considered in context of commercial buildings allowance generally - a Green Paper issue.
  
4. Cost DOE estimate £500m. Probably too high in view of current level of tax exhaustion. £250m more realistic.

Official responsible: Mr Corlett



## TAX RELIEF FOR LANDLORDS

1. A landlord's expenditure on maintenance and repairs etc in any year may be offset for tax against his income from letting in that year. Any unabsorbed expenditure can be carried forward for set-off against letting income in subsequent years. Where the landlord has more than one property then, subject to certain conditions, there is a pooling arrangement whereby effectively unused expenditure on one property can be offset against income from another. Tax relief is not lost therefore but in certain circumstances may be delayed to a later year.

2. But the landlord cannot set unrelieved expenditure against other sources of income (eg dividends) he may have - the proposal now being advanced. This prohibition follows the well established principle that the tax system does not as a general rule allow deductions against income for expenditure other than that incurred for the purpose of obtaining that income. The only exception is for losses of a trade but it is inherent in the nature of the trading activity that a loss may be suffered. The trader's total funds are at risk and if losses continue and the business fails he may lose all.

3. The landlord is not in the same position. His asset, the property, remains and indeed his expenditure on preserving it may well enhance its value; and he can realise his money by selling the property. The property represents an investment in bricks and mortar, rather than say in stocks and shares and year on year the landlord is likely to make a profit on letting it. The fact that one year the investment shows a negative return due to a heavy repair bill is not a sufficient reason to introduce a special tax relief.

4. The present rules ensure that expenses are fully relieved. Any relaxation of these rules for landlords would further complicate the law and lead inevitably to other demands for parity of treatment. Although we have nothing to go on we suspect that those most likely to benefit would be large landlords with high marginal rates of tax and property owning companies. We recommend that this proposal is not pursued.





## R JENKIN'S PROPOSALS

### (B) INTEREST RELIEF

This comes in the "lower priority" group in Mr Jenkin's list of "minor" enterprise items. He acknowledges that there have been useful relaxations already in the rules for tax relief for interest paid on loans to buy shares in close companies. Following the 1982 legislation, relief is available if the borrower has at least 5% holding in the company or work works fairly full-time in the management of the company. Mr Jenkin's main proposals are to extend relief to investment in unquoted companies (whether close or not), and to all full-time employees (not only managers). There have been other representations about this relief - in particular from the Nation Freight Consortium about "employee buy-outs" - and a submission will be coming forward next week.

Official responsible: Mr Stewart

### (C) BUSINESS FORMATION AND OTHER LEGAL COSTS

1. The present tax rules permit a deduction for revenue expenditure incurred wholly and exclusively for the purposes of the trade. Expenditure of a capital nature ie on account of the fixed capital of the business is not allowable. There is also a specific provision, introduced in 1980 which provides relief for revenue expenditure incurred before the trade starts. The pre-trading period within which such expenditure qualifies for a deduction was increased in 1982 from one year to three years. Revenue expenditure is now pretty well looked after therefore.
2. This proposal is to allow relief for business formation etc costs eg the setting up of a company. But these costs are clearly of a capital nature and do not arise from the trading activity. Relief would override the important revenue/capital distinction which is long established and well understood. If the principle is yielded there is no obvious stopping place from extending relief to other kinds of capital costs.
3. The absence of tax relief for these once-and-for-all costs can scarcely be a major problem in practice. Mr Jenkin acknowledges it is a minor item.
4. The Government has met the main case for allowing pre-trading expenditure and we recommend against going any further.

Official responsible: Mr Lusk



CONFIDENTIAL

FROM SIR DOUGLAS WASS  
DATE 24 JANUARY 1983

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir Anthony Rawlinson  
Mr Burns  
Mr Littler  
Mr Middleton  
Mr Bailey  
Mr Cassell  
Mr Moore  
Mr Hall  
Mr Ridley  
Sir Lawrence Airey IR  
Sir Douglas Lovelock C & E  
Mr Kerr

**BUDGET PACKAGES**

You are holding your first Budget overview meeting tomorrow morning. Peter Kemp's minute of 21 January sets the scene for this. It will not be an occasion for a detailed discussion of the packages, but it would be useful this time for you to say how the packages are to be managed and to review how they fit into the overall Budget arithmetic. Further versions of the material on the packages will be circulated before each overview meeting, intended primarily as background. Note A below summarises the arithmetic. Note B attached sets out the packages in some detail. Note C lists some fiscal risks, updating a report you saw before Chevening. I understand that B and C between them cover all the Ministerial "representations" so far received, except agriculture and heritage.

Handling of the packages

2. The name of the Minister responsible is marked against each of the items in Note B and I have asked one official to take over a co-ordinating responsibility for each package. The lists in Note A include for the record all of the items which were on the table for your meeting on December 8. Some of these have since been ruled out, and they can be dropped from the next version. The intention similarly is that proposals ruled out this week will be recorded as such next week and then dropped from the list for the following week.



3. The list also sets out so far as possible dates when submissions may be expected. You are invited to note these. You may yourself want to hold meetings to look at individual packages in the round as they reach a suitable stage.

4. Whilst, as I say, your overview meetings are not the place for detailed discussion of the packages, you may feel able now to rule out a few items which have virtually been dismissed already and it would be helpful if you could do so. They are:

- in the small firms and enterprise package, equity linked subsidised loans, debt-equity conversion and VAT annual accounting (items (d), (e) and (u));
- in betting and breeding, VAT on bloodstock and probably general betting duty (items (a) and (b)).

You will also note that three areas are ready for decision:

- Capital Transfer Tax;
- the tourism package;
- share options proposals (subject to the Financial Secretary's views on the paper by the Revenue dated 21 January).

#### Packages, risks and the Budget arithmetic

5. Note A summarises the arithmetic. You will see that at the lower end of the ranges the costs could be accommodated within the arbitrary £300 million in 1983-84 and £450 million in 1984-85 provided in the overview. However the ranges are wide and there are major uncertainties. All of the risks in Note C are substantial. For the packages (Note B) the main uncertainties relate to:

- the Business Expansion Scheme (the first item in Note B) where the costs are unpredictable but could be high (note that the summary tables make no allowance for this);
- mortgage interest relief (the summary allows for an increase to £35,000);
- oil taxation, with a wide range of possible costs, and dependent too on a decision about the rate of Corporation Tax (and the need to bear in mind any changes in North Sea oil prices);
- caring and charities, where we have to make sure that the Family Policy Group does not become an obstacle to progress towards decisions. I imagine that in view of the political importance of this item you will want to tell the Prime Minister what you are minded to do before you take a final decision.

All are potentially expensive and early decisions on any of them would be particularly useful in reducing uncertainty and allowing faster progress in other parts of the Budget.



6. Note C refers briefly to the investment income surcharge and stamp duty. Neither is covered in the packages or in the main papers commissioned. Would you like papers on either or both?

Conclusion

I invite you:

- (i) to note the allocations of responsibilities and dates set out in Note B (paragraphs 2 and 3 above);
- (ii) to note the proposed procedure for handling items which Ministers decide against pursuing (paragraph 2);
- (iii) to consider ruling out now the items listed in paragraph 4 above;
- (iv) to note the role played in the package arithmetic by the four major items mentioned in paragraph 5, and to consider how they are to be taken forward;
- (v) to consider whether further work is needed on possible changes to the investment income surcharge and stamp duty (paragraph 6).



DOUGLAS WASS





CONFIDENTIAL

DATE: 24 January 1983

£million revenue costs

## BUDGET 1983 - PACKAGES ETC - SUMMARY

	<u>1983-84</u>		<u>1984-85</u>	
	<u>Total</u>	<u>P/Ex element</u>	<u>Total</u>	<u>P/Ex element</u>
Packages (Note B below)	340-540	107-108	577-938	200-201
"Risks" (Note C below)	0-727	0-467	0-1003	0-703
Child Benefit - RW + 8% or 5%, both <u>less</u> 2% (In main overview).	70-100	70-100	200-300	200-300
	<u>410-1367</u>	<u>177-675</u>	<u>777-2241</u>	<u>400-1204</u>

If the Public Expenditure element is all charged to the Reserve, the potential cost to the Budget becomes :-

	<u>1983-84</u>	<u>1984-85</u>
Total as above	410-1367	777-2241
Less Public Expenditure	<u>177- 675</u>	<u>400-1204</u>
	<u>233- 692</u>	<u>377-1037</u>
Provided in overview	<u>300</u>	<u>450</u>

Notes:

1. Numbers are uncertain at present, and the final figures will not necessarily fall within the ranges shown.
2. These are revenue costs. PSBR costs are likely to be a little lower. Against that any public expenditure measures, even if charged to the Reserve, could nevertheless increase the forecast PSBR by necessitating a review of the shortfall estimate. The extent to which, on balance, the PSBR costs of these measures might differ from the revenue costs cannot be assessed at this stage.



BUDGET PACKAGES: COSTS SUMMARY TABLE

	<u>1983-84</u>	<u>1984-85</u>	£ million <u>Full year</u>
Enterprise and Small Firms	49	77	118
of which public expenditure:	5	5	-
Wider Share Ownership	55-60	55-60	55-60
of which public expenditure:	-	-	-
Technology and Innovation	45	85	115 (85-8)
of which public expenditure:	45	75	75
Construction	77-102	108-133	105-140
of which public expenditure:	-	-	-
Oil Taxation	40-200	158-498	345 (85-8)
of which public expenditure	-	-	-
Tourism	3-4	3-4	-
of which public expenditure:	3-4	3-4	-
Agriculture	-	3	5-6
of which public expenditure:	-	-	-
Betting and Breeding	21-26	21-26	21-26
of which public expenditure	-	-	-
Caring and Charities	55-60	125-130	130-143
of which public expenditure:	54	117	122
Fairness in Taxation <u>yields</u>	5	58-78	73-98
of which public expenditure:	-	-	-
<b>TOTALS</b>	<b>340-540</b>	<b>577-938</b>	<b>830-855</b>
of which public expenditure	107-108	200-201	197



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Business Start-Up Scheme (Business Expansion Scheme)	Extension of life of Scheme already agreed. Revenue submission (Mr Battishill) to FST on extension of coverage and possible other changes submitted on 17.1.83. <u>Cannot be costed at this stage</u> ; later year costs could be <u>significant</u> . Meeting fixed for 24 or 25.1.83.	na	na	na
(b) Small Firms Investment Companies.	Chancellor's meeting on 12.1.83 agreed that this should now be dropped from the package.	-	-	-
(c) Joint venture vehicles for institutional investment.	Discussed in Revenue (Mr Prescott) submission of 4.1.83 and FP (Mr Moore) submission of 11.1.83. FST asked FP and IR to sound out institutions on possible constraints on their investment in small firms.	na	na	na
(d) Equity linked subsidised loans.  (Continued/..)	FST minuted Chancellor 30.12.82; discussed at Chancellor's meeting on 12.1.83, which agreed that work should continue, but unlikely runner. FST meeting 20.1.83. See next item	-	-	-



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(e) Debt-equity conversion.	Bank paper forwarded to FST (Mr Moore's minute of 11.1.83); Chancellor's meeting 12.1.83 considered unlikely runner, but agreed that work should continue. FST meeting 20.1.83. FST minuted Chancellor 24.1.83 recommending this and item (d) be dropped.	-	-	-
(f) Zero and deep-discounted stock	Consultative document issued 12.1.83. Not costed since no definite proposal yet identified. Paper also covers shelf issues, and comments requested by 11.2.83.	na	na	na
(g) Disincorporation. MST(R)	Examined in Revenue submission (Mr Battishill) of 20.12.82 to MST(R); Chancellor's meeting of 12.1.83 agreed that not a runner for 1983 Budget.	-	-	-
(Continued/...)				





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(h) Simplification of PAYE and NIC payment rates: Schedule E/D frontiers.	Discussed at FST meeting 17.1.83. Revenue (Mr Isaac) to report on means of making it easier for employers to operate net of tax system. No costs involved. Revenue also to report on Schedule E issues.	-	-	-
(i) Capital Transfer Tax	Various Revenue (Mr Beighton) submissions on rates reductions and further business/agricultural reliefs discussed at FST's meeting on 13.1.83; FST minuted Chancellor 18.1.83.	27	45	85
(j) Loan Guarantee Scheme CST	Discussed at Health of Industry meeting on 11.1.83. DOI letter with detailed proposals awaited.	(pe) 5	(pe) 5	-
(k) Kreditanstalt etc.	Chancellor's meeting 12.1.83 agreed that this this should be dropped from the package.	7	-	-
(Continued/..)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(l) Enterprise agencies: widening of qualifying conditions for relief.	Discussed at Chancellor's meeting on 12.1.83, where presumption against. Revenue (Mr Battishill) do not, therefore, intend to make a submission and no cost figures are included.	-	-	-
(m) VAT registration/ de-registration thresholds. EST	Customs submission 24.12.82: Ministerial decision reached.	5	10	10
(n) Corporation tax: small companies profits limits and rates. MST(R)	Revenue submission (Mr Green) pending. 1% point reduction in small companies' rate would cost £10 million in 1983-84 and £15 million in full year. Cost of revalorisation of profits limits shown opposite.	10	15	16
(Continued/..)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(o) Schedule D Case 5 trading losses (starter number 161)	Revenue submission (Mr Taylor Thompson) of 22.12.82 to FST; Chancellor's meeting 12.1.83 agreed that should remain on the table.	under 1	under 1	under 1
(p) De minimus limit for assessment of apportioned income (starter number 152) MST(R)	Revenue submission (Mr Prescott) to MST(R) 18.1.83	under 1	under 1	under 1
(q) Relief for interest-employee buy-outs (starter number 189)	Revenue submission (Mr Crawley) to FST pending. Wider repercussions could increase cost.	under 1	2	5
(r) Close companies: ACT limit on loans (starter number 181) MST(R)	Revenue submission (Mr Battishill) of 7.12.83 to MST(R); Chancellor's meeting on 12.1.83 agreed that this should be examined alongside mortgage interest relief ceiling.	under 1	under 1	under 1
(Continued/...)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(s) Enterprise Bonds	FP (Mr Reed) submission to FST 17.1.83 : recommending against. Cost not quantifiable.	-	-	-
(t) CGT: monetary limits package.	Revenue submission (Mr Bryce) to FST 13.1.83. FST (17.1.83) commended package to Chancellor.	under 1	under 1	under 1
	TOTALS	49	57	118
(u) VAT annual accounting (starters number 5) EST	Remains on starters list and Customs (Mr Fraser) submission 20.1.82 to EST. But in view of substantial 1983-84 cost (up to £190 million) and Ministers' lukewarm reaction at 15.12.82 meeting, not costed into package.	-	-	-





BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: WIDER SHARE OWNERSHIP

DATE : 24 January 1983

Minister in lead: FST

Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
a) Reintroduce "top hat" reliefs scheme	Chancellor's meeting (12.1.83) rejected Mr Jenkin's proposal (his letter of 6.12.82)	-	-	-
b) Minor changes to existing schemes	Mr Jenkin's letter (6.12.82). Revenue (Mr Martin) submission 21.1.83. Potential cost up to £100m, not included at this stage.			
c) Major options for change:				
i) Increase annual upper limit for profit sharing schemes from £1250.	Chancellor's meeting (12.1.83) discussed. Revenue (Mr Martin) submission 21.1.83. Parallel submission on (ii) from HF division (Mr Monck) to EST 24.1.83	25	25	25
ii) Increase monthly limit savings-related share option schemes		-	-	-
iii) Extend instalment period under share option schemes		10-15	10-15	10-15

CONFIDENTIAL



BUDGET PACKAGES  
SUMMARY NOTE**CONFIDENTIAL**PACKAGE: WIDER SHARE OWNERSHIP  
DATE : 24 January 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
d) Options tax shares scheme	Bank of England paper (10.1.83) discussed briefly at Chancellor's meeting (12.1.83). Revenue (Mr Martin) submission 21.1.83. Costs imponderable; likely maximum shown opposite.  Rejected at Chancellor's meeting (12.1.83)	20	20	20
e) Relief from stamp duty for "small parcel" share transactions		-	-	-
f) Employee bonds		-	-	-
g) "Loi Monary" relief		-	-	-
	TOTAL	55-60	55-60	55-60

**CONFIDENTIAL**



# CONFIDENTIAL

BUDGET PACKAGES  
SUMMARY NOTE

PACKAGE: TECHNOLOGY AND INNOVATION

DATE : 24 January 1983

Minister in lead: CST unless otherwise stated  
Official in lead: Mr Bailey

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Extension of transitional period for capital allowances on British films.  FST	Financial Secretary agreed extension 12.1.83 following Revenue (Mr Battishill) submission 3.12.81: may be announced in week ending 21.1.83.	nil	10	- (10 in 1985-86, 35 over 1984-87 period)
(b) Extension of transitional period for capital allowances for rented teletext/viewdata televisions.  FST	Financial Secretary agreed extension 7.1.83 following Revenue (Mr Battishill) submission of 23.12.82.	nil	nil	- (30 in 1985-86, 65 over 1985-88 period)
(continued/..)				

# CONFIDENTIAL



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(c) Small Engineering Firms Investment Scheme.	Mr Jenkin's proposals contained in his letter of 12.1.83; involve expenditure of £33 million in 1983-84 and £60 million in 1984-85 and 1985-86.	(pe) 45	(pe) 75	(pe) 75 (1985-86)
(d) "Alvey" - support for research in advanced IT.				
(e) "Support for Innovation" programme.				
(f) Other expenditure items.	The letter also contained proposals for 9 other items, involving expenditure of £34 million in 1983-84, £68 million in 1984-85 and £85 million in 1985-86. This gives total DOI bids of £67 million, £128 million and £145 million respectively. A submission on Mr Jenkin's letter is in preparation in IA (Mr Lovell) who suggest bids be costed at 45,75, 75..			
	TOTALS	45	85	115 (1985-86)





BUDGET PACKAGES  
SUMMARY NOTE

**CONFIDENTIAL**

PACKAGE: CONSTRUCTION  
DATE : 24 January 1983

Minister in lead: CST  
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Mortgage Interest Relief ceiling (starter no 105) FST	Revenue (Mr Stewart) submission 3.12.82 to FST. Chancellor's meeting 24.1.83 to discuss. Cost figures assume <u>increase to £35,000</u>	75-100	100-125	75-100
(b) Stamp duty threshold MST(R)	Consultative document to be issued this month. Chancellor to have a meeting to discuss. Minister in lead - MST(R). Official in lead - Mr O'Leary (IR). Usually regarded as an alternative to (a) - costs not therefore included in total cost of package. Increase in threshold of £5,000 would cost £60m in 1983-84 and £70m in 1984-85 and a full year.			
(c) DLT - own use deferment (starter no 178) MST(R)	Revenue (Mr Beighton) submission 13.1.83 to MST(R) recommends extension of existing deferment provision.	-	less than 1	5

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ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(d) Home Improvement - repair grants or enveloping.	Mr Heseltine's letter of 6.1.83. CST has recently turned down proposals to extend both (letter of 10.1.83 to Secretary of State for Wales).	-	-	-
(e) Extend capital allowances for assured tenancies to shared ownership.	Mr Heseltine's letter of 6.1.83. FST minuted Chancellor (19.1.83) advising against action.	less than 1	1	5



BUDGET DATES  
 BUDGET DATES  
 BUDGET DATES

# CONFIDENTIAL

PACKAGE: CONSTRUCTION  
 DATE : 24 January 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(f) Minor items in Mr Heseltine's 6.1.83 letter including:  (ii) capital allowances for refurbishment of industrial and commercial buildings.  (ii) increase proportion of office space qualifying for Industrial Building Allowance.  (Continued/..)	Revenue submission pending	less than 1	na	na
		less than 1	na	15-25



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(iii) Allow private landlords to offset repair costs against <u>all</u> income	<p>Revenue submission pending.</p> <p>Note: FP (Mr Robson) to prepare submission on package as a whole for CST.</p> <p>Note: Possible increases in local authority expenditure, which would reduce shortfall but not add to public expenditure, are not costed into package.</p>	less than 1	2	5
	TOTALS	77-102	108-133	105-140





BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: OIL TAXATION  
DATE : 19 January 1983Minister in lead: MST(R)  
Official in lead: Mr Middleton

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
A) North Sea Regime, phasing out APRT etc. (Starter no. 109)	Chancellor agreed package (meeting 5/1/83). Secretary of State for Energy pressing for more. Revenue (Mr Crawley) submission of 18/1/83 on APRT: further submission to MST(R) shortly.	40-200*	160-500*	345 (1985-86) 310 (1986-87)
B) PRT expenditure reliefs and receipts (Starter no. 115)	Consultative document issued (May 1982). Revenue (Mr Crawley) submission 17/12/82. Costs very dependent on options; could be <u>yields</u> of £15m in 83-84, £70m in 84-85 and £100m in later years. Costs not included in package total.	-	-	-
C) PRT: recovery of over-allowed expenditure reliefs (Starter no. 164)	MST(R) agreed (meeting 15.12.82) subject to review of priorities for FB.	less than 1 <u>yield</u>	2 <u>yield</u>	2 <u>yield</u>

Note - higher figures reflect cost of proposals of Secretary of State for Energy. Full year consequentials of these are not quantified. PAGE NUMBER 1



BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: OIL TAXATION  
DATE : 19 January 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
D) PRT: relief for direct exports from tanker-loading fields (Starter no. 163).	MST(R) agreed (mtng. 15/12/82), subject to Finance Bill space. Nil cost	-	-	-
E) PRT: oil allowance: option to take against oil only (Starter no. 162).	MST(R) agreed (mtng. 15/12/82), subject to review of priorities for FB space. Nil cost.	-	-	-
F) PRT: exempt gas & payback (Starter no. 166)	Inland Revenue awaiting details from a company of possible injustice. Submission from Mr Crawley next month. No costings possible until details received.	na	na	na
G) PRT: relief for transfer of gas between fields in same ownership (Starter no. 167).	MST(R) agreed (meeting 15.12.82) subject to review of priorities.	1	less than 1	less than 1

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BUDGET PACKAGES  
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: OIL TAXATION  
DATE : 19 January 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
H) Recovery of corporation tax unpaid by non-residents from licensees (Starter no. 184).	MST(R) agreed (minute of 6/1/83) subject to review of priorities for FB space.	less than 1 <u>yield</u>	less than 1 <u>yield</u>	less than 1 <u>yield</u>
I) Oil valuations to reflect normal credit terms (Starter no. 187).	MST(R) has advised Chancellor (22/12/82) that legislation needed to counter risk of loss of £200m of revenue. Nil cost.	-	-	-
J) Relief for gas sales direct to industrial consumers (Starter no. 192).	MST(R) doubtful (note 30.11.82) if proposal merits space in Finance Bill but will review. Nil cost.	-	-	-
	TOTAL	40-200	158-498	345 (85-86) 310 (86-87)

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ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
	FP (Mr Robson) submission of 13.1.83 to EST examined the case for a tourism package and the measures it might include. These are:-			
(a) VAT reliefs	In view of the very high costs and the strong presumption against such action, this item has not been costed into the package.	-	-	-
(b) Rating reliefs	Because of the difficulties involved with his proposal, it has not been costed into the package.	-	-	-
(c) Capital allowances	There are two main proposals:-			
	(i) an increase in the existing 20% initial allowance to, say, 50%;	nil	nil	(around 10 after 4 years)
	(ii) extension of allowances to smaller hotels and self-catering accommodation.	nil	nil	(around 5 after 4 years)
(continued/..)				





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(d) Increased grants under Sector 4 of Development of Tourism Act.	The EST minuted the Chancellor on 19.1.83 recommending against all of these measures.	(pe) 3-4	(pe) 3-4	-
	TOTALS	(pe) 3-4	(pe) 3-4	-



BUDGET PACKAGES  
SUMMARY NOTE

**CONFIDENTIAL**

PACKAGE: AGRICULTURE  
DATE : 24 January 1983  
Minister in lead: FST  
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) CTT agricultural relief for let land.	)Both recommended in FST's minute to Chancellor of 18.1.83. They are also part of the CTT item (i) in the Small Firms and Enterprise package, and therefore <u>not</u> costed here.	-	-	-
(b) CTT payment by instalments		-	-	-
(c) CGT rollover relief for let agricultural land.	Revenue (Mr Byrce) submission to FST pending on latest round of correspondence with outside advocates. Potential repercussions could increase costs.	nil	3	5-6
(d) Rental income to be treated as earned income.	This was included in the packages note of 9.12.82. But in view of the fact that it has been examined and rejected on many previous occasions, Revenue suggest it should be deleted without a submission. Proposals in MAFF letter of 21.1.83 to FST <u>not</u> included in package as yet.	-	-	-
	TOTALS	-	3	5-6

**CONFIDENTIAL**



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) VAT on bloodstock	EST's preliminary view is that package should have low priority (minutes of 2.12.82 and 9.12.82), but three items are being examined: EST to minute Chancellor on package in due course  Customs (Mr Knox) submission of 7.12.82 explained difficulties; Chancellor commented (9.12.82) that objections seemed pretty decisive.	6	6	6
(b) General betting duty	Customs submission (Mr Knox) of 11.1.83 analysed implications of 2% reduction in duty (cost £65-75 million a year) and recommended against. EST minute to Chancellor (18.1.83) agreed and suggested that any concession should be on "tax on tax" point. Latter therefore costed in package.	15-20	15.20	15.20
(c) GAMING: redistribution of taxes towards larger casinos.	Customs submission pending.	na	na	na
	TOTALS	21-26	21-26	21-26



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Extension of Widows' Bereavement Allowance for further year.	FST recommended (11.1.83) following Revenue (Mr Isaac) submission of 23.12.82. Chancellor (12.1.83) said that decision should be taken in context of this package, so decision pending	20-25	25-30	25-30
(b) Restoration of 5% abatement of invalidity benefit.	) Neither currently included in package emerging from MISC 88. But discussions on small changes continuing: (c) a possibility but (b) unlikely. )	(pe) 20	(pe 56)	60 (1985-86)
(c) Removal of invalidity benefit "trap".		(pe) 7	pe 16	17 (1985-86)
(continued/...)				





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(d) Development of voluntary etc care services for elderly.	) ) ) Proposals in Mr Fowler's paper, for discussion at Family Policy Group (no date fixed) , on care of the elderly. ) ) ) ) ) )	(pe) 8	(pe) 8	(pe) 8 (1985-86, 25 over 3 years)
(e) Extension of Invalid Care Allowance.		(pe) 4	(pe) 12	(pe) 12 (1985-86)
(f) Abolition of Dependent Relatives Allowance.		20 <u>saving</u>	20 <u>saving</u>	20 <u>saving</u>
(g) Abolition of £250,000 ceiling for CTT exemption on gifts to charities.		Revenue submission (Mr Beighton) pending, following FST and CST (minutes of 20.12.82 and 21.12.82) agreement that should be considered.	under 1	under 1
(h) Deeds of covenant: increase in ceiling for higher rate relief.	A Revenue suggestion, but no submission to date. Costs are for increase from £3,000 to £3,500.	nil	1-2	1-2
(Continued/...)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(i) VAT relief for charities.	Customs submission (Mr Knox) of 4.1.83 discussed at Chancellor's meeting on 11.1.83; agreed that there should be no extension of relief.	-	-	-
(j) Other fiscal measures: (i) relief for payroll giving; (ii) relief for individual donations; (iii) relief for company donations; (iv) relief for seconded staff; (v) covenanted payments gross.	To be covered in planned ST (Mr Monger) submission on package, although all have been rejected in the past. Items (iii) and (iv) advocated in Mr Heseltine's letter of 6.1.83. Not costed at this stage. Mr Heseltine's proposal that charitable status be extended to sport and recreational bodies <u>not</u> included.	-	-	-
(Continued/...)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(k) Other public expenditure measures:	) ) To be covered in planned ST (Mr Monger) ) submission on package. ) ) ) Note: Additional provision has been added ) as a contingency margin against expected ) bids by Mr Fowler for minor benefit changes.			
(i) investment grants to voluntary sector;		(pe) 5	(pe) 5	(pe) 5 (1985-86)
(ii) central grant to National Association of Councils of Voluntary Service.		(pe) 5	(pe) 5	(pe) 5 (1985-86)
		(pe) 5	(pe) 15	(pe) 15 (1985-86)
	TOTALS	55-60	125-130	130-143
	of which public expenditure	54	117	122



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Fringe benefits: scholarships (starter no 197)	Chancellor decided (meeting 22.12.82) to legislate. Revenue (Mr Blythe) submission on 13.1.83. Potential revenue loss of £100m without legislation: small <u>yield</u> if legislated for.	under 1 <u>yield</u>	under 1 <u>yield</u>	under 1 <u>yield</u>
(b) Fringe benefits: other (starter nos 133 and 134)	Budget Statement will contain announcement about uprated car and car fuel benefit scales for 1984-85. Minister in lead - FST. Revenue (Mr Blythe) submission shortly. Costs depend on options for change and are not yet quantifiable.	na	na	na
(c) CGT: capital loss buying and groups of companies. (starter no 142)	Revenue (Mr Beighton) submission pending. Minister in lead - FST. Current annual revenue loss of £30m, but <u>yield</u> from measure depends on indexation and is not quantifiable.	na	na	na
(continued/..)				





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(d) Group relief: avoidance (BL) (Starters no 119)	Revenue (Mr Battishill) submission shortly. Minister in lead - MST(R). Identified current revenue loss of £30m: yield in first year not quantifiable.	na	30 <u>yield</u>	30 <u>yield</u>
(e) Life assurance: chargeable events: secondhand bonds (starters no 110)	Announcement of intention to legislate given on 24.6.82. Drafting of legislation nearly complete. Minister in lead - FST; official in lead - Mr O'Leary (IR).	under 1 <u>yield</u>	under 1 <u>yield</u>	under 1 <u>yield</u>
(f) DLT: disposals by non-residents (starters no 149)	Revenue (Mr Beighton) submission on 5.11.82. Discussions being held with Law Society and RICS.	2 <u>yield</u>	2 <u>yield</u>	2 <u>yield</u>
(Continued/..)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(g) Stock relief: payments on account (Starters no 154)	Revenue (Mr Battishill) submission 2.12.82. MST(R) authorised drafting of legislation (19.1.83); item to be reviewed in light of other measures affecting construction industry.	under 1 <u>yield</u>	10-15 <u>yield</u>	15 <u>yield</u>
(h) Stock relief: deny to commodity/bullion dealers (Starters no 153)	Revenue (Mr Battishill) submission shortly. Minister in lead - MST(R)	under 1 <u>yield</u>	15-30 <u>yield</u>	20-40 <u>yield</u>
(i) Interest charges on late payments of directors PAYE.	Revenue (Mr Blythe) submission shortly. Minister in lead - FST.	under 1 <u>yield</u>	under 1 <u>yield</u>	5-10 <u>yield</u>
(j) Application of PAYE to earnings from offshore employment.  (Continued/..)	Case won in courts. No legislation needed.	-	-	-



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(k) VAT: blocking input tax on petrol and derv.	Rejected at Chancellor's meeting (15.12.82)	-	-	£
(l) Taxation of international Business (Starter 157)	Draft legislation published December 1982; comments sought by mid-February. Minister in lead - MST(R); official in lead - Mr Taylor Thompson (IR). Current tax loss through avoidance estimated at around £100m; yields on an April 1983 start date would be less than £1m for 1983-84 and £100m in a full year.			
	TOTAL <u>YIELDS</u>	5 <u>yield</u>	58-78 <u>yield</u>	73-98 <u>yield</u>



24 January 1983

## OTHER FISCAL RISKS

£ million

	<u>1983-84</u>	<u>1984-85</u>
<b>Possible Public Expenditure</b>		
<b>Unemployment.</b> Two candidates may be proposed:-		
i. Extension and modification of TSTWCS	115	100
ii. Continuation of Enterprise Allowance Pilot Scheme	<u>2</u>	<u>3</u> 103
<b>Coal Prices.</b> There are preliminary discussions with Department of Energy on an idea that coal prices might be reduced to world level. The idea is unlikely to get very far before the Budget	250	500
<b>Petrochemicals.</b> A review of current problems may lead to proposals to give assistance either by way of PRT modification or by public expenditure means	<u>100</u>	<u>100</u>
	<u>467</u>	<u>703</u>
<b>Possible Tax</b>		
<b>Industrial Rates.</b> In theory ruled out, but a continuing candidate in many quarters. There would be practical problems, including a need for legislation. A notional 10 per cent reduction would cost	140	140
<b>Car Tax.</b> Suggestions have been made that this tax (currently 10 per cent) should be reduced or abolished. A 2½ per cent reduction would cost.	<u>120</u>	<u>160</u>
	<u>260</u>	<u>300</u>
<b>TOTAL</b>	<u>727</u>	<u>1003</u>

Scored at NIL as either not likely to proceed or charged to the Reserve.

Other risks

(i) There are continuing calls for abolition of the Investment Income Surcharge (most recently from Lord Cockfield and the Institute of Directors), and there are pressures for an easing in stamp duty or its abolition.

(ii) The forecast allows for a \$2 fall in oil prices early this year. Beyond this each \$1 fall is estimated to reduce revenue by £200-250 million in 1983-84. Figures depend however on very uncertain assumptions about, for example, any change in the exchange rate resulting from the fall in oil prices. A change of 3% in the dollar/\$ exchange rate might have about the same effect on revenues as a \$1 change in oil prices.





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(1) Enterprise agencies: widening of qualifying conditions for relief.	Discussed at Chancellor's meeting on 12.1.83, where presumption against. Revenue (Mr Battishill) do not, therefore, intend to make a submission and no cost figures are included.	-	-	-
(m) VAT registration/ de-registration thresholds. EST	Customs submission 24.12.82: Ministerial decision reached.	5	10	10
(n) Corporation tax: small companies profits limits and rates. MST(R)	Revenue submission (Mr Green) pending. 1% point reduction in small companies' rate would cost £10 million in 1983-84 and £15 million in full year. Cost of revalorisation of profits limits shown opposite.	10	15	16
(Continued/..)				



CONFIDENTIAL

(pwp)

Dr. Ridley

FROM: ADAM RIDLEY  
25 January 1983

Would you put your point to FP?

CHANCELLOR

cc FST

PACKAGES: HELP FOR ENTERPRISE TRUSTS?

Page 4 of the Budget packages attached to Sir Douglas Wass' minute to you of January 24 records a decision not to proceed with further examination of proposals for widening the qualifying conditions for tax relief for Enterprise Agencies. This may well be a sensible decision. If, however, you were to feel that it might nonetheless be desirable to try and offer a little encouragement to this important initiative, there remains the problem of seconding company employees to such trusts.

2. The attached cutting from today's FT confirms rumours I have already heard to the effect that the supplies of potential secondees is limited and an increasing constraint. Any help one can give to encourage it by some modest fiscal measure might therefore be very welcome.

*Advice? But don't secondees already come?*

*AR*

A N RIDLEY

*+ we've environments, not of this kind*

- 1. *CSLT 2c*
- 2. *Chancellor*

I have checked the above with <sup>provisional</sup> I.H. It is as you suspected, the case that the <sup>provisional</sup> secondee to an enterprise agency is already eligible for tax relief, so any proposal is irrelevant.

However, there is an interesting problem here with Budget Starter (i)(ii) in the <sup>Carrying forward</sup> - relief for staff seconded to charities, which I believe the CSLT favours & which is due to be considered at your Budget meeting after the weekend.

*AR 10/2*

*ds ✓ R*



EDITED BY CHRISTOPHER LORENZ

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Secondment benefits enterprise trusts,  
says Tim Dickson, but . . .

## The supply of people is drying up

THE development of enterprise trusts — locally based agencies set up to provide advice and other support for small firms — could be held up by a shortage of big company secondees to run them.

This is the worrying message from Business in the Community, the organisation set up in 1981 to encourage big business to take a wider economic and social interest in local communities.

"The indications are that the situation is deteriorating rather than improving", comments Tony Pelling of BIC.

Of the 85 enterprise agencies established by the end of last year, three quarters are managed by secondees from a narrow base of large companies—including ICI, Rank Xerox, Marks and Spencer, Whitbreads and the clearing banks.

"The present growth of agencies, with 50 to 60 at various stages of development and a possible target of 200 by the end of 1983, clearly shows that the problem is acute," adds Pelling.

Many companies, he believes, are still ignorant of the value of secondees, not only as a means of increasing their community involvement but as a management training tool. "The secondee brings expertise and experience which the receiving organisation could not otherwise afford to buy in. He is given an opportunity to practise and test business skills in an alternative environment and to develop previously unused skills."

In an attempt to spread the secondment "gospel" more widely, BIC is organising a conference on the role of business in the community to be held in London on April 13. It will be chaired by Sir Alastair Pilkington and other speakers will include Sir Hector Laing and Len Peach of IBM. The organisers are particularly keen to attract chief executives and senior management. Further details from Business in the Community, 91 Waterloo Road, London, SE1. Tel: 01-928 6423.



C/ Await advice from CST -  
but you ...  
advance ...

*Handwritten initials in a circle*

FROM : S A ROBSON  
DATE : 27 JANUARY 1983 *28/*

CHIEF SECRETARY

- c.c. Chancellor of Exchequer
- Financial Secretary
- Minister of State - C
- Minister of State - R
- Sir Douglas Wass
- Sir Anthony Rawlinson
- Mr Middleton
- Mr Bailey
- Mr Byatt
- Mr Kemp
- Mr Lovell
- Mr Moore
- Mr Mountfield
- Mr Gordon
- Mr Kelly
- Mr R Allen
- Mr Ridley
- Mr French
- Mr Corlett/IR
- PS/IR
- PS/C&E

*The position for  
which he is, however, strong.  
So, what?  
1) See my comments on DL7  
in letter to Walter James  
(in summary in this folder)  
2) Play up 'concrete' backbone  
3) See my comments on AUR's note  
to CST on P.E. in Dept (also in  
this folder)*

BUDGET PACKAGE : CONSTRUCTION INDUSTRY

This submission, which has been prepared with the help of IA and EB Group, examines the case for a construction package in the budget and outlines the possible components of such a package on the tax side.

- 2. GEP are making a separate submission on the possible expenditure components.
- 3. The conclusions of the note are in the final paragraph.

*SAR*

S A ROBSON





CONFIDENTIAL

BUDGET PACKAGE : CONSTRUCTION INDUSTRY

This note examines the position and prospects for the industry, the case for a construction package in the budget and the possible tax measures in such a package.

A. Position of the industry

2. The construction industry accounts for about 6½ per cent of GDP. Small firms dominate the industry with 80 per cent of the companies employing seven people or less.
3. There has been a substantial decline in the industry dating back to the early 1970s. The industry has suffered from the recession. On top of this there has been a marked decline in public expenditure on construction.
4. Table 1 (which has been produced by the Joint Forecasting Committee of the Building and Civil Engineering EDC) shows that in the early 1970s the public sector accounted for about half the industry's output. Since then public sector construction orders have fallen by 40 per cent.
5. Turning to the more recent past, table 2 sets out the position.

Table 2

GDP(O), Manufacturing and Construction Output

Index 1975 = 100  
(seasonally adjusted)

		GDP(O)	Manufacturing output	Construction output
1979	H1	110.3	105.3	99.9
	H2	110.4	104.0	102.7
1980	H1	108.8	99.2	99.4
	H2	105.5	91.0	92.4
1981	H1	104.2	88.2	85.4
	H2	104.8	89.8	84.6
1982	Q1	104.6	89.5	84.5
	Q2	104.9	89.0	84.8
	Q3	105.3	88.0	88.0
% change : 1982 Q3 on 1979 H1		-4.5	-16.4	-11.9
% change : 1982 Q3 on 1981 H1		+1.1	-0.2	+3.0



## CONSTRUCTION

6. Since the previous cyclical peak in the first half of 1979, GDP has fallen by around  $4\frac{1}{2}$  per cent. The falls in manufacturing and construction output have been considerably larger, at around  $16\frac{1}{2}$  and 12 per cent respectively. The recent trend in manufacturing output has been downwards: a fall of 1 per cent was recorded between the second and third quarters of 1982 and, in the latest three months to November, it declined by a further  $\frac{3}{4}$  per cent. There was, however, a sharp rise of about  $3\frac{3}{4}$  per cent in construction output between the second and third quarters of 1982, though its level remains about 14 per cent below the 1979 H2 peak in activity. Provisional indications from Department of Environment suggest that there was little change in construction output between 1982 Q3 and Q4. Overall the decline in the construction industry appears to have been arrested in 1982.

7. Within this aggregate picture, public new housing activity has fallen very substantially (by some 60 per cent) from its 1979 level.

Private housing, on the other hand, had fallen somewhat less, by around 20 per cent, and there was some evidence of a recovery during 1982. Other new work, both public and private, also appears to have recovered somewhat in the third quarter of 1982.

8. The construction industry accounts for just over 1 million (5 per cent) of the  $20\frac{1}{2}$  million employees in employment in the economy as a whole. This compares with the figure of around  $5\frac{1}{2}$  million employed in the manufacturing sector. The numbers employed reached a cyclical peak around the third quarter of 1979. Subsequently the numbers employed have fallen sharply : since the second half of 1979 by about 2.2 million (or 10 per cent) in the whole economy; 1.43 million (or 20 per cent) in manufacturing; and 0.25 million (or 20 per cent) in construction. The number employed in the construction industry has therefore fallen much more rapidly since 1979 than in the economy as a whole, at a rate broadly similar to the decline in manufacturing employment. During 1982, however, the numbers employed in construction appear to have levelled off whereas in other sectors they are still falling.

9. There is as yet no firm current information about the numbers of self-employed in construction : the last published data was drawn from the 1971 Census of Population updated by the 1979 Labour Force Survey, but preliminary indications from the 1981 Labour Force Survey suggest a substantial increase in self-employment - of perhaps 200,000 in the whole economy of which about 50,000 is in construction. Revised statistics, reflecting both the 1981 Labour Force Survey and the 1981 Census of Population will not be published until mid-February.



B. Prospects for industry

10. Looking to the future, the overall picture is one of significant recovery in orders for housing with a rather less clear picture emerging for other new work. Public and private housing starts in 1982 were well up on their average 1981 level; in the three months to November 1982 private sector starts were up 25 per cent on a year earlier and public sector starts up 18 per cent.

11. Forecasts for construction activity generally indicate the prospect of modest overall recovery. The EDC figures in Table 1 show for 1983 a 16-17 per cent recovery in housing investment in 1983, and an overall increase in output of 4 per cent. Similar trends are predicted by the Department of Industry's forecast which envisages an increase of just under 5 per cent for construction in 1983 against a fall of 1.3 per cent for manufacturing. Cambridge Econometrics see the construction industry as the only one likely to expand employment significantly over the next few years.

12. The Treasury's latest internal (pre-Budget) forecast does not include an explicit assessment of prospects for the construction industry. The forthcoming Public Expenditure White Paper expects total construction expenditure (including investment on construction planned by the nationalised industries) to be some £10 $\frac{1}{4}$  billion in 1983-84 representing an increase of over 10 per cent on the estimated outturn for 1982-83.

C. Case for a construction package

13. It is clear the industry has gone through a bad time in the last decade. In recent years it has fared no worse than manufacturing industry but it was starting from a lower baseline. The industry's prospects now look brighter. Its decline has been arrested and there are good signs of recovery. Its prospects certainly look brighter than those for manufacturing industry.

14. It is certainly not possible (as the industry claim) to develop a case for assistance on the grounds that the industry has been harder hit by the recession than others (particularly given its relatively good prospects). Nor can it be claimed that the knock on effects on related industries (building materials, furniture, timber) are different from those in other sectors.



15. Two further arguments have been advanced, The first is related to the fact that public sector orders (excluding nationalised industries) are a crucial determinant of the volume of business it can get : they account for about 40 per cent of the industry's output. The industry argues that the Government has been excessively indifferent to its interests in going about cutting public expenditure by failing to ensure a better balance between capital and current expenditure and to see that planned capital expenditure is actually made. They point out that, while public expenditure as a proportion of GDP has risen significantly since the early 1970s, public construction orders declined by about 40 per cent.

16. This amounts to an argument for compensation - in acknowledgement of a perceived part in equity. In economic terms it is hard to see it as a case for aid. The industry has had to adjust to both structural changes as well as the problems of the recession. The structural changes partly reflect demographically induced reductions in requirements for education, partly the near completion of the major road building programme but mainly the decision to reduce public sector housebuilding. This structural change is now largely behind the industry. There is no economic benefit to be gained from trying to cushion the effects of something which has happened.

17. The second argument is that expenditure on construction is particularly cost effective in terms of jobs and employment (and correspondingly involves relatively little in the way of extra inputs). There is certainly a good point here but it does need to be treated with care. It relates to direct spending on construction, for example local authority house building. Acting on the industry by means of tax measures, such as improved allowances for capital expenditure, has effects on jobs and output much more akin to the generality of budget measures ~~as~~ these are not linked so closely to additional construction activity.

18. Bearing that in mind, simulations on the Treasury model show that expenditure on construction produces about twice as much output and twice as many jobs for a given PSBR cost as more traditional budget measures like cutting NIS or raising income tax allowances.





D. Possible Packages

19. The components of a package ought to be judged against three criteria :

- (a) do they work with or against the process of change in the industry?  
There is little point in stimulating capacity in an area which is in secular decline.
- (b) do they produce results quickly. In some instances in the past efforts to stimulate the industry have taken time to work through. The analysis above suggests any problems centre on the immediate future when recovery is just starting.
- (c) do they have intrinsic merit.

20. Annex I summarises the various budget representations bearing on the industry. There are two points on this. First, the only Minister seeking action on the construction industry is Mr Heseltine. Second, the CBI want an extra £500 million public expenditure on capital investment in 1983-84 and £1,500 million in 1984-85.

21. The remainder of this note sets out the possible measures on the tax side. A separate submission is being made on possible expenditure measures.

E. Tax Measures

22. The most expensive item in the industry's representations (at least in the short run) would be to extend VAT zero rating to repairs and maintenance. This would cost up to £320 million in 1983-84 and £425 million in a full year. Such an extension would be contrary to the UK's obligations under the EC Sixth VAT directive. At the Chancellor's meeting on 15 December it was decided that zero-rating was in baulk.

23. In last year's budget the Chancellor announced his intention to restrict zero rating for alterations on the basis of a then recent House of Lords decision. A new court case has cast doubt on the proposed new borderline between zero rated alterations and standard rated repairs and maintenance and has delayed implementation. Customs are appealing in the new case. If they lose, a new borderline would be created but the revenue consequence of losing (and so the benefit to the industry) would probably be almost negligible.



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24. Other expensive and frequently mentioned measures in the industry's shopping list are increasing the ceiling for mortgage interest relief and raising the threshold and rate bands for stamp duty. An increase in the mortgage ceiling from £25,000 to £35,000 would cost £75-100 million in 1983-84 and £100-125 million in 1984-85. Raising the stamp duty threshold by £5,000 would cost £60 million in 1983-84 and £70 million in 1984-85.

25. At the Chancellor's meeting on 24 January it was agreed that it would be preferable to maintain the present mortgage interest ceiling. It was also felt that there was not a good case for raising the stamp duty threshold.

26. If the mortgage ceiling were increased, or the stamp duty threshold raised, they would obviously be put into a construction package. But it is doubtful whether either would bring much benefit to the industry, at least for a number of years.

27. The industry has proposed various improvements in capital allowances for buildings. Again these will only work through to the industry over a number of years. It is lack of demand for buildings that is affecting the industry and this will only pick up with activity in the economy generally. In advance of that, enhanced allowance will largely benefit companies who would have built anyway and who are currently paying corporation tax. On the specific proposals in this area :

- (a) extending allowances to the generality of commercial buildings. This would eventually build up in cost to about £1½ billion a year;
- (b) increasing the present 75 per cent allowance for the generality of industrial buildings. This would eventually cost about £40 million a year. Both (a) and (b) are covered in Mr Battishill's submission of January 27 to the MST(R).
- (c) increasing the permissible proportion of office space in industrial buildings from 10 per cent to 25 per cent. This has been proposed by Mr Heseltine as well as by the industry. It was covered in Mr Kuczys submission of 24 January to the Financial Secretary. Cost under £1 million in 1983-84 but building up to £15-25 million. Would increase the anomaly between cases below the new limit - which would get relief on 100 per cent of expenditure - and those above - which would get relief on only 74 per cent.



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- (d) providing capital allowance for the refurbishment of industrial and commercial property. Again this has been proposed by Mr Heseltine as well as by the industry and again covered in Mr Kuczys submission of 24 January. Allowances are already available for refurbishing an industrial building. No justification for giving allowance to refurbish a commercial building while there are no allowances for constructing or purchasing such a building. Cost in 1983-84 under £1 million but eventual cost about £250 million a year.
- (e) widening the definition of industrial buildings. Proposed by industry to cover, for example, wholesale warehouses, wholesale tobacconists and confectioners stores. Industry see it in part as providing a simple boundary. It is very hard to see these properties as industrial. It would make it more difficult to maintain the distinction between industrial and commercial property. Proposal rejected last year by Ministers in context of small workshop scheme.

Improvements in capital allowances for hotels are being considered in relation to a possible construction package. The Economic Secretary has recommended an increase to the Chancellor in his minute of 19 January. If this were agreed, it could also be counted in the construction package. The EST's proposal would build up in cost to about £10 million a year but have a negligible cost in 1983-84.

28. Apart from items (c) and (d) above, Mr Heseltine has proposed two other tax items with some bearing on the construction industry :

- (a) extending capital allowances to shared ownership properties. This was covered in Mr Battishill's submission of 22 December. In his minute to the Chancellor of 19 January, the Financial Secretary was against this proposal. It would be in effect another subsidy for owner-occupation and would involve lengthy and complex legislation.
- (b) allowing landlords for tax purposes to set repair and maintenance costs against income from any source, not just from rent income. This was covered in Mr Kuczy's minute of 24 January. Cost under £1 mill in 1984-85 and £5 million in a full year. The present treatment follows general tax practice that deduction against income can only be made for expenses incurred in obtaining that income. A concession here would complicate the law and stimulate demands for similar treatment in other areas.



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29. Turning to development land tax, there is at present a deferment of DLT liability on developments' for the owners own use. This was introduced in the 1981 budget and lasts until April 1984. The aim was to stimulate activity and help the construction industry. Mr Beighton's submission of 13 January to the MST(R) examined the options for extending the deferment. The MST(R) is in favour of an extension. There would be no cost in 1983-84 and a cost of £5 million in a full year. This would go into a construction package.

30. Certain industry representations have proposed abolition of DLT. Ministers have in the past rejected this on the grounds that it would open the way for a Labour Government to put a much more onerous tax in its place. They also rejected a DLT holiday partly on political grounds and partly because the impact on the construction industry seemed likely to be small.

F. Conclusions

31. The main parts in this note are :

- (a) the construction industry has been in decline since the early 1970s. In more recent years it has suffered no worse than manufacturing industry. Its prospects now look better than those for manufacturing;
- (b) in these circumstances the case for helping the industry seems to rest on the fact, for a given PSBR cost, it is a "good buy" in terms of output and employment. But this applies to public expenditure measures. Tax measures to help the industry are similar in employment and output terms to traditional budget measures;
- (c) the only tax measure so far approved by Ministers which could go into the package is an extension of DLT deferment.





## REPRESENTATIONS ON THE CONSTRUCTION INDUSTRY

a. Ministers

Mr Heseltine wrote as Secretary of State for the Environment to the Chancellor on January 6 proposing :

- (a) extension of capital allowances to housing developments for shared ownership;
- (b) allowing landlords to set repair costs for tax purposes against income from all sources, not just from rent income;
- (c) providing capital allowances to the refurbishment of industrial and commercial property;
- (d) increasing the permissible proportion of office space in industrial buildings from 10 per cent to 25 per cent;
- (e) on the public expenditure side, extending repair grants to dwellings built before 1945.

This is the only Ministerial representation on behalf of the industry.

b. Organisations

2. The CBI's budget representations sought additional public expenditure on capital investment of £500 million in 1983-84 and £1,500 million in 1984-85.

3. The Joint Taxation Committee of the major industry bodies seek :

- (a) 100 per cent capital allowances for the refurbishment and conversion of commercial and industrial buildings for re-use;
- (b) increasing "closer to 100 per cent" the 75 per cent capital allowance for industrial property;
- (c) increasing the permissible office content of industrial buildings from 10 per cent to 30 per cent;



- (d) widening the definition of industrial buildings;
- (e) reducing the definition of a "long lease" from 50 years to 25 years;
- (f) introducing capital allowances for the generality of new commercial buildings;
- (g) increasing the ceiling on mortgage interest relief to at least £25,000;
- (h) increasing the stamp duty threshold from £25,000 to £35,000 and moving to a "slice" system of charge;
- (i) VAT zero rating for building repairs and maintenance;
- (j) scrap DLT;
- (k) extend stock relief to houses taken in part exchange by housebuilders;

4. The Royal Institute of Chartered Surveyors want a number of tax changes. Those relevant to the construction industry are :

- (a) introduce flat rate of stamp duty of  $2\frac{1}{2}$  per cent on the excess over £24,000 of the price of a house;
- (b) VAT zero rating for building repairs and maintenance;
- (c) comments on DLT yet to be received.

5. The Building Societies Associations recommendations relevant to construction industry are :

- (a) increasing the ceiling on mortgage interest relief;
- (b) abolition of stamp duty on house purchase or a substantial increase in thresholds and rate bands.



6. The Federation of Master Builders want householders to get income tax relief for a proportion of any expenditure on repairs and maintenance which is standard rated for VAT. The aim is in part to hit the Black Economy.
7. The Glass and Glazing Federation want home insulation grants to be extended to double glazing.
8. The National Council of Building Material Producers want :
  - (a) an increase to "not less than £30,000" in the ceiling on mortgage interest relief;
  - (b) a grant for tax-exhausted companies investing in industrial buildings which cannot take advantage of the 75 per cent capital allowance.
9. The National Association of Steelstockholders's proposals relevant to the construction industry are :
  - (a) move public expenditure on capital programmes;
  - (b) industrial de-rating;
  - (c) industrial buildings allowance for warehouses.
10. The British Aggregate Construction Materials Industries want increased public expenditure on construction.
11. The National Home Improvements Council want :
  - (a) the level of home improvement grants to be at least maintained and if possible increased for those in need;
  - (b). VAT zero rating on repairs and maintenance - partly to counter the Black Economy.
12. The National House Building Council want the mortgage interest ceiling raised and the stamp duty threshold raised (especially in London). They also support the RICS on changing the way stamp duty is charged.



Table 1: Construction Output

£ million at 1975 prices  
(percentage annual change)

	ACTUAL											FORECAST		
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Housing:														
Public	1594 (-8)	1424 (-11)	1387 (-3)	1345 (-3)	1482 (+10)	1640 (+11)	1491 (-9)	1402 (-6)	1164 (-17)	953 (-18)	607 (-36)	505 (-17)	590 (+17)	685 (+16)
Private	2088 (+15)	2277 (+9)	2375 (+4)	1711 (-28)	1543 (-10)	1645 (+7)	1557 (-5)	1762 (+13)	1627 (-8)	1289 (-21)	1145 (-11)	1340 (+17)	1560 (+16)	1610 (+3)
Other:														
Public	3157 (-3)	3160 (nc)	3085 (-2)	2681 (-13)	2511 (-6)	2492 (-1)	2379 (-5)	2278 (-4)	2063 (-9)	1859 (-10)	1703 (-8)	1685 (-1)	1700 (+1)	1735 (+2)
Private	1496 (-4)	1334 (-11)	1218 (-9)	1183 (-3)	1174 (-1)	1120 (-5)	1298 (+16)	1378 (+6)	1426 (+3)	1339 (-6)	1074 (-20)	1000 (-7)	970 (-3)	990 (+2)
Industrial														
Private Commercial	1578 (+9)	1530 (-3)	1563 (+2)	1423 (-9)	1291 (-9)	1137 (-12)	1136 (nc)	1262 (+11)	1191 (-6)	1213 (+2)	1312 (+8)	1445 (+10)	1385 (-4)	1300 (-6)
<u>TOTAL NEW WORK</u>	9913 (+1)	9725 (-2)	9628 (-1)	8343 (-13)	8001 (-4)	8034 (nc)	7861 (-2)	8082 (+3)	7470 (-8)	6653 (-11)	5841 (-12)	5975 (+2)	6205 (+4)	6320 (+2)
<u>Repair and Maintenance</u>	3352 (+1)	3678 (+10)	3861 (+5)	3761 (-3)	3417 (-9)	3214 (-6)	3328 (+4)	3855 (+16)	4041 (+5)	4270 (+6)	3833 (-10)	3815 (nc)	3950 (+4)	4080 (+3)
<u>TOTAL ALL WORK</u>	13265 (+1)	13403 (+1)	13489 (+1)	12104 (-10)	11418 (-6)	11248 (-1)	11189 (-1)	11937 (+7)	11511 (-4)	10923 (-5)	9674 (-11)	9790 (+1)	10155 (+4)	10400 (+2)

NB On all tables of construction output, forecast figures have been rounded to the nearest £5 million.





From: C W Kelly

Date: 28 January 1983

1. SIR ANTHONY RAWLINSON
2. CHIEF SECRETARY

cc: Mr Middleton  
Mr Bailey  
Mr Byatt  
Miss Kelley  
Mr Kemp  
Mr Lovell  
Mr Monger  
Mr Moore  
Mr Mountfield  
Mr Pestell  
Mr Gordon  
Mr Robson  
Mr R Allen  
Mr Ridley  
Mr French

Copies attached for:

Chancellor  
Financial Secretary  
Minister of State (C)  
Minister of State (R)  
Sir Douglas Wass

CONSTRUCTION PACKAGE: PUBLIC EXPENDITURE

This submission discusses the possibility of including public expenditure components in any Budget construction package. It is intended as a companion piece to Mr Polson's minute of 27 January and does not therefore repeat the arguments therein about the case for such a package. It is based on contributions from other groups but has not, of course, been discussed with other departments.

2. The only Minister specifically seeking public expenditure measures to help the construction industry is Mr Heseltine, as Secretary of State for the Environment. In addition, there is a letter from Mr Sparrow urging that "some part of any fiscal headroom should be used for public works which meet important social and economic needs and which are also labour intensive", but which does not make any specific suggestions.

representations  
3. The CBI/include a proposal for additional capital expenditure of £500 million in 1983-84 and £1.5 billion in 1984-85. Similar suggestions have been made by other industry groups. However, I understand that the Chancellor gave the CBI no encouragement about this when he saw them recently, and I imagine that we can assume that any major programme of this kind is completely ruled out. The right time to consider propositions of this kind, if at all, must be in the course of the annual survey.

4. More modest proposals to add to expenditure are open to the same objection that additions outside the Survey are bad for survey discipline and for good management. They would not therefore be welcome to the expenditure side of the Treasury. If limited measures in this area were nevertheless considered essential,

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they could, however, probably be absorbed within the existing Contingency Reserve and need not therefore add to planned public expenditure.

5. In practice, the scope for public expenditure measures is relatively limited for reasons which are familiar from previous rounds:

- (i) It is difficult to identify projects which affect only one year and do not lead to potentially embarrassing commitments, for either capital or revenue, in later years.
- (ii) There can be practical difficulty in bringing projects on stream rapidly, which can affect the value for money obtained.
- (iii) The majority of public expenditure on construction is undertaken by the local authorities and nationalised industries, where the problem at present is getting them to spend the allocations they already have.

6. If Ministers desired, subject to consultation with other departments, it would seem possible to put together a package of minor additions to existing programmes. Possible candidates would include:

- (i) Perhaps £10 million for maintenance and minor works for the civil estate.
- (ii) An increase of, say, £5 million in the universities' capital grant for similar purposes.
- (iii) Up to around £50 million on roads.
- (iv) Up to £50 million on small works by the health authorities.
- (v) Small amounts in Northern Ireland on, for example, renewal of sewerage works. It is unlikely to be cost effective to try to add to expenditure on water and sewerage in Great Britain until the water authorities complete their surveys of existing sewers. Even then there could be resistance because of the effect on charges.

Further small amounts might be possible on such things as the heritage, sports councils etc.

7. We would not, however, recommend any of these. They suffer from the disadvantages mentioned above. They would look very much like tinkering at the edges, and they could risk leading to short-term over-heating of the market for minor works and improvements, while big contractors continue to suffer because large projects are incompatible with crash programmes.

#### Housing

8. More promising are possible starters in the housing field. In the last Budget



the Chancellor launched a major initiative on home improvement by increasing for one year grant rates for repairs and the provision of basic amenities. Since then the higher grant rates have been extended to the end of 1983-84 and, as far as individual local authorities are concerned, expenditure has been effectively de-cash limited. (We expect the extra expenditure to be more than covered by underspending elsewhere within the aggregate cash limit). Thus home improvement already has a high priority within the expenditure plans. But it remains a popular field and one in which DOE Ministers would like to take further measures.

9. There are two main options:

- (i) Further changes in improvement grant rules. DOE Ministers put this as a priority in their Budget shopping list. The main change would be to make houses built between 1990 and 1945 eligible for grant. This would be in response to evidence in the English House Condition Survey published in December that significant numbers of inter-war houses are showing signs of serious disrepair.
- (ii) Specific funds for "enveloping". DOE Ministers have recently made "enveloping" (repair of the external fabric of complete terraces/streets of run-down private sector houses by local authorities at no cost to the owner) possible within the housing programme (instead of the urban programme) and are promoting its use. All schemes have to be approved by DOE and the Treasury. None have yet been presented, so additional funds could be earmarked for enveloping and would bring forward extra schemes.

10. Either option could lead to additional expenditure of up to £50 million. DOE Ministers have already asked for them to be included in the "de-cash limiting" of improvement grants for 1983-84 which has already been agreed; but you turned this down partly because no specific funds were available, and partly because we do not know yet if there is enough headroom in the cash limit to accommodate an extension of this concession and other commitments (see below). Extensions to the improvement grant package would add to difficulties for local authorities in processing claims and would direct more work to the smallest end of the construction industry. Enveloping is subject to specific project approval and because it deals with blocks of houses, is more likely to benefit medium-size construction firms.

#### Other action by local authorities

11. There is also the possibility of more general action to stimulate capital expenditure by local authorities. You have agreed to consider giving additional



capital allocations to local authorities as soon as there is evidence that it is safe to do so within the cash limit. In the next few weeks we will be getting information on the flow of capital receipts particularly from council house sales which, if it points to a continuing high trend, might justify some additional allocations being made even before the start of the financial year. It will, in any case, be necessary to make decisions about a small number of special cases on which you have already told DOE Ministers that you will be prepared to make additional allocations of up to £20 million.

12. It is difficult to put a figure on action of this kind. Its object would be to reduce underspending within the cash limit. It would not, therefore, add to programmes. But it could add to the planning total because it would erode the shortfall provision in the White Paper. It could be presented as leading to more capital expenditure than would otherwise have taken place. Subject to the headroom available, further concessions on improvement grants and enveloping could be used either to reduce underspending within the existing cash limit, or as a net addition to programmes.

13. While it is not, perhaps, very impressive in the context of the kind of increases looked for by the CBI and others, some credit could be claimed in any passage in the Budget speech dealing with a construction package for the fact that expenditure on construction on existing plans is expected to rise by 10 per cent to £10<sup>1</sup> billion in 1983-84 compared with the outturn now expected for 1982-83 and for the steps that have already been taken to reduce the substantial capital underspending by the nationalised industries and local authorities. This is one of the four main points made on the first page of the public expenditure White Paper to be published next week. The White Paper also includes a table analysing construction expenditure between programmes and the main nationalised industries, and giving a longer run of years (copy attached).

14. It might be possible to supplement this by giving details of particular large projects which are already within the existing plans. However this could be difficult to achieve convincingly.

#### Conclusion

15. From the point of view of public expenditure control, it would be preferable to make no additions in the Budget to the public expenditure programmes as determined in the Survey and published in the White Paper.





16. If, despite this, Ministers did wish to include some public expenditure within a construction package, the most promising starters are further changes in the improvement grant rules and specific funds for "enveloping". Either option could lead to additional expenditure of up to £50 million.

*ew*  
C W KELLY

None of this is welcome but I endorse the conclusions in paras 15-16.

We should be very careful about action with local authorities as in paras 11-12 lest there be further trouble over contradictory signals and criticism that the Government does not know where it wants to go on expenditure.

*ARK*  
28/1



Table 1.13 Capital expenditure on construction work £ million cash

	1977-78 outturn	1978-79 outturn	1979-80 outturn	1980-81 outturn	1981-82 outturn	1982-83 estimated outturn	1983-84 plans
<i>Direct public expenditure on new construction</i>							
Housing - new dwellings and improvements	2,217	2,143	2,460	2,357	2,009	2,017	2,274
Other environmental services	453	586	736	903	816	790	934
Transport	828	878	1,083	1,229	1,281	1,416	1,585
Education	411	373	422	528	445	382	379
Health and personal social services	358	398	483	629	777	803	857
Other <sup>(1)</sup>	296	302	412	438	469	508	542
Total direct public expenditure on new construction	4,563	4,680	4,596	6,084	5,997	6,916	6,571
Grants and loans to housing associations and private tenants	651	680	818	940	1,017	1,485	1,708
Expenditure on new construction identified with the public sector	5,214	5,360	6,414	7,024	7,014	8,401	8,279
<i>Methodical expenditure by authorities</i>							
Electricity	159	186	227	284	316	351	370
Gas	144	162	202	304	263	350	285
Railways	131	200	146	155	143	114	132
Coal	97	165	219	321	345	332	329
Water	489	540	593	668	669	710	745
Other	220	226	164	201	235	253	341
Total expenditure on construction by nationalised industries <sup>(2)</sup>	1,240	1,479	1,551	1,933	1,971	2,010	2,202
Grand total	6,454	6,839	7,965	8,957	8,785	9,421	10,381

<sup>(1)</sup> Defence; agriculture; industry, energy, trade and employment; law, order and protective services, offices and general accommodation; some expenditure on new construction for military purposes is classified as current expenditure.

<sup>(2)</sup> See Table 4.2 for detail of all capital expenditure within the planning total.

<sup>(\*)</sup> Certain capital expenditure by the British National Oil Corporation which is classified in the accounts as new buildings and works has been excluded from this table since little of the work is produced by the construction industry.



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FROM: E KWIECINSKI  
DATE: 28 January 1983

PS/CHIEF SECRETARY

cc Chancellor  
Minister of State (C)  
Minister of State (R)  
Sir D Wass  
Sir A Rawlinson  
Mr Middleton  
Mr Bailey  
Mr Byatt  
Mr Kemp  
Mr Lovell  
Mr Moore  
Mr Mountfield  
Mr Gordon  
Mr Kelly  
Mr R Allen  
Mr Ridley  
Mr Robson  
Mr French  
Mr Corlett/IR  
PS/IR  
PS/C&E

BUDGET PACKAGE: CONSTRUCTION INDUSTRY

The Financial Secretary has seen Mr Robson's submission to the Chief Secretary of 27 January.

He does not see that the taxation measures put forward would form a very meaty package. He thinks it would need spending increases rather than tax cuts to make it meatier; although he would be content for it to be almost a "non-package".

A handwritten signature in black ink, appearing to be "E Kwiecinski".

E KWIECINSKI





RJ

CONFIDENTIAL

From The Assistant Private  
Secretary  
Date 28 January 1983

PS/CHIEF SECRETARY

cc PS/Chancellor  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State (C)  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Mr Middleton  
Mr Bailey  
Mr Byatt  
Mr Kemp  
Mr Lovell  
Mr Moore  
Mr Mountfield  
Mr Gordon  
Mr Robson  
Mr C W Kelly  
Mr R I G Allen  
Mr Ridley  
Mr French

PS/Inland Revenue  
PS/Customs and Excise

BUDGET PACKAGE: CONSTRUCTION INDUSTRY

The Minister of State (Revenue) has seen Mr Robson's minute and attached paper of 27 January. He has commented that the likely runners would make a pretty thin package.

2. Incidentally, with regard to DLT own use deferment (paragraph 29) the Minister recommends it's inclusion in the Finance Bill regardless of the fate of the construction package as a whole, since it is a helpful measure in its own right and - if the exemption is going to be extended as the Minister believes it should rather than lapse in April 1984 as it will automatically if legislation to the contrary is not made - this year is the time to act.

*Tom Milner*

J C MILNER

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J. ps with you.  
N. 28.1.

CONFIDENTIAL.

€  
pup



FROM: E KWIECINSKI  
DATE: 28 January 1983

PS/CHANCELLOR \_\_\_\_\_

J.11

cc PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State (R)  
Sir D Wass  
Mr Middleton  
Mr Moore  
Mr Robson  
Mr Martin  
Mr Kuczys - IR  
PS/IR

BUDGET PACKAGES: MR JENKIN'S AND MR HESELTINE'S PROPOSALS


The Financial Secretary has seen Mr Kuczys's note to you of 24 January.

He is not attracted to any of these proposals.

U

E KWIECINSKI  
28 January 1983






FROM: C D HARRISON  
DATE: 31 JANUARY 1983

PS/CHIEF SECRETARY

cc Chancellor —  
Financial Secretary  
Minister of State (C)  
Minister of State (R)  
Sir D Wass  
Sir Anthony Rawlinson  
Mr Middleton  
Mr Bailey  
Mr Byatt  
Mr Kemp  
Mr Lovell  
Mr Moore  
Mr Mountfield  
Mr Gordon  
Mr Kelly  
Mr Robson  
Mr Ridley  
Mr French  
  
Mr Corlett/IR  
PS/IR  
PS/C&E

BUDGET PACKAGE: CONSTRUCTION INDUSTRY

The Economic Secretary would like to register two points on Mr Robson's submission of 27 January. Firstly, VAT. He feels that paragraph 23 gives a slightly misleading flavour. Logically, Customs and Excise should expect to win their appeal on the latest judgment. This would mean an increase in revenue from VAT on construction of up to £10 million - not just, as paragraph 23 suggests, the loss of a "negligible" saving.

2. Secondly, capital allowances for hotels. Contrary to the impression given in paragraph 27, the Economic Secretary did not recommend an increase in capital allowances for hotels; he said that if it were deemed necessary to buy off the backbench lobby, this appeared to be the best way to do it.

CDH

C D HARRISON



Note of a Meeting on 31 January

Present: --Chief Secretary --  
 Sir Anthony Rawlinson  
 Mr Moore  
 Mr Mountfield  
 Mr Robson  
 Mr Gordon  
 Mr Godber  
 Mr Andren  
 Mr Corlett I/R  
 Mr Lusk I/R

PPS

## BUDGET PACKAGES: CONSTRUCTION

Public Expenditure and the Budget

The Chief Secretary said that he was inclined to take any budget public expenditure increase on the Contingency Reserve if possible. He was also inclined to leave the Reserve at its present level. This would have the advantage of a constraining impact on the size of the increases and would avoid accusations of tinkering. But it was not necessary to take a final view of this at this stage.

Taxation Measures (Mr Robson's minute of 27 January)

2. The Chief Secretary noted that, on the one hand, there was no case in terms of the comparative decline suffered by the industry for a special package of construction assistance. On the other hand it could be shown that public expenditure measures on construction would give a higher return in output and jobs in terms of PSBR cost than the usual budget fiscal measures. On that basis, there was little case for a package of tax measures, particularly as it was difficult to find any without major implications for the PSBR. The only candidate on the tax side so far agreed by Ministers was extension of DLT deferment. If Ministers ultimately decided on an increase in Mortgage Interest Relief, that also could be dressed up as part of a construction package. Was there anything to be said for increasing capital allowances for hotels from 20 to 50 per cent as the EST had recommended? That would seem to be relatively inexpensive and would score on both the tourism and construction packages.

3. Mr Corlett agreed in principle. But against that it had to be asked whether the change was necessary or would be of use. There was still excess hotel capacity and an increase in allowances for that type of investment was not the industry's prime bid. Rather the industry wanted to extend into the self-catering sector.

4. The Chief Secretary noted the EST's view that extending capital allowances available to hotels to other types of accommodation such as self-catering units would cause great definitional problems and result in minimal increases in employment. Would the legislation needed to overcome the definitional problems be necessarily very complex?



5. Mr Corlett said that the industry claimed a reasonable amount of employment potential. But this claim was difficult to assess. Much of the activity generated by such developments would be quite seasonal. There was also the question of how much new development would be generated by giving an allowance, which would not have taken place anyway. It would however be possible to solve the definitional difficulties through legislation which, if Ministers wished, could be made simple and broad brush.

6. The Chief Secretary said he was inclined to report to the Chancellor that there was not much of a case for increasing capital allowances for hotels. But that introducing capital allowances on self-catering holiday accommodation projects was a viable option in that it was low cost (single figures); the legislation to overcome the definitional problems could be drafted comparatively simply and it would score on both the construction and tourism packages. He invited Mr Corlett to consider the definitional problems. Provisionally, he inclined to go for a 20 per cent allowance, to be available for complexes of a minimum ten units, and was attracted to the idea of a time limit, possibly by presenting the allowance as being on an experimental basis and subject to review.

7. Mr Robson said that another option was to increase the office use capital disregard on industrial buildings from 10 per cent to 25 per cent.

8. The Chief Secretary noted that the argument against this was that the present 10 per cent allowance was de minimus but 25 per cent would represent a significant extension of the disregard to non-qualifying expenditure and in the Revenue's view would tend to increase existing anomalies. For example, a 25 per cent allowance might give rise to the criticism that it distorted building habits by encouraging integrated buildings housing both qualifying and non-qualifying expenditure (eg. computer installations) where separate buildings would have been constructed before. On the other hand Mr Gordon had argued that that type of 2 in 1 building was increasingly being built and would continue to be even if the tax system were neutral. Moreover, the cost of the measure was relatively low - £1 million in 1983-84 rising to £15-25 million over the years. There was no need to take an immediate decision, but, on balance, an increase in the capital disregard could be included in the package presented for the Chancellor's decision as being a fairly attractive item (with a faint whiff of silicon valley) although the adverse arguments should be fully brought out.

Public Expenditure Measures: Mr Kelly's minute of 28 January

9. The Chief Secretary said there would be great pressures for an increase in public spending on construction projects. It would thus be a good thing to be able to put forward a limited and attractive package. He agreed entirely with Mr Kelly's recommendations against pursuing any of the options listed in paragraph 6 of his minute. There were however two options that could be pursued. Firstly, to extend the House Improvement Grant Scheme to cover inter-war houses, and secondly to allocate specific funds for enveloping schemes. On a realistic view, the change in the HIG's





Scheme should lead to additional public expenditure on construction of up to £50 million. The change in the scheme could be time limited to the budget package. The attractions of the enveloping scheme on the other hand were that the scheme was new; would tend to benefit the larger builders; and would be less likely to generate work which might have been done anyway. He noted that local authorities were quite keen on enveloping schemes but tended to make a choice between enveloping and repairs grants (attracting 75 per cent and 90 per cent Exchequer Grant respectively); that the £50 million cost was a tentative estimate of the number of schemes likely to come forward in one year; and that the assistance could be time limited to the end of the current year, expenditure occurring thereafter to be contained within allocations. Both options should be put forward for the Chancellor's decision.

Conclusion

10. The Chief Secretary invited Mr Robson to coordinate a draft minute which he might send to the Chancellor seeking his agreement to candidates, in the following order of priority, for a construction package:-

Tax Measures

- i. Increase in the permissible proportion of office space in industrial buildings
- ii. Capital allowances for self-catering type holiday accommodation projects
- iii. DLT deferment
- [iv. Mortgage Interest relief]

PE Measures

- i. Enveloping
- ii. Housing Improvement Grants extension

cc PPS  
 PS/FST  
 PS/EST  
 PS/MST(C)  
 PS/MST(R)  
 Sir D Wass  
 Sir A Rawlinson  
 Mr Bailey  
 Mr Moore  
 Mr Mountfield  
 Mr Robson  
 Mr Gordon  
 Mr Kelly Mr Godboe  
 Mr Andren  
 Mr Corlett I/R  
 Mr Lusk I/R



## COVERING CONFIDENTIAL

FROM: SIR DOUGLAS WASS  
DATE: 31 JANUARY 1983

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Mr Burns  
Mr Littler  
Mr Middleton  
Mr Bailey  
Mr Cassell  
Mr Moore  
Mr Kemp  
Mr Hall  
Mr Ridley  
  
Sir Lawrence Airey (Inland Revenue)  
Mr Angus Fraser (Customs & Excise)  
  
~~Mr Kerr~~

*This bundle seems to  
v. little practical value.  
It may be too little  
to do much at  
is quite unmanageable  
for decision purposes.*

*Discussed at  
2nd meeting*

*(1) like Budget Statement  
- full of non-statements!*

**BUDGET PACKAGES**

Attached is an updated version of the material on the packages which you saw for last week's overview meeting. This includes:

- Note A, which is a summary of the overall position on packages, risks, etc;
- Note B, a listing of the detailed packages;
- Note C, other identified fiscal risks and possibilities.

The notes seek to reflect the developments of the past week. They are correct as of Friday afternoon.

2. There are four points I would draw to your attention.
  - i. Possible changes to CTT are spread amongst the packages. The possibilities seem now to be in a state where you could hold a meeting this week or soon after you return from Washington to take a synoptic view of them.
  - ii. Proposals for changes to oil taxation (in the packages) are on the agenda for tomorrow's overview (along with Corporation Tax and NIS).



- iii. Options for the changes to the investment income surcharge will be set out in the Revenue Paper on personal tax options to be discussed (along with Child Benefit) later this week.
- iv. Your private office has asked Mr Fowler's office to chase his Budget proposals. We need to have those soon.

PP JW  
DOUGLAS WASS



CONFIDENTIAL

DATE: 31 January 1983

£million revenue costs

## 1 GET 1983 - PACKAGES ETC - SUMMARY

	<u>1983-84</u>		<u>1984-85</u>	
	<u>Total</u>	<u>P/Ex element</u>	<u>Total</u>	<u>P/Ex element</u>
Packages (Note B below)	300- 400	110	535- 560	200
Other Risks and possibilities (Note C below)	0- 537	0-242	0- 700	0-230
Child Benefit - RW + 8% or 6%, both less 2%. (In main overview).	80- 100	80-100	220- 290	220-290
	<u>380-1037</u>	<u>190-452</u>	<u>755-1550</u>	<u>420-720</u>

If the Public Expenditure element is all charged to the Reserve, the potential cost to the Budget becomes :-

	<u>1983-84</u>	<u>1984-85</u>
Total as above	380-1037	755-1550
Less Public Expenditure	190- 452	420- 720
Net totals	<u>190- 585</u>	<u>335-830</u>

Provided in overview in total

Budget A	<u>450</u>	<u>650</u>
<u>or</u>		
Budget B	<u>350</u>	<u>500</u>

Notes:

1. Numbers are uncertain at present, and the final figures will not necessarily fall within the ranges shown.
2. These are revenue costs. PSBR costs are likely to be a little lower. Against that any public expenditure measures, even if charged to the Reserve, could nevertheless increase the forecast PSBR by necessitating a review of the shortfall estimate. The extent to which, on balance, the PSBR costs of these measures might differ from the revenue costs cannot be assessed at this stage.





# CONFIDENTIAL

## BUDGET PACKAGES: COSTS SUMMARY TABLE

31 January 1983

	<u>1983-84</u>	<u>1984-85</u>	<u>£ million</u> <u>Full year</u>
Enterprise and Small Firms *	50	95	115
of which public expenditure:	5	5	-
Wider Share Ownership	20	35	40-45
of which public expenditure:	-	-	-
Technology and Innovation	45	85	115
of which public expenditure:	45	75	(85-86) 75
Construction	75-100	100-130	155-390
of which public expenditure:	-	-	-
Oil Taxation	40-100	140-160	345
of which public expenditure	-	-	-(85-86)
Tourism	3-4	10-11	-
of which public expenditure:	3-4	3-4	-
Agriculture	-	-	-
of which public expenditure:	-	-	-
Betting and Breeding	-	-	-
of which public expenditure	-	-	-
Caring and Charities*	60-65	125-130	130-143
of which public expenditure:	54	117	122
Fairness in Taxation <u>Yields</u>	2-10	60-90	175-225
of which public expenditure:	-	-	-

\*Costs could be substantially higher when or if presently uncosted items included.

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TOTALS	300-400	535-560	725-945
of which public expenditure	110	200	200

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Miscellaneous unpackaged tax items	20-25	155-160	255-260
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# CONFIDENTIAL



Minister in lead: FST unless otherwise stated  
Official in lead: Mr Bailey

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Business Start-Up Scheme (Business Expansion Scheme)	Ministers have decided in principle on major extension of scheme. Revenue (Mr Battishill) submission to FST on 17.1.83. FST meeting 27.1.83; FST reporting progress to Chancellor.  Cannot be costed as yet; later year costs could be significant.	na	na	na
(b) Joint venture vehicles for institutional investment	FST meeting 20.1.83 requested FP/IR to sound out institutions on possible constraint on their investment in small firms.	na	na	na
(c) Equity linked subsidised loans.	} Discussed at Chancellor's meeting 25.1.83; } minute of 26.1.83 to FST confirmed that } dropped	-	-	-
(d) Debt-equity conversion		-	-	-
(Continued/..)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(e) Zero and deep-discounted stock.	Consultative document issued 12.1.83, with comments requested by 11.2.83. Not costed since no definite proposal yet decided. Shelf issues will need to be considered in light of response.	na	na	na
(f) Simplification of PAYE and NIC payment: Schedule E/D	Discussed at FST meeting 17.1.83. Further Revenue (Mr Blythe) submissions commissioned on "net of tax" pay tables and Schedule E/D issues, expected by 4.2.83.			
(g) Capital transfer tax	FST minuted Chancellor 18.1.83 proposing package of improved rate scale, higher agricultural/business reliefs and extended instalments period. Additional Revenue submissions (20.1.83 (Mr Isaac) and 25.1.83 (Mr Beighton).	34	70	90
(Continued/..)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(h) Loan Guarantee Scheme	Discussed at HIG meeting 11.1.83. Detailed DOI proposals awaited: interim submission (Mr Bailey) to Chancellor 24.1.83.	(pe) 5	(pe) 5	-
(i) Enterprise agencies: widening of qualifying conditions for relief	Proposed in Mr Heseltine's letter of 6.1.83. Presumption at Chancellor's meeting on 12.1.83 against; no cost figures therefore included.	-	-	-
(j) VAT registration etc thresholds EST	Customs submission 24.12.82. Ministerial decision reached. <u>SETTLED</u>	5	10	10
(Continued/..)				





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(k) Corporation tax: small companies profits limits and rates. MST(R)	Revenue submission (Mr Battishill) 26.1.83. 1% reduction in rate would cost £10 million in 1983-84 and £15 million in full year. Cost of increase in limits to £100,000, £250,000 shown opposite.	6	9	10
(l) Schedule D case V trading losses (starter number 161)	Revenue submission (Mr Keith) of 22.12.82 to FST; Chancellor's meeting 12.1.83 agreed that should remain on the table.	under 1	under 1	under 1
(m) De minimis limit for assessment of apportioned income (starter number 152) MST(R)	Revenue submissions (Mr Prescott) to MST(R) 18.1.83 and 25.1.83. MST(R) recommended increase to Chancellor 26.1.83.	under 1	under 1	under 1
(n) Relief for interest-employee buy-outs (starter number 189)  (Continued/..)	Revenue submission (Mr Stewart) to FST 28.1.83 Costs very dependent on take-up: figures assume 100,000 employees with relief on £150 each. Wider repercussions could increase costs.	under 1	2	5



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(o) Close companies: ACT limit on loans (starter number 181) MST(R)	Discussed at Chancellor's meeting on 24.1.83 on the mortgage interest relief ceiling. MST(R) minuted Chancellor 28.1.83 recommending that limit be kept in line with latter.	under 1	under 1	under 1
(p) Enterprise Bonds	FP (Mr Reed) submission to FST 17.1.83. FST (25.1.83) said item should be dropped.	-	-	-
(q) CGT monetary limits	Revenue (Mr Bryce) submission to FST 13.1.83. FST (17.1.83) commended package to Chancellor.	under 1	under 1	under 1
(r) CGT - retirement relief	Revenue (Mr Beighton) submission to FST 7.1.83. FST (12.1.83) suggested an increase to £100,000 should form part of package.	under 1	under 1	under 1
(s) VAT - annual accounting (starters no 5)	Chancellor's meeting 28.1.83 agreed unlikely but not ruled out. Cost in 1983-84 £20 million and 1984-85 £170 million, but once-for-all.	-	-	-
(Continued/...)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(t) VAT - bad debts	Suggested in Lord Cockfield's letter of 12.1.83. Customs (Mrs Strachan) submission pending: it will advise against and costs therefore not included at this stage. Costs would be substantial if extensive relief granted.	-	-	-
	TOTALS	50	95	115
	of which public expenditure	5	5	-



**CONFIDENTIAL**

PACKAGE: WIDER SHARE OWNERSHIP

DATE : 31 January 1983

Minister in lead: FST

Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Reintroduction of relief for "top hat" schemes.	Mr Jenkin's proposal (letter 6.12.82) rejected at Chancellor's meeting 12.1.83; meeting also discussed broadly similar Bank proposal (paper 10.1.83). Revenue (Mr Martin) submission 21.1.83 recommended against Bank proposal. FST minute to Chancellor (24.1.82) recommended that item should not be included in package. Cost of up to £20 million therefore not included.	-	-	-
(b) Changes to existing schemes	Revenue submission (Mr Martin) 21.1.83. FST's recommendations in minute to Chancellor 24.1.83. Costs opposite: cost of Mr Jenkin's proposals (up to £100 million) <u>not</u> included. Parallel submission on related SAYE issues from HF (Mr Monck) to EST 24.1.83; meeting arranged for 1.2.83.	20	35	40-45
(Continued/..)				





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
	TOTALS of which public expenditure	20 nil	35 nil	40-45 nil
	<p><u>Note:</u> Now questionable whether there are sufficient items for free-standing wider share ownership package. Measures could alternatively form part of Small Firms and Enterprise package (as in previous Budgets).</p>			



Minister in lead: CST unless otherwise stated  
Official in lead: Mr Bailey

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Extension of transitional period for capital allowances on British films.  FST	Financial Secretary agreed extension 12.1.83 following Revenue (Mr Battishill) submission 3.12.81 announced on 19.1.83.  <u>SETTLED</u>	nil	nil	- (30 in 1985-86, 65 over 1985-88 period)
(b) Extension of transitional period for capital allowances for rented teletext televisions  FST	Financial Secretary agreed extension 7.1.83 following Revenue (Mr Battishill) submission of 23.12.82.  <u>SETTLED</u>	nil	10	- (10 in 1985-86, 35 over 1984-87 period)
(continued/..)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(c) Small Engineering Firms Investment Scheme.	Mr Jenkin's proposals of 12.1.83 involve total bids of £67 million for 1983-84, £128 million for 1984-85 and £145 million in 1985-86. IA submission (Mr Bailey/ Mr Lovell) to Chancellor of 24.1.83 recommends proposals involving expenditure of £45 million, £75 million and £75 million respectively.			
(d) "Alvey" - support for research in advanced IT.				
(e) "Support for Innovation" programme.		(pe) 45	(pe) 75	(pe) 75 (1985-86)
(f) Other expenditure items				
		TOTALS of which public expenditure	45 45	85 75



BUDGET PACKAGES  
SUMMARY NOTE

**CONFIDENTIAL**

PACKAGE: CONSTRUCTION  
DATE : 31 January 1983

Minister in lead: CST  
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Mortgage Interest Relief ceiling (starter no 105)	(FP (Mr Robson) submission on package as a whole to CST 27.1.83). Revenue (Mr Stewart) submission 3.12.82 to FST. Discussed at Chancellor's meeting on 24.1.83; inclination against. Further note from FP (Mr Moore) 28.1.83. Pending decision costs included in package and assume increase to £35,000. Cost of latter after 5 yrs would be £200-300 million.	75-100	100-125	75-100
(b) Stamp duty threshold MST(R)	Discussed at Chancellor's meeting 24.1.83. Revenue (Mr O'Leary) note 1.2.83 to seek confirmation that item dropped.			
(c) DLT - own use deferment	Revenue (Mr Beighton) submission 13.1.83. MST(R) recommendation for extension of existing deferment provision to be recorded in FP (Mr Robson) submission on package.	-	less than 1	5
(d) Home Improvement - repair grants or enveloping.	Mr Heseltine's letter of 6.1.83. Discussed at Chancellor's meeting 25.1.83. CST to consider further. No costs included at this stage.	-	-	-

**CONFIDENTIAL**





BUDGET PACKAGES  
SUMMARY NOTE

**CONFIDENTIAL**

PACKAGE: CONSTRUCTION  
DATE : 31 January 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(e) Extend capital allowances for assured tenancies to shared ownership properties	Mr Heseltine's letter of 6.1.83. FST minuted Chancellor (19.1.83) advising against action.	less than 1	1	5
(f) Minor items in Mr Heseltine's 6.1.83 letter including:				
(i) capital allowances for refurbishment of industrial and commercial buildings.	) Revenue (Mr Kuczys) submission of 24.1.83 recommended against. FST minute 28.1.83 to Chancellor endorsed recommendation.	less than 1	na	50-250
(ii) increase proportion of office space qualifying for Industrial Building Allowance.		less than 1	na	15-25
(Continued/..)				

**CONFIDENTIAL**



BUDGET PACKAGES  
SUMMARY NOTE

**CONFIDENTIAL**

PACKAGE: CONSTRUCTION  
DATE : 31 January 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(iii) Allow private landlords to offset repair costs against <u>all</u> income	<p>Revenue (Mr Kuczys) submission of 24.1.83 recommend against. FST minute 28.1.83 to Chancellor endorsed recommendation.</p> <p><u>Note</u> GE (Mr Kelly) separate submission 28.1.83 to CST on possible public expenditure elements of package.</p>	less than 1	2	5
	TOTALS	75-100	100-130	155-390
	of which public expenditure	nil	nil	nil

**CONFIDENTIAL**



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) North Sea regime, phasing out APRT etc (starter no 109)	Chancellor agreed provisional package at meeting 5.1.83. Mr Lawson has suggested more costly package (£200 million in 1983-84 and around £500 million in subsequent years). Costs of this agreed package shown at (i). MST(R) minuted Chancellor 28.1.83 recommending package with accelerated phase-out of APRT; costs shown at (ii).	(i) 40  (ii) 90	(i) 160  (ii) 140	(i) 345 1985-86  (ii) 345 1985-86
(b) PRT expenditure reliefs and receipts (starter no 115)	Consultative document issued (May 1982). Revenue (Mr Crawley) submission 26.1.83. Costs very dependent on options; could be yields of £15 million in 1983-84, £70 million in 1984-85 and £100 million in later years. Costs not included in package total.	-	-	-
(c) PRT. Minor provisions (starter nos 162, 163, 164, 167, 184, 187 and 192)	Following Revenue (Mr Crawley) submission 21.1.83 on ranking, MST(R) minute to Chancellor 26.1.83 recommended action on:- (i) oil valuation (187); (ii) gas supplies between fields in common ownership (167); (iii) recovery of overallowed PRT expenditure relief (164). Items involve roughly balancing mix of small costs and yields.	-	-	-



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
d) PRT: exempt gas & payback (starter no. 166)	Inland Revenue awaiting details from company which may be affected. Submission from Mr Crawley next month. No costings possible until details received.	na	na	na
	TOTALS	40-100	140-160	345 (1985-86)
	of which public expenditure	nil	nil	nil





BUDGET PACKAGES  
SUMMARY NOTE

**CONFIDENTIAL**

PACKAGE: TOURISM  
DATE : 31 January 1983

Minister in lead: EST  
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) VAT reliefs	FP (Mr Robson) submission of 13.1.83 to EST examined the case for a tourism package and the measures it might include. These are:-  Dropped at Chancellor's meeting 28.1.83.	-	-	-
(b) Rating reliefs	Because of the difficulties involved with his proposal, it has not been costed into the package.	-	-	-
(c) Capital allowances	There are two main proposals:- for hotels (i) an increase in the existing 20% initial allowance to, say, 50%;	nil	5	(around 10 after 4 years)
(continued/..)	(ii) extension of allowances to smaller hotels and self-catering accommodation.	nil	2	(around 5 after 4 years)

**CONFIDENTIAL**



BUDGET PACKAGES  
SUMMARY NOTE

**CONFIDENTIAL**

PACKAGE: TOURISM  
DATE : 31 January 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(d) Increased grants under Sector 4 of Development of Tourism Act.	<p>The EST minuted the Chancellor on 19.1.83 recommending against all of these measures other than (c)(i), an item which could also form part of a construction package.</p> <p><u>Note:</u> Chancellor's office has asked Mr Sproat to write with his proposals as soon as possible.</p>	(pe) 3-4	(pe) 3-4	-
	TOTALS	3-4	10-11	-
	of which public expenditure	3-4	3-4	-

**CONFIDENTIAL**



BUDGET PACKAGES  
SUMMARY NOTE

**CONFIDENTIAL**

PACKAGE: AGRICULTURE  
DATE : 27 January 1983  
Minister in lead: FST  
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) CTT agricultural relief for let land	} Both recommended in FST's minute to Chancellor of 18.1.83. They are also part of the CTT item (g) in the Small Firms and Enterprise package, and therefore <u>not</u> costed here. Revenue (Mr Bryce) submission to FST 18.10.82. FST decided (13.1.83) not to pursue this year. FST asked (10.1.83) Revenue (Mr Battishill) to examine. This is among proposals in Lord Ferrers's letter of 21.1.83; FST's reply of 24.1.83 indicates presumption against all these proposals and therefore no costs included at this stage.	-	-	-
(b) CTT payment by instalments		-	-	-
(c) CGT rollover relief for let agricultural land.		-	-	-
(d) Rental income to be treated as earned income		-	-	-
	TOTALS	Nil	Nil	Nil
	of which public expenditure	Nil	Nil	Nil

**CONFIDENTIAL**

PAGE NUMBER



BUDGET PACKAGES  
SUMMARY NOTE

**CONFIDENTIAL**

PACKAGE: BETTING AND BREEDING  
DATE : 31 January 1983

Minister in lead: EST  
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) VAT on bloodstock	Dropped at Chancellor's overview meeting 25.1.83	-	-	-
(b) General betting duty	Customs submission (Mr Freedman) of 11.1.83. EST minute to Chancellor (18.1.83) recommended against general reduction and suggested that any concession should be on "tax on tax" point. Chancellor's meeting 28.1.83 agreed that should be dropped.	-	-	-
(c) Gaming licence duty on casinos	Customs submission (Mr Freedman) 21.1.83. EST's minute to Chancellor 25.1.83 recommended shift in burden from smaller to larger casinos. Chancellor's meeting 28.1.83 agreed that should be dropped.	-	-	-
	TOTALS	nil	nil	nil
	of which public expenditure	Nil	Nil	Nil

**CONFIDENTIAL**





**CONFIDENTIAL**

PACKAGE: CARING AND CHARITIES  
DATE : 31 January 1983  
Minister in lead: CST  
Official in lead: Mr Monger

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Extension of Widow's Bereavement Allowance for further year.	Following CST meeting 25.1.83 submission by ST (Mr Monger) preparation, to be forwarded 31.1.83 or 1.2.83.  FST recommended (11.1.83) following Revenue (Mr Isaac) submission of 23.12.83. Chancellor (12.183) said that decision should be taken in context of this package, so decision pending.	20-25	25.30	25.30
(b) Restoration of 5% abatement of invalidity benefit.	) Neither currently included in package emerging from MISC 88. But discussions on small changes continuing: (c) a possibility, (b) less likely.	(pe) 20	(pe) 56	(pe) 60 (1985-86)
(c) Removal of invalidity benefit "trap".		(pe) 7	(pe) 16	(pe) 17 (1985-8_)
(continued/...)				



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(d) Development of voluntary etc care services for elderly	} Proposals in Mr Fowler's paper, for discussion at Family Policy Group (no date fixed), on care of the elderly. FST minuted Chancellor 21.1.83 that in favour of (f) as part of package containing (e).	(pe) 8	(pe) 8	(pe) 8 (1985-86), 25 over 3 years)
(e) Extension of Invalid Care Allowance.		(pe) 4	(pe)12	(pe) 12 (1985-86)
(f) Abolition of Dependent Relatives Allowance		<u>15 yield</u>	<u>20 yield</u>	<u>20 yield</u>
(g) Abolition of £250,000 ceiling for CTT exemption on gifts to charities.	FST and CST (minutes of 20.12.82 and 21.12.82) agreed that should be considered.			
(h) Deeds of covenant: increase in ceiling for higher rate relief.	Costs are for increase from £3,000 to £5,000.	nil	3	3
(continued/...)				



ITEM	STATE OF PLAY	REVENUE COST £m			
		1983-84	1984-85	Full Year	
(i) Other fiscal measures: (i) relief for payroll giving; (ii) relief for individual donations; (iii) relief for company donations; (iv) relief for seconded staff; (v) covenanted payments gross.	) ) ) ) ) ) ) ) ) )	To be covered in ST submission, although all have been rejected in the past. Items (iii) and (iv) advocated in Mr Heseltine's letter of 6.1.83. Mr Heseltine's proposal that charitable status be extended to sport and recreational bodies will also be covered in this submission. No costs included at this stage.	-	-	-



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(J) Other public expenditure measures: (i) investment grants to voluntary sector; (ii) central grant to National Association of Councils of Voluntary Service.	To be covered in ST submission.  Note: Additional provision has been added as a contingency margin against expected bids by Mr Fowler for minor benefit changes	(pe) 5  (pe) 5  (pe) 5	(pe) 5  (pe) 5  (pe) 15	(pe) 5 (1985-86)  (pe) 5 (1985-86)  (pe) 15 (1985-86)
	Totals of which public expenditure	60-65 54	125-130 117	130-143 122





BUDGET PACKAGES  
SUMMARY NOTE

**CONFIDENTIAL**

PACKAGE: FAIRNESS IN TAXATION  
DATE : 31 January 1983

Minister in lead: FST and MST(R)  
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Fringe benefits: scholarships (starter no 197)	Chancellor's meeting 22.12.82 agreed on legislation. Revenue (Mr Blythe) submission on 13.1.83.	1-10 <u>yield</u>	1-10 <u>Yield</u>	1-10 <u>Yield</u>
(b) Fringe benefits: others (starter nos 133 and 134)	Budget will contain announcement about uprated car and car fuel benefit scales for 1984-85. Revenue (Mr Driscoll) submission on this and other benefits pending. Costs depend on options for change and not yet quantifiable	na	na	na
(c) CGT: capital loss buying: groups of companies (starter no 142)	} Revenue submission (Messrs Battishill and Beighton) 27.1.83	Nil	5 <u>yield</u>	30 <u>yeild</u>
(d) Group relief: avoidance (BL). (starters no 119)		na	30 <u>yield</u>	30 <u>yield</u>
(Continued/...)				

**CONFIDENTIAL**



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(e) Life assurance: changeable events: secondhand bonds (starters no 110)	Announcement of intention to legislate 24.6.82.	under 1 <u>yield</u>	under 1 <u>yield</u>	under 1 <u>yield</u>
(f) DLT: disposals by non-residents (starters no 149)	Revenue (Mr Beighton) submission on 5.11.82. Discussions being held with Law Society and RICS.	1 <u>yield</u>	2 <u>yield</u>	2 <u>yield</u>
(g) Stock relief: payments on account (Starters no 154)	Revenue (Mr Battishill) submission 2.12.82. MST(R) authorised drafting (19.1.83); item to be reviewed in light of other measures affecting construction industry.	under 1 <u>yield</u>	10-15 <u>yield</u>	15 <u>yield</u>
(h) Stock relief: deny to commodity/bullion dealers (Starters no 153)	Revenue (Mr Battishill) submission by 4.2.83	under 1 <u>yield</u>	15-30 <u>yield</u>	20-40 <u>yield</u>

(Continued/...)



## CONFIDENTIAL

BUDGET PACKAGES  
SUMMARY NOTE

PACKAGE: FAIRNESS IN TAXATION  
DATE : 31 January 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(i) Interest charges on late payments of directors tax.	Dropped at Starters meeting 27.1.83.	-	-	-
(1) Taxation of international business (starters 157)	Draft legislation published December 1982; comments requested by mid February.	under 1 <u>yield</u>	under 1 <u>yield</u>	80-100 <u>yield</u>
	TOTAL <u>YIELDS</u>	2-10 <u>yield</u>	60-90 <u>yield</u>	175-225 <u>yield</u>

CONFIDENTIAL

PAGE NUMBER 3



ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Investment income surcharge - abolition	To be covered in further Revenue (Mr Blythe) submission on personal tax, week ending 4.2.83, as requested at Chancellor's Overview meeting 25.1.83.	15	150	250
(b) Stamp duty - selective reform package	To be covered in Revenue (Mr O'Leary) submission 1.2.83 to MST(R).	5-10	5-10	5-10
TOTALS		20-25	155-160	255-260
Note: There are in addition a number of unplaced "heritage" proposals. These are:-				





ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
	<p><u>Mr Heseltine, 6.1.83</u></p> <p>(i) VAT exemption for works of art accepted in lieu of tax</p> <p>(ii) tax relief for business contributions to preservation and environmental trusts</p> <p><u>Lord Bellwin, 18.1.83</u></p> <p>(iii) tax allowances for repairs to listed buildings.</p>	<p>na</p> <p>na</p> <p>na</p>	<p>na</p> <p>na</p> <p>na</p>	<p>na</p> <p>na</p> <p>na</p>



## CONFIDENTIAL

NOTE C

31 January 1983

## OTHER FISCAL RISKS AND POSSIBILITIES

£ million

1983-841984-85**Possible Public Expenditure****Unemployment.** Three candidates may be proposed:-

i. Extension and modification of TSTWCS	115		100	
ii. Continuation of Enterprise Allowance Pilot Scheme (will be announced before Budget)	2		3	
iii. Early retirement: extension of existing scheme entitling people over 60 to leave labour market in exchange for long-term Supplementary Benefit rate. Largest DHSS option, say	<u>25</u>	142	<u>27</u>	130

**Petrochemicals.** A review of current problems may lead to proposals to give assistance either by way of PRT modification or by public expenditure means

	<u>100</u>		<u>100</u>	
	<u>242</u>		<u>230</u>	

**Possible Tax**

**Empty Property Rates.** Wide range of possible options for reductions with widely varying costs. Say

	50		50	
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**Specific Duties.** Less than full revalorisation: say up to

	100		100	
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**Investment Income Surcharge.** Cost of abolition

	15		150	
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**Stamp Duty.** Various reforms, say up to

	10		10	
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**Car Tax.** Suggestions have been made that this tax (currently 10 per cent) should be reduced or abolished. A 2½ per cent reduction would cost

	<u>120</u>		<u>160</u>	
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	<u>295</u>		<u>470</u>	
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**TOTAL**

	<u>537</u>		<u>700</u>	
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Note: **Coal Prices** and major action on **Industrial Rates** now effectively ruled out.

