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PO -CH /GH/0007

PART A

BUDGET 1983 INDIRECT TAXES AND PETROL DERV

DD 25 years NA[illegible] 15/7/94

PO -CH /GH/0007

PART A

From the
Minister of State

Whitehall Place London SW1A 2HH

3/6/5

FM
26/1

The Hon Nicholas Ridley AMICE MP
Financial Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3HE

Mr. Beighton/IR
PS/Chancellor
PS/CST PS/EST
Minister of State (C) Minister of State (R)
Mr. Ridley
Mr. F. Heber
PS/IR PS/C&E

21 January 1983

Mr Griffiths
c Mr Houston

Dear Nicholas,

AGRICULTURAL TAXATION

In accordance with the usual arrangements, officials here have sent to officials at the Inland Revenue a memorandum outlining possible tax changes in relation to agriculture which this Department would like to see reflected in this year's Finance Bill.

Peter Walker and I have approved the memorandum and we hope that it will be considered carefully. The memorandum presses strongly for adjustments in the taxation system to encourage the letting of land. I have seen copies of the representations which have been made by the NFU, the CLA and the Scottish Landowners Federation, and it is clear that this issue is a major concern.

I am very concerned about the small amount of land which is now being let, which is totally frustrating to young men who want to farm. For reasons which we all know, we could not implement legislation this Parliament altering the landlord/tenant structure. There are still, however, considerable fiscal adjustments which could be made and which would be of great assistance in encouraging more land to come on to the market for letting. Your help in this area would be greatly appreciated.

The key factor is that the agricultural landlord should be regarded for tax purposes as running a business rather than managing an investment. If the classification were to be changed, then:-

BUDGET 1983
INDIRECT TAXES

+

PETROL + DERV.

1108

(i) rents would be freed from the investment income surcharge;

(ii) tax relief could be claimed on borrowings;

(iii) VAT incurred on repairs and maintenance could be reclaimed;

(iv) CGT roll-over relief and retirement relief would also be available.

These measures would undoubtedly do a great deal to encourage the letting of land and I hope that they will find a place in the Budget proposals.

I should also like to urge a change in the Agricultural Building Allowance arrangements. These are out of line with the Industrial Buildings Allowance and a shorter write off period would stimulate investment in agriculture and forestry and also encourage employment in the construction industry.

If any of the proposals in the Departmental memorandum are unclear, or if your officials have alternative proposals to achieve the same objectives, I hope they will discuss them with officials here.

I am copying this letter to William Mansfield and Nicholas Edwards.

Yours ever,

Robin

FERRERS

PS/Chief Sec
PS/Fin Sec
PS/Econ Sec
PS/Minister of State (C)
Mr Middleton
Mr Burgh
Mr Robson
Mr Barber
Mr Wicks
Mr French
PS/Inland Revenue

Mr Murphy
Treasury Copy for BIOIS

CONFIDENTIAL

CH/EXCHEQUER
27 JAN1983
PS/MST(R)

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON

January 1983

Dear Geoffrey,

You may recall that following my visit to the United States in September I wrote to you (on the 30th of that month) relaying the gist of the strong comments made to me by the Standard Oil Company of California (Chevron) about the UKCS tax regime and the negative effect which, in the Company's opinion, this is having on the continued development of the UKCS and hence on prolonging self sufficiency.

Such comments now seem to be fairly commonplace. For my own part I have received a number of representations on the subject from oil companies, suppliers and local authorities with oil developments in their areas and I imagine this is only a fraction of the lobbying which you, Nigel Lawson and Hamish Gray have experienced. The line I have been taking is that individual comments, often couched in the same general terms and unsubstantiated, are not sufficient and that it is for the industry as a whole to put together a case, if it can, to support its view that unless concessions are made developments will not take place. I believe that UKOOA has been doing further work in that direction.

As you know the main thrust of the industry's argument is that future oil finds are likely to be much smaller than those discovered hitherto (eg Forties, Brent) and that in the more "marginal" of these fields development, which is crucial to sustain self sufficiency, is likely to be hindered by the present tax regime: considerations such as the oil price and what I sense as a growing uncertainty as to how this is likely to move, technical considerations and the generally depressing effect of the recession on companies' cash flow being, conveniently, subordinated. I understand that Treasury and Energy officials are currently reviewing the effect of taxation on marginal fields. I know that in considering their findings in a Budget context you will have full regard to the need to maximise development of the UKCS not only from the fiscal and security of supply viewpoint but also in terms of maintaining a strong supply industry. The oil supply industry, providing about 85,000 to 100,000 jobs in Scotland, has been one of the main success stories

in the Scottish economy in recent years and you will fully understand my concern to see it continue. At the present time the platform construction industry is going through a lean period. Inevitably this will permeate its way through to its suppliers. So far it has been possible to put this down to the cyclical nature of the industry and to hold out the promise of better days to come (viz the development of North Alwyn and Clyde) but I am anxious to see a steady development of the North Sea, including inevitably the marginal fields, otherwise I fear that some companies facing an uncertain future will close down permanently. This, we would all agree, would be a great tragedy in an industry which has grown to command a highly creditable share of UKCS orders.

I am copying this letter to Nigel Lawson.

Yours ever,

NOTE OF A MEETING ON THURSDAY 3 FEBRUARY 1983 AT 3.30PM IN THE CHANCELLOR'S ROOM, HM TREASURY

Present: Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Mr Burns
Mr Middleton
Mr Cassell
Mr Kemp
Mr Moore
Mr Monger
Mr Robson
Mr Kerr
Mr Ridley
Mr French

Sir Lawrence Airey)
Mr Isaac)
Mr Blythe) Inland Revenue
Mr Spence)

PERSONAL TAXATION AND CHILD BENEFIT

Dependent relative allowance and other minor personal allowances

Papers: Financial Secretary's minute of 24 January
Mr Spence's minute of 18 January

In a brief discussion the Chancellor said that while he was attracted in principle to the idea of abolishing the minor allowances when raising tax thresholds he felt that this was not a measure to be included in the Budget this year. He was not attracted to the idea of focussing on one of the minor personal allowances eg. the sons or daughters service allowance, and abolishing that. Nonetheless he would defer a final decision until the outcome of the discussion in the Family Policy Group on 9 February was known.

Child benefit

Papers: Mr Monger of 27 January
Mr Monger of 2 February
Ministerial comments

2. In discussion the following points were made:

(i) Although increases in child benefit had to be seen alongside increases in income tax allowances it would be wrong to give the impression that they were linked in some mechanical way. That could lead to the worst of all situations whereby child benefit was linked to the tax allowance increase or the general benefit increase whichever was the greater.

(ii) Mr Walters said there could be a case for raising child benefit and bringing it into tax. That would mitigate the problem of the large amount of dead weight. It was pointed out that this would mean a significant shift from the wallet to the purse and would raise the tax burden.

(iii) It was pointed out that the poverty trap could be ameliorated by raising the child dependency addition for those on supplementary benefit in line with other benefits, and not linking it to the rise in child benefit.

(iv) It was agreed that claiming a higher uprating and then adjusting for claw-back was not presentationally advantageous.

3. There was a brief discussion of the options set out in Mr Monger's paper. The Chancellor thought it best to defer a final decision.

Personal taxation

Papers: Mr Blythe of 11 January
Mr Blythe of 28 January

4. After a brief discussion it was decided that the options of indexation plus 3 per cent and indexation plus 13 per cent could be dropped for future consideration. The Inland Revenue offered to work up a variant on indexation plus 8½ per cent which would for example offer an extra £100 a year in allowances to married men.

The investment income surcharge and higher rates

Paper: Mr Spence of 2 February

5. The Financial Secretary said that he saw some attraction in a package which would involve doing no more than index the higher rate bands but would also abolish the investment income surcharge. There was some discussion of the merits of action on the investment income surcharge. The Chancellor said he did not see many attractions in its abolition this year. Mr Ridley suggested that abolition could be considered for the over-65s, but the Minister of State (C) pointed out that this could lead to presentational difficulties vis a vis the recovery of overshoot on retirement pensions. Mr Burns suggested there could be a case for an across-the-board reduction in the rate of the investment income surcharge. Mr Isaac pointed out that manpower considerations pointed very definitely in the direction of a higher threshold rather than a reduced rate. Mr Walters and Mr Burns saw merit in reducing the rate as a signal of the intention to abolish the investment income surcharge. It was an argument analogous to that used in justifying cuts in the national insurance surcharge. The Chancellor asked the Inland Revenue to look at the options of a 5 per cent cut in the rate of the investment income surcharge and a rise in the threshold. He did not think that the option of action on the investment income surcharge for the over-65s alone should be pursued.

6. In discussion of action on the higher rate bands, Sir Lawrence Airey argued that he would wish to see the higher rate bands increased in line with the basic rate threshold. The UK tax system was already very progressive in comparison with that of other countries. The Chief Secretary said he had reservations in principle on de-coupling the higher rate bands from the basic rate. The Minister of State (C) thought it worrying that the Inland Revenue diagrams indicated that with indexation plus 8½ per cent the highest gain was for those earning in excess of £30,000 a year. Mr Robson said that there was one problem. Indexation plus 8½ per cent was just sufficient to maintain or reduce the average rate of tax and national insurance contributions this year for all those contracted in, but because of the upper earnings limit on NIC contributions higher rate taxpayers would see a substantial cash gain from indexation plus 8½ per cent. Mr Burns said that it would be pointed out that it was difficult to justify tackling the unemployment trap by putting money into rich pockets. The Chancellor pointed out that for purposes of the speech it was presentationally easiest to raise the higher rates bands by the same amount as the basic rate. Nonetheless he would be grateful if the Inland Revenue would work up a variant to take account of Mr Robson's point by restricting the percentage gain to higher rate taxpayers to the same as those taxpayers on the top of the basic rate scale.

6. The meeting closed at 4.45pm.

JCR

JILL RUTTER
4 February 1983

Distribution:

Those Present
PS/EST

CONFIDENTIAL

FROM: ROBIN HARRIS
DATE: 3 February 1983

CHANCELLOR'S MORNING MEETING

261st Meeting

Note for the Record

Present: Chancellor
Chief Secretary
Economic Secretary
Minister of State (R)
Mr Renton MP
Mr Goodlad MP
Mr Ridley
Mr French
Mr Harris

1 done but not JR
2 policy, please
3 JR again

1. Mr Tony Jay's Film

The Chancellor asked that Ministers and advisers who had not yet seen Mr Jay's film should do so and he asked Mr French, in the light of comments received, to draft a letter for him to send to Sir Keith Joseph about it.

2. VAT on the Sale of Works of Art

The Chancellor asked that, in the light of current controversy, officials should prepare for him a note setting out clearly and in detail the position as regards liability to VAT on sales of works of art.

3. Comptroller and Auditor General

The Chancellor and the Chief Secretary agreed that an internal Treasury meeting should be held to discuss the terms in which the Chief Secretary would minute colleagues about the C&AG.

4. <u>Pay Levels in British Telecom</u>

The Chancellor observed that the unsatisfactory levels of pay revealed at BT revealed in Mr Burr's minute of 31 January should be regarded by Ministers and officials as a continuing source of concern.

5. <u>Brussels Press Conference, 7 February: Chancellor's Statement</u>

He liked it

The Chancellor asked for urgent comments from the Financial Secretary on the third draft of his statement in Brussels - circulated under cover of a minute from Mr Edwards of 2 February.

RH

ROBIN HARRIS

3 February 1983

Circulation:

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir D Wass
Sir A Rawlinson
Mr Burns
Sir L Airey
Sir D Lovelock
Mr Ridley
Mr French

NOTE OF A MEETING ON FRIDAY 4 FEBRUARY 1983 AT 9.00AM IN NO 11 DOWNING STREET

Present: Chancellor of the Exchequer (in the Chair)
Financial Secretary
Economic Secretary
Minister of State (Revenue)
Mr Middleton
Mr Moore
Mr Robson
Mr French

Mr Isaac - Inland Revenue
Mr Beighton - Inland Revenue

Professor Walters - No 10

CAPITAL TAXES

CTT deemed domicile

Paper: FST of 27 October

1. The Financial Secretary's proposal that action should be taken to deal with the problem of the offshore islands but not on the other two fronts was endorsed. It was stressed that it was important that the lowest possible profile was taken on this measure which would come in for some Opposition criticism.

CTT exemption for gifts

Paper: FST to CST of 20 December

2. The Chancellor noted this was an item for inclusion in the "caring" package.

Capital gains tax

3. It was noted that indexation would run through on the exempt amounts for CGT.

CGT retirement relief limit

Papers: Mr Bryce of 6 January to the FST
Mr Beighton of 7 January to the FST
FST to the PS/CST of 12 January

4. The Chancellor endorsed the Financial Secretary's proposal to raise the maximum limit on retirement relief for CGT from £50,000 to £100,000.

CGT annual exempt amount; upper monetary limits

Papers: Mr Bryce of 13 January to FST
FST of 17 January

5. The Chancellor endorsed the changes proposed by the Financial Secretary.

Capital transfer tax:main issues

Papers: FST of 18 January
Ministerial comments
Mr Isaac of 20 January
Mr Beighton of 25 January

6. The Financial Secretary said that the crucial question was how much the Chancellor felt he wanted to devote to CTT reform in the Budget. Presentationally it could be argued that the burden of the tax would even under the more expensive of his options be considerably heavier than when it had been introduced by Mr Healey. Of the scales proposed his own preference was for scale H which would raise the starting threshold to £65,000 which would have manpower advantages. The cost of scale H was £75 million in a full year. He had been initially attracted towards scale B and C but he thought those were too expensive. They had the political disadvantage of being seen to give a lot of help to the largest estates. That was why he had opted for cutting the top rate to 70 per cent rather than 60 per cent. Mr Isaac said that the

Inland Revenue supported the FST's proposal of scale H. He thought that the starting threshold was now at a reasonable point but what was important was to expand the width of the bands. The present scale hit small to middling estates very heavily indeed.

7. In discussion it was pointed out that it was essential to look at the scales alongside the reliefs. Mr Isaac expressed a strong preference for action on rates and bands rather than on reliefs because of the disincentive effect of high nominal tax rates. It was pointed out that further relief for agriculture would put upward pressure on the price of land. In some ways there was a better case for action on business reliefs than on reliefs for land. The case for business relief was constantly being argued by representatives of the Unquoted Companies Group who argued that under the present system it was impossible for their businesses to survive intact. The Financial Secretary thought that a package which offered business relief as he proposed, concessions on puchase of own shares and the business expansion scheme should go a substantial way towards meeting the UCG's worries. The idea of differentiating between business relief and agricultural relief was floated but it was pointed out that this could lead to exceptional borderline problems where, for example, the livestock and equipment on a farm qualified for business relief but the land of the farm was treated at a different rate.

8. The Chancellor said that over the longer term, for a post-Election Budget he was attracted to moving towards scales B and C which had a maximum rate of CTT of 60 per cent. He would like to see that done in the context of abolition of the investment income surcharge. He wondered about the possibility of buying out the business and agricultural reliefs. Mr Beighton said that studies done last year suggested that buying out relief would lose three-quarters of the yield. The Financial Secretary thought that action on the business and agricultural reliefs offered a useful way in today's political situation of alleviating the effects of CTT without being politically provocative.

The Economic Secretary noted that his preference was for action on rates though he recognised the political difficulty.

9. Summing up this discussion the Chancellor said that for a post-Election Budget he was attracted to a 60 per cent maximum rate combined with parallel action on the investment income surcharge. He would be grateful if the Inland Revenue would re-examine the option of buying out reliefs. In this context it was noted that raising the reliefs to 60 per cent and 40 per cent would substantially raise the cost of buying out. For the present he wished to leave the 4 packages outlined by the Financial Secretary in his minute on the table. He would wish to look again at the capital taxes package alongside action proposed on the investment income surcharge when the political flavour of the Budget became clearer.

10. The Financial Secretary raised a separate point which was also an element of his package, the extension of the instalment period from 8 to 10 years. This would fit in with 10 year cumulation and the new 10 year charge to be introduced in the case of discretionary trusts. The move was not expensive but it would ease cash flow problems for businesses and agriculture. The Chancellor said that the move seemed sensible but he would like to leave final consideration until the major elements in the package were decided.

JKR

JILL RUTTER
7 February 1983

Distribution:
Those present
PS/CST
PS/MST(C)
Mr Hall o/r

FROM : S A ROBSON
DATE : 9 FEBRUARY 1983

CHIEF SECRETARY

c.c. Principal Private Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Sir Douglas Wass
Mr Middleton
Mr Kemp
Mr Moore
Mr Griffiths
Mr French

PS/IR
PS/C&E

BUDGET REPRESENTATIONS : ROYAL INSTITUTE OF BRITISH ARCHITECTS

Miss O'Mara's minute of 7 February.

2. You may like a quick assessment of RIBA's proposals.

3. They start with some general comments on the decline in public sector construction expenditure and on underspending. It is not clear they have really come to terms with the secular decline in public sector construction. On underspending, the likely outcome of your discussions with Mr King on capital allocations will be some help.

4. Turning to their specific proposals :

(a) raise VAT threshold to £20,000. Ministers have decided to revalorise the threshold present £17,000 threshold. Going further would be in breach of EC objections

(b) VAT zero rating for repair and maintenance of buildings - covered in my submission of 26 January. Rejected on grounds of cost and EC restrictions.

(c) VAT zero rating for energy conservation - installation of double glazing and insulation is already zero rated. It is not clear that RIBA want but it is probably to extend zero rating to modification to existing systems (which unlike installation is 15 per cent rated) and to internal wall cladding. This is small beer. The problem would be to establish a new boundary line in what is already a difficult area.

(d) allow abortive expenditure against schedule A income - the issue here is complex. It relates to abortive capital expenditure by property investment companies. The architects fees associated with a building are treated as part of the capital costs of a building. RIBA are proposing that abortive capital expenditure (in the form of architects fees) should be allowable. But the sort of buildings usually involved are commercial ones on which there is no allowance if the expenditure is not abortive (i.e. the building is built). It would be paradoxical indeed to give an allowance only if the expenditure was abortive. The Financial Secretary recently considered whether any concessions were possible in this area (which has also featured in the representations of the British Property Federation) but concluded they were not.

(e) increase permissible on office content of industrial buildings to 20 per cent. You are recommending an increase to 25 per cent.

(f) increase capital allowance for industrial buildings, at least for conversion and improvement work, to 100 per cent. Covered in my submission of 26 January. Rejected. Industrial buildings allowance is already a generous 75 per cent allowance (100 per cent for small buildings). Not an effective way of stimulating the construction industry.

(g) small workshops scheme. This scheme was introduced in 1980 for a three year period to encourage the provision of industrial units of up to 25000 sq ft. It provided 100 per cent allowances. In last year's budget it was extended for a further two years but only in respect of buildings up to 1250 sq ft. The success of the scheme has produced plenty of units between 12500-2500 sq ft; the shortage now is only of the very small ones. RIBA want an extension to apply to units in the 1250-2500 sq ft range. This would mean reversing the very accurately targeted action last year.

(h) stamp duty - RIBA want abolition for first time purchasers or at least an increase of £10,000 in the threshold. The latter would cost £75-100 million in 1983-84. Ministers are disinclined to act on stamp duty this year.

(i) NIS - RIBA want abolition. You are aware of the state of decision on this.

(j) Corporation tax - RIBA want a 20 per cent rate for companies with profits under £50,000. At present companies with profits under £90,000 pay 40 per cent. A number of options are being examined, but none for a substantial reduction in rate as proposed by RIBA. There would be structural problems with the imputation system if the rate of corporation tax were brought below the basic rate of income tax. RIBA's proposal would create a band of high marginal rates of tax to move from their 20 per cent rate to the 40 per cent rate. This is similar to the problem we already have in moving from the 40 per cent rate to the 52 per cent one.

(k) new technology - RIBA want grants for the purchase of micros and of the related software. There is an innovation package on the stocks. It does not include this proposal. Micros are not expensive and, if they have anything to offer a firm, it should not need a grant to buy them.

S.A.R.

S A ROBSON

CONFIDENTIAL

FROM: JOHN GIEVE

DATE: 10 FEBRUARY 1983

PRINCIPAL PRIVATE SECRETARY

cc. PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Sir Douglas Wass
Mr Middleton
Mr Kemp
Mr Moore
Mr Robson
Mr Griffiths
Mr French

PS/IR
PS/C&E

BUDGET REPRESENTATIONS : ROYAL INSTITUTE OF BRITISH ARCHITECTS

The Chief Secretary has read the RIBA Budget representations and Mr Robson's minute of 9 February, commenting on them. He does not think they call for any change in the present options for the construction package.

JG

JOHN GIEVE
10 February 1983

CONFIDENTIAL

From: A J G Isaac

THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

9 February 1983

1. FINANCIAL SECRETARY

2. MINISTER OF STATE (R)

Separate copies

FAIRNESS IN TAXATION

1. I understand that you have asked for a submission on the "fairness in taxation" package.

2. In brief, we recommend that this "package", as such, should be dropped. There is not a lot in common between the various elements and nothing much to be gained by grouping them together. On the contrary, there is, as always, the risk that by labelling the thing as a "package", it gets a life of its own, independent of the merits of what it contains.

3. On the substantive points, we suggest that action on group relief should be dealt with, where it belongs, as part of the company tax changes and the response to the Green Paper.

4. Action on secondhand bonds and (assuming the Chancellor goes ahead) employer's scholarships should be dealt with alongside the other measures particularly affecting the well-off (I am submitting a paper this week which tries to draw all these measures together in what - I hope - is a reasonably convenient way.

5. Action on internationl businesses should probably stand on its own.

c. Chancellor of the Exchequer
Chief Secretary
Economic Secretary
Sir Douglas Wass
Mr Middleton
Mr Moore
Mr Kemp
Mr Robson
Mr French

Sir Lawrence Airey
Mr Green
Mr Isaac
Mr Painter
Mr Blythe
Mr O'Leary
Mr Beighton
Mr Battishill
Mr Taylor Thompson
PS/IR

6. Anything which the Chancellor may say about the taxation of husband and wife should, again, be dealt with quite independently.

A J G ISAAC

C / For Tuesday's session
JR 11/2

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

From: A M Fraser

Date: 11 February 1983

CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
Financial Secretary
Economic Secretary
Minister of State(C)
Minister of State(R)
Sir Douglas Wass
Mr Burns
Mr Middleton
Mr Byatt
Mr Moore
Mr Kemp
Mr Cassell
Mr Griffiths
Mr Hall
Mr Norgrove
Mr Ridley
Mr French
Mr Harris
Sir L Airey

For petrol / derv, I shall need a chronolog. table of real price / duty levels + Euro. comparisons; ✓ also @ differt oil prices

PETROL AND DERV: REVENUE AND RPI EFFECTS

At your meeting on excise duty options on 28 January you asked that a table should be produced showing the RPI impact effects of the alternatives proposed, and also the effect of the variants in changing the RPI from the forecast path.

... It may be helpful to you to have two tables. Table 1 attached shows, subject to sensible rounding, the RPI impact effect (identical to the assumption in the forecast) of the revalorisation package originally proposed in Sir Douglas Lovelock's submission of

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Internal circulation:

Mr Freedman	Mr Middleton	Mr Battle
Mr Howard	Mr McGuigan	Mr de Berker
		CPS

24 January and the effect of decisions taken so far. The latter column assumes, by way of illustration, revalorisation for petrol and derv, but this can be modified by use of the footnotes.

Table 2 is an extended table of both revenue and RPI effects for a wider range of petrol and derv options than were originally shown in the submission of 24 January. This includes some substantial real changes at the extremes, but the range reflects what could be done for an RPI variation of plus or minus 0.05 per cent.

AMF.

A M FRASER

TABLE 1

EXCISE DUTY OPTIONS: RPI IMPACT EFFECT

	Customs and Excise package		Decisions taken	
	Price change	RPI impact effect (a)	Price change	RPI impact effect (a)
		%		%
Beer	1p	0.1	1p	0.1
Wine	5p	neg	5p	neg
Spirits	25p	0.05	25p	0.05
Tobacco	3½p	0.15	3p	0.1
Petrol	4½p	0.1	[4½p	0.1] (b)
Derv	3½p	nil	[3½p	nil]
VED	£5	0.05	£5	0.05
Cider	1p	neg	1p	neg
		0.45		0.4

(a) To avoid spurious accuracy meaningful changes in the RPI are rounded to the nearest 0.05%.

(b) (i) In rounded terms, the RPI impact effect of 0.1% is produced by any petrol price change in the range of 3p - 5p.

(ii) A price change in the range of 1½p - 2½p would have an RPI impact effect of about 0.05%, reducing the overall impact of the package accordingly.

(iii) For 5½p - 7p the RPI impact effect would be 0.15%.

TABLE 2

PETROL DUTY

Price change per gallon, incl VAT	Revenue 1981-84 and full year	Change from indexed base	RPI impact effect
	£m	£m	%
1½p	70	- 140	0.05
2p	95	- 115	0.05
2½p	120	- 90	0.05
3p	140	- 70	0.1
3½p	165	- 45	0.1
4p	190	- 20	0.1
(4½p (revalorisation)	210	0	0.1
5p	235	+ 25	0.1
5½p	260	+ 50	0.15
6p	280	+ 70	0.15
7p	330	+ 120	0.15

DERV DUTY

1½p	20	- 30	nil
2p	25	- 25	nil
2½p	35	- 15	nil
3p	40	- 10	nil
3½p	45	- 5	nil
(3.7p (revalorisation)	50	0	nil
4p	50	0	nil

C

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

From: A M Fraser

Date: 11 February 1983

CHANCELLOR OF THE EXCHEQUER

I shd like the DERV option – costs, implications for VED, presentation etc – & the 11 [illegible] fully costed: both have their attractions
(See below)

cc: Chief Secretary
Financial Secretary
Economic Secretary
Minister of State(C)
Minister of State(R)
Sir Douglas Wass
Mr Burns
Mr Middleton
Mr Byatt
Mr Moore
Mr Kemp
Mr Cassell
Mr Griffiths
Mr Hall
Mr Norgrove
Mr Ridley
Mr French
Mr Harris
Sir L Airey

INDIRECT TAXES: LETTER FROM SECRETARY OF STATE FOR ENERGY

... I attach a short note analysing the recommendations about indirect taxes in the letter of 8 February from the Secretary of State for Energy. Sections 2 and 3 (petrol and derv) and the annexed tables of the latest international comparisons of road fuel prices and tax burdens will be particularly relevant to the discussion proposed for your next overview meeting on 15 February.

AMF.

A M FRASER

Internal circulation: Mr Freedman
Mr Howard
Mr McGuigan
Mr Battle
CPS

INDIRECT TAXES: 1983 BUDGET: LETTER FROM SECRETARY OF STATE FOR ENERGY

This note considers the recommendations about the indirect taxes contained in the letter of 8 February from the Secretary of State for Energy.

1. CAR TAX

Mr Lawson sees no merit whatever in any reduction in car tax - which he considers should have a low priority this year - and recoupment of lost revenue via petrol duty.

Comment The inter-departmental report submitted by Mr Moore on 31 January made it clear (paragraph 21) that officials saw no case for real increases in other motoring taxes simply in order to finance a reduction in car tax. You have decided (Mr Kerr's note of 2 February) to await the expected letter from the Secretary of State for Industry before taking a final decision on the rate of car tax.

When is it?

2. PETROL DUTY

Mr Lawson would resist Mr Howell's proposal for a 6p increase in petrol taxation in order to hold VED on cars at its present level. He remarks that our petrol prices are in line with those on the Continent. In his view any increase in petrol duty ought not, at most, to go beyond revalorisation.

Comment You have already ruled out Mr Howell's proposal. On the whole, we consider that our petrol prices are on the low side compared with most EC Member States (see table 1 attached).
Mr Lawson's view implies that the maximum increase in petrol taxation should be $4\frac{1}{2}$p this year.

3. DERV DUTY

Mr Lawson suggests that our derv prices are the highest in the EC and argues that derv duty should not be revalorised at all this year.

Comment This would forgo revenue of £45 million compared with the $3\frac{1}{2}$p increase illustrated in our paper on excise duty options. There would be no impact on the RPI. If, for illustration, petrol were to be fully revalorised, the proposal would increase the tax differential from 12p to $16\frac{1}{2}$p. Previous discussion at official level suggests thatthis would probably be acceptable to the Department of Industry, who are more concerned to reduce business costs. It would also, however, require higher VED increases on goods vehicles, if the transport policy objective of requiring all classes of road user to cover their road track costs were to be maintained. Mr Howell has already registered this thought in his letter of 26 January which urges revalorisation.

We agree that in nominal terms our derv prices are the highest in the EC apart from Ireland. However, as shown in table 2
... attached, the effective price to business users is less than in France and, at the worst, only slightly ahead of Germany. A number of other Member States such as Italy have relatively low rates of duty on derv, but higher rates of VED on diesel-driven vehicles: reliable comparisons are very difficult in such cases.

4. HFO DUTY

Mr Lawson concludes that we can offer no more to industry than a further erosion of the duty in real terms.

Comment This is also the recommendation in Mr Griffiths' submission of 7 February to EST, and in EST's note to you of 9 February.

5. GAS OIL, AVTUR AND LUBRICATING OILS

Mr Lawson recommends that the duties on these items should remain unchanged.

Comment These items, like heavy fuel oil, are currently charged at the "rebated" rate of duty equivalent to $3\frac{1}{2}$p a gallon. The recommendation accords with Mr Freedman's submission of 1 February agreed "generally" by EST on 4 February.

6. DOMESTIC PARAFFIN

Mr Lawson recommends you to abolish the 1p a gallon duty on domestic paraffin, which he says is now used largely by the elderly poor to heat their homes.

Comment As Mr Lawson says, the revenue cost of abolition would be £5 million. However, the 1p duty rate applies to all kerosene other than aviation turbine fuel ($3\frac{1}{2}$p). Sales of premium paraffin (the type of kerosene usually associated with old age pensioners) have been declining rapidly in recent years, with the result that premium paraffin now accounts for only 15% of the domestic kerosene market. The rest is burning oil and is used mainly in central heating systems.

The duty is insignificant in relation to the price of paraffin, and abolition would be of minimal help to the elderly. The existing anomaly between those using kerosene for central heating (1p a gallon duty) and those using gas oil for the same purpose ($3\frac{1}{2}$p a gallon duty) would be exacerbated. We recommend that this duty should remain unchanged.

A M FRASER

TABLE 1

EC PETROL AND DERV PRICES

(i) 4-STAR PETROL (pence per gallon)

	Factor[1] cost	Excise duty	VAT[2]	RSP	Tax as % of RSP	Effective price to business users
Belgium	90	63	38	191	53	172
Denmark	92	78	37	207	56	207
France	94	72	31	197	52	197
Germany	90	62	20	172	48	152
Ireland	113	87	36	236	52	236
Italy	89	106	39	234	62	215
Luxembourg	88	52	14	154	43	140
Netherlands	91	65	28	184	51	156
UK	77	70½	22	169½	55	147½

(1) Source for factor costs (except UK): EC Oil Bulletin No 180 - prices as at 17/1/83. Exchange rates as at 7/2/83. UK prices are based on latest Dept of Energy weekly estimates (7/2/83). Factor cost for Belgium is the maximum, otherwise the average. Full information not available for Greece.

(2) Deductible by most business users, but fully blocked in Denmark, France and Ireland and 50% blocked in Belgium and Italy.

TABLE 2

(ii) DERV (pence per gallon)

	Factor[1] cost	Excise duty	VAT[2]	RSP	Tax as % of RSP	Effective price to business users
Belgium	86	26	28	140	39	126
Denmark	98	14[3]	25	137	28	137
France	94	38	25	157	40	157
Germany	90	53	19	162	44	143
Ireland	109	62	31	202	46	202
Italy	94	12[3]	16	122	23	114
Luxembourg	88	17[3]	11	116	24	105
Netherlands	87	22[3]	20	129	38	109
UK	89[5]	60	22½	171½	48	149[4]

(1) Source for all countries except UK: EC Oil Bulletin No 180 - prices as at 17/1/83. Rates of exchange 7/2/83. Factor cost is the maximum for Belgium, otherwise average. UK prices are based o latest Dept of Energy weekly estimates (7/2/83). Full information not available for Greece.

(2) Deductible by most business users, but fully blocked in Denmark and Ireland, 80% blocked in France and 50% blocked in Belgium and Italy.

(3) Duty on DERV is low, but there are higher taxes on diesel-powered vehicles than others.

(4) Pump prices. Most UK business users purchase derv under contract at prices up to 15p a gallon less than the pump price. Information as to any comparable disparities between pump and contract prices on the Continent is not available.

FROM: JILL RUTTER
DATE: 14 February 1983

cc Chief Secretary
Financial Secretary
Minister of State (R)
Sir D Wass
Mr Middleton
Mr Bailey
Mr Cassell
Mr Kemp
Mr Moore
Mr Wicks
Mr Griffiths
Mr Walton
Mr Ridley
Mr French
PS/C&E

PS/ECONOMIC SECRETARY

HEAVY FUEL OIL DUTY

The Chancellor has seen the Economic Secretary's minute of 9 February. He is in agreement with the proposals contained in that minute.

JR

JILL RUTTER

SECRET

E.3

FROM: ADAM RIDLEY
14 February 1983

CHANCELLOR

cc CST
FST
EST
MST(C)
MST(R)
Sir Douglas Wass
Mr Burns
Mr Middleton
Mr Byatt
Mr Moore
Mr Kemp
Mr Griffiths
Mr French
Sir L Airey I/R

INDIRECT TAXES: PETROL

Mr Fraser's minute of February 11 exhibits a lot of useful information about international differences on petrol and derv prices. In thinking about how you will present any final decisions on this front to the House of Commons, it may also be helpful to have to hand information about town/country variations in petrol and other petroleum product prices, which are, as we know, a very major consideration for many of the Government supporters both in the House and in the country. This is, doubtless, not an easy matter on which to collect statistics. But it might nonetheless be helpful if one could see some figures showing how the relationship has changed in recent years.

Already commissioned!

AN

A N RIDLEY

FROM: I WALTON
14 February 1983

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Miniater of State (R)
Sir Douglas Wass
Mr Burns
Mr Middleton
Mr Byatt
Mr Moore
Mr Kemp
Mr Cassell
Mr Griffiths
Mr Hall
Mr Norgrove
Mr Ridley
Mr French
Mr Harris
PS/C&E
Mr Howard (C&E)

CHANCELLOR OF THE EXCHEQUER

VED AND DERV DUTY: LETTER FROM SECRETARY OF STATE FOR ENERGY

You wished to know what would be the implications for VED of adopting the Secretary of State for Energy's proposal that there should be no increase in the duty on derv in this year's Budget.

2. The major implication for VED is in relation to heavy lorries, and the Government's policy of ensuring that all classes of lorry at least cover their road costs through taxation (derv and VED). The Secretary of State for Transport, in his letter of 26 January, stressed the importance which he attaches to full revalorisation of derv duty. This is particularly the case in respect of the heaviest lorries currently permitted on the road (32.5 tonnes) which fall considerably short of meeting their road costs.

3. On the assumption that derv duty is revalorised, Mr Howell has proposed an increase of 26 per cent in the VED rates for the 32.5 tonne lorries (about 1 per cent of operating costs per vehicle). This will still leave such lorries with a revenue to road cost ratio of only 0.87: 1, considerably short of full cost coverage. (Currently the revenue/cost ratio on these lorries stands at 0.82: 1.) Mr Howell also proposes a 23 per cent increase in VED for 30 tonne rigid lorries and increases of between 4.5 per cent and 12 per cent for 5 other

groups of lorries in order to bring them to full cost coverage.

4. If there were to be no increase in derv duty this year, we understand that Mr Howell would not wish to recommend VED increases of more than 26 per cent for any category of lorry. On this basis the 32.5 tonne lorries would cover only 0.85 of their road costs, while 30 tonne rigid lorries would fall marginally short of meeting their full costs. There would have to be larger increases than previously proposed for the other categories of lorries which do not cover their costs, as well as increases for some categories which would not otherwise have suffered increases if derv duty had been revalorised.

5. If there were no increase in derv duty, and VED rates on lorries were increased so that lorries met their road costs (subject to a maximum increase of 26 per cent on any particular category), lorries as a whole would cover their road costs with a margin of about £10 million to spare. However, the most damaging lorries would be considerably short of meeting their costs, causing particular difficulty for the Government's objective of ensuring that all lorries at least cover their road costs. This would undoubtedly raise criticism from the environmentalist lobby. Several other categories of lorry would suffer large increases in VED in order to meet full costs (and one category would still fall marginally short).

I Walton

I WALTON

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

From: J P Bone

Date: 14 February 1983

CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
Financial Secretary
Economic Secretary
Minister of State(C)
Minister of State(R)
Sir Douglas Wass
Mr Burns
Mr Middleton
Mr Byatt
Mr Moore
Mr Kemp
Mr Cassell
Mr Griffiths
Mr Hall
Mr Norgrove
Mr Ridley
Mr French
Mr Harris
Sir L Airey

PETROL AND DERV

... I attach two tables, which we understand you would like for tomorrow's overview meeting, showing the duty, total tax burden and price for petrol and derv, in actual and real prices since 1970.

We understand that you have also asked what would happen to the pump price of petrol if the price of crude oil were to be reduced. We find it difficult to express a view. At present, the pressures of competition are such that petrol is being sold at unrealistically low prices - perhaps 15p or so below the economic price. The major oil companies have made frequent attempts to raise prices over the

Internal distribution: Mr Freedman, Mr Howard, Mr Middleton, Mr McGuigan, Mr Battle, Mr Stark, CPS

past year but, apart from some success in the early summer of 1982, few price rises have held for long. It seems probable that, if the price of crude oil were to fall, the majors would seek to re-establish their margins; but it is also possible that smaller companies purchasing on the Rotterdam spot market could again force the price down.

We understand that your query about the costs of inter-acting derv and VED options is being dealt with by the official Treasury (FP2).

JPB

J P BONE
PRIVATE SECRETARY

PETROL: POST BUDGET PRICES, DUTY AND TAX CONTENT

(pence)

	Actual Prices			1970 Prices		
	Price	Duty	Total tax	Price	Duty	Total tax
1970	32.7	22.5	22.5	32.7	22.5	22.5
1971	34.5	22.5	22.5	31.5	20.6	20.6
1972	35.0	22.5	22.5	29.9	19.2	19.2
1973	36.5	22.5	22.5	28.5	17.6	17.6
1974	55.0	22.5	27.5	37.1	15.2	18.5
1975	72.5	22.5	37.0	39.3	12.2	20.1
1976	77.0	30.0	38.6	35.8	14.0	18.0
1977 (1)	78.0	30.0	38.7	31.3	12.0	15.5
1978	80.0	30.0	38.9	29.7	11.1	14.4
1979	110.0	36.8	51.1	36.0	12.0	16.7
1980	132.0	45.5	62.7	36.6	12.6	17.4
1981 (1)	161.0	62.8	83.8	39.9	15.6	20.8
1982	159.0	70.6	91.4	36.3	16.1	20.9

(1) August

DERV: POST BUDGET PRICE, DUTY AND TAX CONTENT

(pence)

	Actual			1970 prices		
	Price	Duty	Total tax	Price	Duty	Total tax
1970	32.0	22.5	22.5	32.0	22.5	22.5
1971	34.0	22.5	22.5	31.1	20.6	20.6
1972	34.5	22.5	22.5	29.4	19.2	19.2
1973	37.0	22.5	22.5	28.9	17.6	17.6
1974	54.5	22.5	27.5	36.7	15.2	18.5
1975	54.0	22.5	26.5	29.3	12.2	14.4
1976	67.5	30.0	35.0	31.4	14.0	16.3
1977 (1)	83.5	35.0	41.2	33.5	14.1	16.5
1978	84.1	35.0	41.2	31.2	13.0	15.3
1979	116.5	41.8	57.0	38.1	13.7	18.7
1980	134.9	45.5	63.1	37.4	12.6	17.5
1981 (1)	151.0	54.1	73.8	37.4	13.4	18.3
1982	165.0	60.2	81.8	37.7	13.7	18.7

(1) August.

NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM, HM TREASURY, AT 11.45AM ON WEDNESDAY 16 FEBRUARY 1983

Those present:	Chancellor of the Exchequer Chief Secretary Financial Secretary Economic Secretary Minister of State (C) Minister of State (R) Mr Bailey Mr Middleton Mr Cassell Mr Kemp Mr Moore Mr Robson Mr Andren Mr French Mr Green) Mr Isaac) Mr Battishill) Inland Revenue Mr Blythe)

SMALL FIRMS, ENTERPRISE AND WIDER SHARE OWNERSHIP

The meeting had before it the Financial Secretary's minute of 14 February.

(1) Business Expansion Scheme

The Chancellor noted that Ministers had already endorsed the Scheme's broad approach The Financial Secretary explained that the Inland Revenue now estimated the full-year cost of the scheme to be in the range of £50-300 million. He himself regarded the £300m figure as very much an upper estimate. It was agreed that for the purpose of the Budget the scheme should be costed at £75m, subject to further advice. It was also agreed that the scheme should

/exclude

exclude unquoted companies whose shares were quoted on the USM. Indeed, it was pointed out that the inclusion of such companies in the Scheme would be much more likely to provoke protest. It was decided that an investor who simply replaced an outstanding loan to a company with share capital should not be eligible for tax relief. However, it was suggested that this was a point which the Government might concede in Committee or in a subsequent Budget.

The Chief Secretary commented that it had been suggested to him by City sources that an enormous amount of investment could be generated if there were an increase in the 15 per cent limit currently imposed on the proportion of investment trust funds which could be placed in unquoted companies. It was pointed out that this was a limit set by the Stock Exchange rather than by the Government and it was suggested that officials might take this point up with the Department of Trade, with a view to Ministers raising the issue with Sir Nicholas Goodison after the Budget.

(2) Loan Guarantee Scheme

The Chancellor referred to Mr MacGregor's letter of 11 February and Mr Gordon's submission of 14 February. He noted that there was general agreement that the Scheme should be extended for the full three year period at an additional cost of £240m. It was agreed that the coverage of the Scheme should be extended as the Department of

/Industry had

Industry had recommended, subject to a check by Treasury officials of the precise definitions. After some discussion, it was also agreed that the guaranteed proportion should remain at 80%. It was thought that it would be unhelpful to change the terms of the Scheme mid-way through its life and thus risk giving the wrong signal to industry. The extension of the Scheme should be announced in the Budget and should not be foreshadowed in any announcement by the Department of Industry. It was agreed that the draft letter attached to Mr Gordon's submission would be revised to take account of this point.

(3) Corporation Tax

This had been discussed at the immediately preceding meeting.

(4) Capital Transfer Tax

A meeting was being arranged for the following week.

(5) Wider Share Ownership

It was noted that the Secretary of State for Industry would be pressing the Chancellor to make more concessions in this area when he met him at the end of the week. Summing up a brief discussion, the Chancellor said that Treasury Ministers were not disposed to go beyond the package set out in paragraph 9 of the note attached to the Financial Secretary's minute of 14 February. He would discuss the

/proposal with

proposal with the Secretary of State for Industry at the end of the week and it was agreed that if, in the light of that meeting, some further concession was deemed necessary, the best course would be to continue the present income tax charge on the exercise of the option, but to scale it down by charging only a proportion of the gain. The Financial Secretary suggested a figure of 75 per cent.

(6) Capital Gains Tax

Decisions had already been taken

(7) Zero and Deep Discounted Stock

Proposals awaited the outcome of the recent consultations.

(8) VAT

An increase in VAT registration thresholds had been agreed. The Economic Secretary reported that he and the Financial Secretary were not recommending the introduction of annual VAT accounting during 1983-84 nor large-scale consultations. Instead, they recommended that a questionnaire should be sent to a relatively small sample of traders, with one tightly-worded question. The introduction of annual accounting remained an option for the 1984 Budget. The Chancellor said he was favourably inclined towards the Economic Secretary's proposals but wanted to reflect further. It was agreed no expenditure should be scored against 1984-85

(9) "Net of Tax" pay tables

The Financial Secretary said that he would

/like the use of

like the use of "net of tax" pay tables to be commended in either the Budget Speech or during the Budget Debate, while acknowledging that they would not be of universal benefit. Mr Isaac stressed that their use should not be oversold. The Chancellor said that he saw some immediate attractions in this proposal but would like an opportunity to look at it in more detail. He saw the use of such tables as an essential element in management style.

(10) Schedule D/E

The Financial Secretary would be putting up a paper on this subject for onward transmission to the Prime Minister.

(11) Schedule D Case V trading losses

This proposal was rejected.

(12) De minimis limit for assessment of apportioned Income

A decision had already been taken.

(13) Interest relief - employee buyouts

The Inland Revenue would be submitting a note later in the week.

(14) Close Companies - ACT limit on Loans

A decision on the change in the monetary limit awaited a decision on the mortgage interest relief ceiling.

(15) Tax treatment of interest paid by companies to non-residents

Proposals awaited the outcome of consultation.

(xvi) Discounts

(16) <u>Discounts on bills of exchange(acceptance credits)</u>
The Financial Secretary had agreed to legislate in the 1983 Finance Bill.

The meeting closed at 12.45pm.

MOM

MISS M o'MARA
17 February 1983

Circulation.

Those Present

Sir Douglas Wass
Mr Burns
Mr Martin
Mr Ridley
PS/IR
PS/C&E

Chancellor.

Petrol / Derv / VED; Discussions with the Colleagues.

We discussed this briefly at the "o-view". I need now to construct a plan. See paras 15-18 below

2. First question:

Do you wish yourself to see Howell and Lawson? The alternative is to get the EST to see Howell, as he did last year, and the MST(R) to dispose of this when he sees Lawson tomorrow.

*3. If you want to see them both yourself, we'll probably have to do one tonight and one tomorrow. If you were happy to leave it to EST / MST(R), then you could

[illegible]

BUDGET SECRET

FROM: D J L MOORE
18 February 1983

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (R)
Minister of State (C)
Sir D Wass
Mr Burns
Mr Middleton
Mr Cassell
Mr Kemp
Mr Griffiths
Mr Hall
Mr Ridley
Mr French
Mr Harris

PS/Customs & Excise
Mr Freedman (C&E)
Mr Howard (C&E)

Sir Lawrence Airey - IR

One query: § 9(iv)

CHANCELLOR OF THE EXCHEQUER

This may have to wait a [illegible] developments in oil market

PETROL DERV AND VED

At your overview meeting on 15 February you provisionally decided that duty on petrol and derv should be increased either by 4½p and 3½p (ie revalorisation for petrol with derv shaded down from 3.7p) or by 4p and 3p. For operational reasons Customs and Transport want final decisions on these duties and on VED by 25 February. To meet that, you will wish to look further at the options at the overview meeting on 22 February snd then to sound out your colleagues most closely concerned on your proposals.

2. In preparation for that meeting Customs are sending you a note comparing urban and rural petrol prices. This note looks at the conflicting views of the Secretary of State for Transport (letter of 26 January) and Energy (8 February) and the relationship between derv duty and VED on lorries.

PETROL AND VED ON CARS AND LIGHT VANS

3. On petrol, Mr Lawson counsels caution and revalorisation as the maximum acceptable. Mr Howell wanted you to increase petrol by 1½p over revalorisation so that VED on cars and light vans could be

held at £80. You have ruled that out by your decision to increase VED on these vehicles to £85 and to set revalorisation of petrol duty as your upper option.

DERV AND VED ON GOODS VEHICLES

4. Mr Howell wants 3½p on derv so that he does not have to increase VED higher than otherwise for some heavy lorries. Mr Lawson wants no increase in derv duty for three reasons: adverse comparison between our derv prices and those in the European Community; to help with industrial costs; and on energy efficiency grounds. On Community comparisons, Customs have updated their tables for petrol and for derv and these are annexed to this note. Table 2 shows that in nominal terms our derv prices are the highest in the EC apart from Ireland. But the effective price to business users is less than in France and only slightly ahead of Germany. A number of EC countries such as Italy have relatively low rates of duty on derv, but higher rates of VED on diesel driven vehicles: reliable comparisons are very difficult in such cases.

5. The industrial case is that derv is very largely used by business so that if there were no increase, rather than 3½p, the revenue foregone of £45 million would largely be to the benefit of business costs. But, as explained below, there would be an offset of around £7 million bearing on industries using heavy lorries because of compensating increases in VED. If petrol only were fully revalorised the petrol/derv differential would increase from 12p to 16½p. The Department of Industry are no longer worried that an increase of this order would be damaging to UK car manufacturers and would not oppose it on those grounds.

6. The energy efficiency point is simply that diesel engines are markedly more fuel efficient. In any event, under either of your present options, the differential would widen from 12p to 13p. Provided the differential were not narrowed I do not think that Mr Lawson would have grounds, in terms of his Department's policy objectives, for resisting this outcome.

7 Mr Howell wants derv duty to be increased by 3½p, though I doubt whether he would quarrel with 3p. He fears that no increase would run him into trouble with his commitment to move as quickly as possible to a position in which taxation, through derv duty and VED, is sufficient to ensure that each lorry group covers it road costs. To that end he is already proposing, on the assumption of full derv revalorisation, increases of up to 26 per cent on VED on some of the heavier and more damaging lorries which are still not covering their costs.

8. If he lost income from derv duty he would have to make even higher increases on VED. Where he is already proposing 26 per cent he apparently does not think any more would be practicable and for these categories he would fall behind in his move to full cost recovery. To the extent that he is seen to be doing so he will be in even more trouble with the environmental lobby and with the rail freight lobby who are eager to see their road competitors clobbered.

9. The VED increases would be about the same whether derv duty goes up by 3½ or 3p. But if it were not increased at all, the effect on the main categories would be:-

i. Either way about 315,000 lighter lorries (60 per cent of total) would have VED reduced by up to 10 per cent(mainly £20-40)and would still cover their road costs.

ii. Five other categories of lorry (about 20 per cent of total) would have increases of up to 12 per cent (£120) doubled in order to cover their road costs.

iii. 30 tonne rigid lorries (3 per cent of total) would have an increase of 26 per cent rather than 23 per cent (£390) and there would be 98 per cent rather than full recovery of road costs.
(currently 90%)

iv. 32.5 tonne lorries (about 15 per cent of total) would have a 26 per cent (£480) increase either way, but there would be 85 per cent rather than 87 per cent recovery of road costs.

(currently 82%). What is it now?

v. The 38 tonne lorries allowed on the road from 1 May have to cover their road costs fully from the outset and with no increase in derv their VED would be £3100 rather than £2900.

10. As the following table shows, whatever the outcome, road costs of goods vehicles overall will be more than recovered:

		Revenue from lorries		
Derv duty increase	Total road costs £m	VED £m	Derv £m	Margin of revenue over road costs £m
3½p	972	375	631	34
3p	972	376	626	30
0p	972	383	600	11

11. If contrary to your present intention, derv duty were not increased the figures in paragraphs 8 show that Mr Howell would face some serious, though perhaps not impossible, problems. He would be marginally behind his aims for moving to full cost recovery. More worryingly, he would have to make even bigger VED increases for some categories than those he has already proposed.

OTHER FUEL DUTIES

12. You have agreed that there should be no change in the duty on heavy fuel oil. The Economic Secretary has also agreed that there should be no change in duties on gas oil, avtur and lubricating oils. All these decisions are as Mr Lawson recommended.

13. You decided at the overview meeting not to pursue Mr Lawson's suggestion of abolishing the 1p a gallon duty on domestic paraffin. Though advocated as a "compassionate lollipop" relatively little of this is now used by old aged pensioners. And in any event the duty is insignificant in relation to the price of paraffin.

CONCLUSIONS

14. You have already reached decisions on VED on cars and light vans and on the minor oil duties.

15. On derv duty and VED on goods vehicles, my judgement is that the problems which would confront Mr Howell if there were no derv increase are not insuperable but sufficient to reinforce your provisional decision to go for 3½p or 3p. Given that the petrol/derv differential would widen slightly, Mr Lawson may well be willing to accept it, and has no strong departmental reasons for not doing so.

16. The next step is to decide what is the increase acceptable on petrol and then to fix on an increase for derv which ensures that the present differential is at least maintained. But the derv/VED problems reinforce the case for a petrol increase of 4½p or 4p.

17. In the light of the further discussion on 22 February I suggest that you, or the Economic Secretary, should then talk as quickly as possible to Mr Howell and, in particular, seek confirmation of the changes he will propose for VED on goods vehicles. Following that you will wish to let Mr Lawson know the outcome.

18. Having dealt with the two Ministers operationally most concerned, you may wish, in addition to sounding out the Prime Minister to speak to the Chief Whip and the Secretaries of State for Scotland and Wales who will be particularly concerned with the petrol duty increase. These discussions will need to be completed next week if Customs and Transport are to have their firm decision by 25 February.

DJM.

D J L MOORE

TABLE 1

EC PETROL AND DERV PRICES

(i) 4-STAR PETROL (pence per gallon)

	Factor cost[1]	Excise duty	VAT[2]	RSP	Tax as % of RSP	Effective price to business users
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Germany	90	62	20	172	48	152
Ireland	114	88	36	238	52	238
Italy	90	108	40	238	62	218
Luxembourg	89	53	14	156	43	142
Netherlands	92	66	28	186	51	158
UK	76	71	22	169	55	147

(1) Source for factor costs (except UK): EC Oil Bulletin No 180 - prices as at 24/1/83. Exchange rates as at 15/2/83. UK prices are based on latest Dept of Energy weekly estimates (14/2/83). Factor cost for Belgium is the maximum, otherwise the average. Full information not available for Greece.

(2) Deductible by most business users, but fully blocked in Denmark, France and Ireland and 50% blocked in Belgium and Italy.

TABLE 2

(ii) DERV (pence per gallon)

	Factor cost[1]	Excise duty	VAT[2]	RSP	Tax as % of RSP	Effective price to business users
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France	95	39	25	159	40	154
Germany	91	54	19	164	45	145
Ireland	110	63	31	204	46	204
Italy	91	12[3]	15	118	23	111
Luxembourg	86	17[3]	10	113	24	103
Netherlands	87	22[3]	20	129	33	109
UK	89[4]	60	22	171	48	149[4]

(1) Source for all countries except UK: EC Oil Bulletin No 180 - prices as at 24/1/83. Rates of exchange 15/2/83. Factor cost is the maximum for Belgium, otherwise average. UK prices are based on latest Dept of Energy weekly estimates (14/2/83). Full information not available for Greece.

(2) Deductible by most business users, but fully blocked in Denmark and Ireland, 80% blocked in France and 50% blocked in Belgium and Italy.

(3) Duty on DERV is low, but there are higher taxes on diesel-powered vehicles than others.

(4) Pump prices. Most UK business users purchase derv under contract at prices up to 15p a gallon less than the pump price. Information as to any comparable disparities between pump and contract prices on the Continent is not available.

BUDGET SECRET

FROM: D J L MOORE
18 February 1983

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (R)
Minister of State (C)
Sir D Wass
Mr Burns
Mr Middleton
Mr Cassell
Mr Kemp
Mr Griffiths
Mr Hall
Mr Ridley
Mr French
Mr Harris

PS/Customs & Excise
Mr Freedman (C&E)
Mr Howard (C&E)

Sir Lawrence Airey - IR

Overgreen: §9(iv)

CHANCELLOR OF THE EXCHEQUER

PETROL DERV AND VED

This may lead to worries/difficulties in oil market

At your overview meeting on 15 February you provisionally decided that duty on petrol and derv should be increased either by 4½p and 3½p (ie revalorisation for petrol with derv shaded down from 3.7p) or by 4p and 3p. For operational reasons Customs and Transport want final decisions on these duties and on VED by 25 February. To meet that, you will wish to look further at the options at the overview meeting on 22 February and then to sound out your colleagues most closely concerned on your proposals.

2. In preparation for that meeting Customs are sending you a note comparing urban and rural petrol prices. This note looks at the conflicting views of the Secretary of State for Transport (letter of 26 January) and Energy (8 February) and the relationship between derv duty and VED on lorries.

PETROL AND VED ON CARS AND LIGHT VANS

3. On petrol, Mr Lawson counsels caution and revalorisation as the maximum acceptable. Mr Howell wanted you to increase petrol by 1½p over revalorisation so that VED on cars and light vans could be

held at £80. You have ruled that out by your decision to increase VED on these vehicles to £85 and to set revalorisation of petrol duty as your upper option.

DERV AND VED ON GOODS VEHICLES

4. Mr Howell wants 3½p on derv so that he does not have to increase VED higher than otherwise for some heavy lorries. Mr Lawson wants no increase in derv duty for three reasons: adverse comparison between our derv prices and those in the European Community; to help with industrial costs; and on energy efficiency grounds. On <u>Community comparisons</u>, Customs have updated their tables for petrol and for derv and these are annexed to this note. Table 2 shows that in nominal terms our derv prices are the highest in the EC apart from Ireland. But the effective price to business users is less than in France and only slightly ahead of Germany. A number of EC countries such as Italy have relatively low rates of duty on derv, but higher rates of VED on diesel driven vehicles: reliable comparisons are very difficult in such cases.

5. The <u>industrial case</u> is that derv is very largely used by business so that if there were no increase, rather than 3½p, the revenue foregone of £45 million would largely be to the benefit of business costs. But, as explained below, there would be an offset of around £7 million bearing on industries using heavy lorries because of compensating increases in VED. If petrol only were fully revalorised the petrol/derv differential would increase from 12p to 16½p. The Department of Industry are no longer worried that an increase of this order would be damaging to UK car manufacturers and would not oppose it on those grounds.

6. The <u>energy efficiency</u> point is simply that diesel engines are markedly more fuel efficient. In any event, under either of your present options, the differential would widen from 12p to 13p. Provided the differential were not narrowed I do not think that Mr Lawson would have grounds, in terms of his Department's policy objectives, for resisting this outcome.

7. Mr Howell wants derv duty to be increased by 3½p, though I doubt whether he would quarrel with 3p. He fears that no increase would run him into trouble with his commitment to move as quickly as possible to a position in which taxation, through derv duty and VED, is sufficient to ensure that each lorry group covers it road costs. To that end he is already proposing, on the assumption of full derv revalorisation, increases of up to 26 per cent on VED on some of the heavier and more damaging lorries which are still not covering their costs.

8. If he lost income from derv duty he would have to make even higher increases on VED. Where he is already proposing 26 per cent he apparently does not think any more would be practicable and for these categories he would fall behind in his move to full cost recovery. To the extent that he is seen to be doing so he will be in even more trouble with the environmental lobby and with the rail freight lobby who are eager to see their road competitors clobbered.

9. The VED increases would be about the same whether derv duty goes up by 3½ or 3p. But if it were not increased at all, the effect on the main categories would be:-

i. Either way about 315,000 lighter lorries (60 per cent of total) would have VED reduced by up to 10 per cent (mainly £20-40) and would still cover their road costs.

ii. Five other categories of lorry (about 20 per cent of total) would have increases of up to 12 per cent (£120) doubled in order to cover their road costs.

iii. 30 tonne rigid lorries (3 per cent of total) would have an increase of 26 per cent rather than 23 per cent (£390) and there would be 98 per cent rather than full recovery of road costs. (currently 90%)

iv. 32.5 tonne lorries (about 15 per cent of total) would have a 26 per cent (£480) increase either way, but there would be 85 per cent rather than 87 per cent recovery of road costs.

(currently 82%). What is it now?

v. The 38 tonne lorries allowed on the road from 1 May have to cover their road costs fully from the outset and with no increase in derv their VED would be £3100 rather than £2900.

10. As the following table shows, whatever the outcome, road costs of goods vehicles overall will be more than recovered:

Derv duty increase	Total road costs £m	Revenue from lorries VED £m	Derv £m	Margin of revenue over road costs £m
3½p	972	375	631	34
3p	972	376	626	30
0p	972	383	600	11

11. If contrary to your present intention, derv duty were not increased the figures in paragraphs 8 show that Mr Howell would face some serious, though perhaps not impossible, problems. He would be marginally behind his aims for moving to full cost recovery. More worryingly, he would have to make even bigger VED increases for some categories than those he has already proposed.

OTHER FUEL DUTIES

12. You have agreed that there should be no change in the duty on heavy fuel oil. The Economic Secretary has also agreed that there should be no change in duties on gas oil, avtur and lubricating oils. All these decisions are as Mr Lawson recommended.

13. You decided at the overview meeting not to pursue Mr Lawson's suggestion of abolishing the 1p a gallon duty on domestic paraffin. Though advocated as a "compassionate lollipop" relatively little of this is now used by old aged pensioners. And in any event the duty is insignificant in relation to the price of paraffin.

CONCLUSIONS

14. You have already reached decisions on VED on cars and light vans and on the minor oil duties.

15. On derv duty and VED on goods vehicles, my judgement is that the problems which would confront Mr Howell if there were no derv increase are not insuperable but sufficient to reinforce your provisional decision to go for 3½p or 3p. Given that the petrol/derv differential would widen slightly, Mr Lawson may well be willing to accept it, and has no strong departmental reasons for not doing so.

16. The next step is to decide what is the increase acceptable on petrol and then to fix on an increase for derv which ensures that the present differential is at least maintained. But the derv/VED problems reinforce the case for a petrol increase of 4½p or 4p.

17. In the light of the further discussion on 22 February I suggest that you, or the Economic Secretary, should then talk as quickly as possible to Mr Howell and, in particular, seek confirmation of the changes he will propose for VED on goods vehicles. Following that you will wish to let Mr Lawson know the outcome.

18. Having dealt with the two Ministers operationally most concerned, you may wish, in addition to sounding out the Prime Minister to speak to the Chief Whip and the Secretaries of State for Scotland and Wales who will be particularly concerned with the petrol duty increase. These discussions will need to be completed next week if Customs and Transport are to have their firm decision by 25 February.

D J L MOORE

TABLE 1

EC PETROL AND DERV PRICES

(i) 4-STAR PETROL (pence per gallon)

	Factor cost[1]	Excise duty	VAT[2]	RSP	Tax as % of RSP	Effective price to business users
Belgium	92	64	39	195	53	176
Denmark	87	79	37	203	57	203
France	96	73	31	200	52	200
Germany	90	62	20	172	48	152
Ireland	114	88	36	238	52	238
Italy	90	108	40	238	62	218
Luxembourg	89	53	14	156	43	142
Netherlands	92	66	28	186	51	158
UK	76	71	22	169	55	147

(1) Source for factor costs (except UK): EC Oil Bulletin No 180 - prices as at 24/1/83. Exchange rates as at 15/2/83. UK prices are based on latest Dept of Energy weekly estimates (14/2/83). Factor cost for Belgium is the maximum, otherwise the average. Full information not available for Greece.

(2) Deductible by most business users, but fully blocked in Denmark, France and Ireland and 50% blocked in Belgium and Italy.

TABLE 2

(ii) DERV (pence per gallon)

	Factor cost[1]	Excise duty	VAT[2]	RSP	Tax as % of RSP	Effective price to business users
Belgium	86	27	28	141	39	127
Denmark	94	14[3]	24	132	29	132
France	95	39	25	159	40	154
Germany	91	54	19	164	45	145
Ireland	110	63	31	204	46	204
Italy	91	12[3]	15	118	23	111
Luxembourg	86	17[3]	10	113	24	103
Netherlands	87	22[3]	20	129	33	109
UK	89[4]	60	22	171	48	149[4]

(1) Source for all countries except UK: EC Oil Bulletin No 180 - prices as at 24/1/83. Rates of exchange 15/2/83. Factor cost is the maximum for Belgium, otherwise average. UK prices are based on latest Dept of Energy weekly estimates (14/2/83). Full information not available for Greece.

(2) Deductible by most business users, but fully blocked in Denmark and Ireland, 80% blocked in France and 50% blocked in Belgium and Italy.

(3) Duty on DERV is low, but there are higher taxes on diesel-powered vehicles than others.

(4) Pump prices. Most UK business users purchase derv under contract at prices up to 15p a gallon less than the pump price. Information as to any comparable disparities between pump and contract prices on the Continent is not available.

CONFIDENTIAL

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

FROM: C FREEDMAN

18 February 1983

ECONOMIC SECRETARY

cc Chancellor
Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Mr Middleton
Mr Moore
Mr Griffiths
Mr Ridley
Mr French

I am grateful for this, but I wonder if a slightly wider sample including - e.g. - Perthshire, Cumbria, Cornwall, E. Lincolnshire, Galloway - were readily available from survey referred to in par 1 ? 19/2.

PETROL PRICES IN RURAL AREAS

1. There was some discussion about high petrol prices in rural areas at the Chancellor's overview meeting on 15 February. You may like to know that we have just completed a survey, using our outfield staff in the course of their other duties, of prices in certain rural areas of England and, especially, Scotland and Wales.

2. The highest retail price for petrol found in the second half of January was £2.17 per gallon on Coll (Scottish Islands) and in the Isles of Scilly. As shown in the annex to this note, there were three other instances in Scotland of petrol in excess of £2 a gallon, and two of derv. There were several "near misses" in each case. Prices elsewhere were much lower. The highest prices found in Wales were £1.73 per gallon for petrol and £1.84 per gallon for derv. In mid-Dartmoor the petrol price was £1.72 per gallon. The highest price for petrol found in East Anglia was £1.79 per gallon and this price was found also at Newport, Isle of Wight.

3. The Department of Energy's latest "modal" price both for the UK as a whole and major conurbations is about 169p per gallon, and the Department estimates the typical price in remote rural areas to be about 180p (it has

Internal circulation:- CPS
Mr McGuigan
Mr Howard

recently fallen from 185p because of a 5p "temporary sales allowance" - see 5(d) below).

4. You may like to be reminded of our calculations, originally used in Mr Walton's submission of 15 February to the Financial Secretary, that for small cars each ½p per gallon on the price of petrol adds £1.25 to the annual costs incurred by the typical urban motorist and £1.35 to the annual costs of the rural motorist. (This assumes an annual mileage of 7,500 miles at an average for a smaller car of 30 mpg for the urban motorist and 9,500 miles at an average 35 mpg for the rural motirist.)

5. There are in practice a number of important reasons for the disparity of petrol prices between urban and rural areas:

(a) Retail mark-ups are larger at rural garages compared to urban garages. This is because higher retail margins are needed in rural outlets to compensate for their lower volume of sales.

(b) The oil companies add "small load" and "zonal" premium charges (typically amounting to 1p-2p a gallon) to their basic wholesale prices for most rural deliveries. There is a barrellage surcharge of 21p a gallon on supplies by barrel to certain Scottish Islands (in place of the small load premium). Even so the oil companies say that they do not fully recover the extra costs involved and Department of Energy accept that this is the case.

(c) "Selective price support", by which sales at certain outlets are subsidised to the extent of about 9p, is being used to defend sales volume at competitive high-volume urban sites.

(d) "Temporary sales allowance" is given by the oil companies as an across-the-board discount to all garages buying their petrol. Such discounts now total about 5p. Whether this

is passed on to the motorist is a matter for the retailer. Tough competition forces retailers in urban areas to pass on most of the discount quickly. In rural areas, the indications are that, although it is now passed on by the retailer, it takes a longer time.

6. As we explained before last year's Budget, there is little that the Government can do about (a) and (b). They reflect the economics of the market. On (c) and (d) however, Department of Energy officials are continuing to encourage oil companies to make across-the-board price reductions to meet competition rather than rely on selective price support. This appears to have led to the recent fall in typical remote rural prices referred to in paragraph 3, but at 9p the level of selective price support in urban areas remains high.

CF

C FREEDMAN

ANNEX

PETROL AND DERV: EXCEPTIONALLY HIGH PRICES

	4 star petrol (£ per gallon)	Derv (£ per gallon)
Coll	2.17	-
Isles of Scilly	2.17	1.96
Colinsay	2.13	1.89
Tyree	2.04	1.99
Westray (North Orkneys)	2.01	1.99
Strontian (nr Fort William)	1.98	1.96
Islay	1.98	1.93
Jura	1.98	2.18
Kirkwall (Orkneys)	1.97	1.94
Unst (Shetland)	1.92	2.05

20/2

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

From: J P Bone

Date: 21 February 1983

CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
Financial Secretary
Economic Secretary
Minister of State(C)
Minister of State(R)
Sir Douglas Wass
Mr Burns
Mr Middleton
Mr Byatt
Mr Moore
Mr Kemp
Mr Cassell
Mr Griffiths
Mr Hall
Mr Ridley
Mr French
Mr Harris
Sir L Airey

PETROL AND DERV: REVENUE AND RPI EFFECTS

You may like to have a reminder before tomorrow's overview meeting of the revenue and RPI effects of the options still under consideration for petrol and derv. The figures are as follows:-

	Revenue 1983-84 and full year	Change from indexed base	RPI impact effect
	£m	£m	%
<u>Option 1</u>			
Petrol + 4½p	210	0	0.1
Derv + 3½P	45	-5	nil
<u>Option 2</u>			
Petrol + 4p	190	-20	0.1
Derv + 3p	40	~~-5~~ 10	nil

As you will see, the difference in RPI impact effect of the two options for petrol is within the margins of error of rounding. Whichever option you choose, the total RPI impact effect of the excise duty package is estimated as slightly more than 0.4%, but marginally less than the 0.45% assumed in the forecast.

JPB

J P BONE
PRIVATE SECRETARY

Internal distribution:

Internal distribution:	Mr Freedman	Mr Middleton	Mr Battle
	Mr Howard	Mr McGuigan	Mr de Barker
			CPS

BUDGET SECRET

FROM: C D HARRISON
DATE: 22 FEBRUARY 1983

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Minister of State (R)
PS/Financial Secretary
Sir D Wass
Mr Middleton
Mr Moore
Mr Cassell
Mr Kemp
Mr Griffiths
PS/C&E

And we are content with §3?

"Absolutely" says FP.

PETROL, DERV AND VED: MR MOORE'S MINUTE OF 18 FEBRUARY

Your minute of 22 February refers.

2. This evening the Economic Secretary discussed with the Secretary of State for Transport the decisions on the petrol and derv duties, and VED. Mrs Chalker was also present. While the Secretary of State would have preferred a 6p increase in the petrol duty, and no increase in VED on cars, he did not give any impression of wanting to take this any further and so we can assume that he has accepted the verdict reached.

3. On VED on lorries, the Secretary of State confirmed that he would wish to stick with the proposals made in his letter of 26 January. Briefly, these were:

Lorry weight, tonnes	VED change, percentage
Light lorries	-10
Intermediate groups	up to +12
30 (rigid)	+23
32.5 (artic)	+26

4. He also wished to stick with the proposals made in that letter on Farmer's and Showmens' Vehicles and Buses and Coaches.

CDH

C D HARRISON

BUDGET SECRET

(Cwp)

FROM: J O KERR

DATE: 22 February 1983

PS/ECONOMIC SECRETARY
PS/MINISTER OF STATE (R)

CH/EX REF NO B/83/10
COPY NO 14 OF 15 COPIES

cc PS/Chief Secretary
PS/Financial Secretary
Sir Douglas Wass
Mr Middleton
Mr Moore
Mr Cassell
Mr Kemp
Mr Griffiths
PS/C&E
Mr Freedman - C&E
Mr Howard - C&E

PETROL, DERV AND VED: MR MOORE'S MINUTE OF 18 FEBRUARY

This is to confirm that the Chancellor would be grateful if, following this morning's "overview' meeting, and the decision that increases of 4p and 3p for petrol and derv should be the preferred option, the Economic Secretary and the Minister of State could conduct the soundings mentioned in paragraph 17 of Mr Moore's minute. He hopes that the Economic Secretary could see Mr Howell either today or early tomorrow morning, and that the Minister of State could brief Mr Lawson in the margins of their meeting tomorrow afternoon. The Chancellor would then plan to talk to the Chief Whip and the Secretaries of State for Scotland and Wales, on Thursday, and to inform the Prime Minister of the position in a minute on Thursday night.

Unless you dispose of this tomorrow at the bilateral

J O KERR

NOTE OF A MEETING ON TUESDAY 22 FEBRUARY AT 9.00 A.M. IN THE CHANCELLOR'S ROOM, H.M. TREASURY

Present: Chancellor of the Exchequer
Financial Secretary
Economic Secretary
Minister of State (R)
Mr Middleton
Mr Moore
Mr Robson

Mr Isaac - IR
Mr Beighton - IR

CAPITAL TAXES

Tax Exemption for Housing Associations and Self Build Societies in Northern Ireland

The meeting had before it Lord Gowrie's letter of 3 February, Mr Bryce's minute of 10 February and Miss Swift's minute of 11 February.

2. It was agreed that this item should not be purused this year. (Could Mr Bryce provide a suitable draft for the Chancellor to send to Lord Gowrie?) [Received 22/2].

Capital Gains Tax

The meeting had before it Mr French's minute of 10 February.

3. There was a brief discussion of the state of play on capital gains tax. The Financial Secretary said he was not attracted to the idea of the sort of Green Paper Mr French was suggesting at this juncture. This was agreed.

4. There was a brief discussion of parallel pooling. Mr Beighton explained that from the Revenue's point of view it would be highly desirable if this could be restricted to companies. It was agreed that the Government would initially draft a clause to restrict parallel pooling

to companies, but would give way in Finance Bill Committee if this proved necessary. Mr Isaac would speak to the Accountancy Bodies tax committee to warn them of the proposed change.

Capital Transfer Tax

The meeting had before it Mr Beighton's minute of 10 February, the note of a meeting on 4 February, and the Financial Secretary's minute of 18 January.

5. The Chancellor confirmed his provisional decision at the 4th February meeting to extend the instalment period from 8 to 10 years.

6. On rates and scales it was agreed that in light of the overall shape of the Buget and the size of the fiscal adjustment scale G would be sensible. It could be presented as being an increase broadly in line with that on personal income tax allowances.

7. There was some discussion of the case for increasing the business and agricultural reliefs to 60 and 40 per cent as proposed by the Financial Secretary in his minute of 18 January. The Financial Secretary and the Minister of State (R)felt there was considerable pressure from the groups affected for this move. The Financial Secretary felt that without an extension of the reliefs there would be nothing for agriculture in the Budget and the Government will be open to political attack for that. The Economic Secretary argued that to extend the reliefs would further erode the tax base and would run directly counter to the aim of consolidating the tax base at lower rates. It was pointed out that tax was not the only factor affecting the relative attractiveness of let land.

8. The Chancellor, summing up, said he felt that the politics were not very attractive. He was not inclined to increase the relief to 60 and 40 per cent. The Financial Secretary pointed out that many of the advantages could be gained by increasing the 20 per cent relief to 30 per cent. The Chancellor asked for this option to be included in a package including the other items agreed at the meeting. He would also be grateful for a paper summarising the degree of pressure on the varying points from outside bodies. He would then take a final decision on the package as a whole.

JKR

JILL RUTTER

22 February 1983

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

PETROL, DERV AND VED

We spoke last night about the duty increases I have in mind for petrol and derv. This note sets out my proposals in a little more detail for these duties and for Vehicle Excise Duty. I need to settle this now, so that Customs and Transport can go ahead with printing the detailed tables.

2. As I told you, I plan to increase the duty on petrol by 4p, which will yield £190 million in the coming year. This is slightly less than full revalorisation, which would have meant an increase of 4½p and an increased yield of £20 million. I propose that derv should go up by 3p, yielding £40 million. Full revalorisation would have meant an increase of 3.7p yielding £10 million more.

3. In both cases, the increases are relatively modest, but the revenue yield important. I am sure that this is the right course to take, particularly at a time when oil prices are falling.

4. If VED on cars and light vans were revalorised exactly this would mean an increase from the present £80 to £84.32. I propose to round this up to £85 which will yield £90 million. In deciding about VED on goods vehicles we have to bear in mind our commitment to move as quickly as possible to a position in which taxation, through derv duty and VED, is sufficient to ensure that each lorry group covers its road costs. To this end, and assuming 3p on derv, I am accepting proposals from David Howell to increase VED on the heavier and more damaging lorries by up to 26 per cent, which would still leave them short

of fully covering their road costs, and to fulfil our commitment to charge sufficient VED to ensure that road costs will be fully covered from the outset for the 38 tonne lorries which will be allowed on the road from 1 May. But we also plan to reduce VED by up to 10 per cent on over 300,000 lighter lorries, which is about 60 per cent of total goods vehicles. Even with this reduction, which will be a useful bonus to the operators concerned, road costs will still be covered for these particular lorry groups.

5. All these proposals have been discussed with David Howell and Nigel Lawson; and I have discussed the proposals for petrol and derv with George Younger, Nick Edwards and Michael Jopling. All are content. I should be most grateful if you could let me know, by Monday morning, whether you too are happy with them.

(G.H.)
24 February 1983

BUDGET-SECRET

FROM: D J L MOORE
DATE: 24 February 1983

PRINCIPAL PRIVATE SECRETARY

cc PS/Economic Secretary
Mr Kemp
Mr Griffiths

PETROL, DERV AND VED

... As agreed this morning, I attach a draft minute which the Chancellor might send to the Prime Minister tonight. I leave it to you to decide whether she is required to reply tomorrow or on Monday morning - see the last paragraph.

2. I am not sure whether the Chancellor wants to mention the other main indirect taxes but if so you might add:

> "For drink and tobacco I propose to increase duties broadly in line with revalorisation and, taking all the indirect taxes together, the overall effect would be to add about 0.4 to the RPI compared with the 0.45 in the forecast."

DJLM

D J L MOORE

BUDGET-SECRET

Budget SECRET

~~DRAFT~~

~~MINUTE~~ FROM THE CHANCELLOR OF THE EXCHEQUER

TO: THE PRIME MINISTER

PETROL, DERV AND VED

We spoke ~~on Wednesday evening~~ last night about the duty increases I have in mind for petrol and derv. This note sets out my proposals in a little more detail for these duties and for Vehicle Excise Duty.

(X) old para 5

2. As I told you, I ~~want~~ plan to increase the duty on petrol by 4p, which will yield £190 million in the coming year. This is slightly less than full revalorisation, which would have meant an increase of 4½p and an increased yield of £20 million. I propose that derv should go up by 3p, yielding £40 million. Full revalorisation would have meant an increase of 3.7p yielding £10 million more.

3. In both cases

(Y) from old para 4

~~4.~~ If VED on cars and light vans were revalorised exactly this would mean an increase from the present £80 to £84.32. I propose to round this up to £85 which will yield £90 million. In deciding about VED on goods vehicles we have to bear in mind our commitment to move as quickly as possible to a position in which taxation, through derv duty and VED, is sufficient to ensure that each lorry group covers its road costs. To this end, and assuming 3p on derv, I ~~agree with~~ ~~have accepted~~ am accepting proposals from David Howell~~'s proposals~~

SECRET

SECRET

to increase VED on the heavier and more damaging lorries by up to 26%, which would still leave them short of fully covering their road costs, and to fulfil our commitment to charge sufficient VED to ensure that road costs will be fully covered from the outset for the 38 tonne lorries which will be allowed on the road from 1 May. But ~~at the same time~~ I also plan to we ~~can~~ reduce VED by up to 10% on over 300,000 lighter lorries, which is about 60% of total goods vehicles. Even with this reduction, which will be a useful bonus to the operators concerned, road costs will still be covered for these particular lorry groups.

new to para 3

~~4.~~ 5. All these ~~I have discussed~~ ~~These~~ ~~these~~ proposals have been discussed with David Howell, and Nigel Lawson; ~~I have~~ and I have ~~discussed~~ discussed the proposals for Petrol and Derv with George Younger, Nick Edwards and Michael Jopling. ~~They~~ All are ~~all~~ content. ~~The~~ The increases are relatively modest, but the revenue yield ~~is~~ important. I am sure that this is the right course to take, particularly at a time when oil prices are falling.

to para 1

~~5.~~ I need to settle this now, so that Customs and Transport ~~need a firm decision on these duties now so that they~~ can ~~get on~~ go ahead with printing the detailed tables. ~~for petrol, derv and VED duties.~~ I should be most grateful ~~to have by the~~ if you could let know, by ~~weekend [first thing on~~ Monday morning, ~~28 February]~~ ~~your confirmation that~~ whether you too are ~~content~~ happy with ~~these~~ them ~~proposals.~~

[G.H.]

SECRET

CHANCELLOR OF THE EXCHEQUER

<u>DISTRIBUTION</u>

Those Present
PS/Chief Secretary
PS/Minister of State (C)
Sir D Wass
Mr Lovell
Mr Fitchew
Mr Kemp
Mr Ridley
PS/IR
Mr Bryce - IR

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pw

10 DOWNING STREET

From the Private Secretary

25 February 1983

Dear John,

PETROL, DERV AND VED

The Prime Minister was grateful for the Chancellor's minute of 24 February.

She agrees with his proposals.

Yours sincerely,

Michael Scholar

John Kerr, Esq.,
HM Treasury.

cc: PS/Economic Secretary
Sir Douglas Wass
Mr Middleton
Mr Moore
M Cassell
Mr Kemp
Mr Griffiths

CH/EX REF NO B(83)13

COPY NO 9 OF 9 COPIES

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Angus Fraser, Esq, CB
Chairman,
Board of Customs and Excise

25 February 1983

Dear Angus,

PETROL, DERV AND VED

... Please see the enclosed copy of a minute of 24 February from the Chancellor to the Prime Minister. The Prime Minister is content with the plans described in it, and they can now be taken as firm Budget decisions.

Yours ever,

John Kerr.

J O KERR
Principal Private Secretary

A Kemp Measures Final Scorecard.

TABLE A

A copy in the bag for Palace & Cabinet [illegible]

£ million

	1983-84 PSBR	1983-84 REVENUE	1984-85 PSBR	1984-85 REVENUE
Individuals				
Personal Allowances	1010	1170	1060	149(
Housing and Home Ownership (Table B1)	80	115	65	105
Social Security (Table B2)	75	125	190	320
Unemployment (Table B3)	25	40	40	55
	1190	1450	1355	1970
Businesses and Industry				
Corporation Tax	35	40	60	70
National Insurance Surcharge	200	215	300	390
Small Firms and Enterprise (Table B4)	50	60	120	135
Technology and Innovation (Table B5)	30	40	50	80
	315	355	530	675
North Sea Oil	105	120	85	100
Specific Duties	(10)	(10)	(10)	(10)
Miscellaneous (Table B6)	-	-	(35)	(40)
GRAND TOTAL	1600	1910	1915	2685
of which Public Expenditure		239		418

Note 1: The measures include both tax and public expenditure elements. For tax the costs shown are the excess over indexation: for public expenditure the excess over what is already provided in the PEWP.

2: The specific PSBR costs shown for each group of measures is necessarily approximate.

£ million

HOUSING AND HOME OWNERSHIP

	1983-84	1984-85	Full Year
1. Enveloping *	50	nil	-
2. Mortgage Interest Relief ceiling - increase to £30,000	50	85	60
3. Improvement grants *	10	10	-
4. Stock relief: householders part exchange simple scheme	under 1	5	5
5. Self-employed second home mortgage interest relief	2	5	5
Revenue costs	52	95	70
Public expenditure costs	60	10	-
GRAND TOTAL	112	105	70
Taken as	115	105	

Note: Items marked * are public expenditure

SOCIAL SECURITY £ million

	1983-84	1984-85
1. Abolition of £250,000 limit on CTT exemption on gifts to Charities	under 1	1
2. Deeds of Covenant - increase in ceiling for higher rate		3
3. Tax relief for staff seconded by companies to voluntary bodies	under 1	under 1
4. Extension of widow's bereavement allowance	25	30
5. Raise cut-off for SB resources to £3,000* (plus Life Assurance disregard £1,500)	2	7
6. Raise cut-off for SB single payments to £500 *	1	3
7. Real increase in therapeutic earnings limit *		
8. New mobility supplement for War Pensioners *		
Less housing benefit savings	(2)	(6)
9. Restoration of 5 per cent abatement in UB *	22	59
10. Increase child benefit to £6.50 per week, plus corresponding rise in one parent benefit *	75	212
11. Removal of invalidity trap *	4	14
Revenue costs	25	34
Public expenditure costs	102	290
GRAND TOTAL	127	324
Taken as	125	320

* Public expenditure items. Costs are those over and above amounts provided for in the White Paper

UNEMPLOYMENT £ million

	1983-84	1984-85
DHSS early retirement (automatic credits 2, long-term SB* 23).	23 2	27 2
Enterprise allowance: cash limited nationwide scheme, plus spill over *	17 net [25 gross]	19 net [29 gross]
Part-time JRS from 62*	(2)net [4 gross]	4 net [39 gross]
Public expenditure	38	51
Tax	2	2
GRAND TOTAL	40	53

6.7?

Note: Items marked * are public expenditure.

TECHNOLOGY AND INNOVATION £ million

		1983-84	1984-85	1985-86
1.	Extension of transitional period for capital allowances - films	nil	nil	30
2.	Extension of transitional period for capital allowances - teletext TVs	nil	8	10
3.	SEFIS*	20	40	40
4.	Information Technology*	5	8	11
5.	Innovation linked investment*	5	15	20
6.	Advisory services*	9	6	6
7.	Science Parks* (included above)			
	Revenue costs	nil	8	45
	Public expenditure costs	39	67	72
	GRAND TOTAL	39	77	117
	Taken as	40	80	

Note: Items marked * are public expenditure

The cost of the whole package over three years is £230 million

SMALL FIRMS, ENTERPRISE AND WIDER SHARE OWNERSHIP £ million

	1983-84	1984-85	Full year
1. Business Expansion Scheme	25	50	75
2. Loan Guarantee Scheme*	nil	nil	-
3. Wider share ownership	20	30	35
4. Capital Gains Tax (see note 1)			
a. monetary limits	nil	1	1
b. retirement relief	nil	1	4
5. VAT registration thresholds	5	5	5
6. De minimis limit for assessment of apportioned income	under 1	under 1	under 1
7. Acceptance credits	neg	1	1
8. Capital Transfer Tax (see note 2)	7	18	20
9. Zero/deep-discounted stock	neg	15	15
10. Relief for interest, employee buy-outs	1	1	2
11. Tax treatment of interest paid by companies to non-residents	under 1	under 1	2
12. Increase in proportion of office space qualifying for industrial building allowance	nil	10	25
13. DLT - extension of own-use deferment	nil	under 1	4
14. Small Workshop Scheme - averaging for converted premises	under 1	under 1	under 1
GRAND TOTAL	59	133	190
Taken as	60	135	

Note: Items marked * are public expenditure

1. The cost of these CGT measures when statutory indexation is added is nil, 5 and 15 million.

2. Indexation of CTT costs 15, 30 and 35 respectively. The additional costs shown for item 8 are for rounding up the indexed thresholds, for extending the instalment period from 8 to 10 years, and for increasing reliefs on let land and unquoted companies to 30 per cent.

MISCELLANEOUS £ million (yields)

	1983-84	1984-85	Full Year
1. Car and car fuel scales - 15 per cent average increase	nil	(30)	(30)
2. Cheap housing for directors	nil	nil	(neg)
3. Life assurance: chargeable events: secondhand bonds	under (1)	under (1)	under (1)
4. CGT: non-resident trusts	nil	under (1)	under (1)
5. CTT: remove special deemed domicile rule for Isle of Man etc	1	2	2
6. Group relief: avoidance (BL)	neg	(10)	(10)
7. DLT: disposals by non-residents	(1)	(2)	(2)
8. Taxation of international business. Offset by Double Taxation Relief against Corporation Tax	nil	nil	nil
9. Beneficial mortgage loans from employers	nil	under (1)	under (1)
10. Directors PAYE tax	nil	(10)	(10)
11. TSBs to be treated as bodies corporate	3	10	10
12. Scholarships	nil	neg	neg
13. Extended carry-back of Surplus ACT	nil	1	1
GRAND TOTAL	2	(40)	(45)
Taken as	-	(40)	

Nkomo

Mr Nkomo given temporary admission for one week when he arrived last ~~week~~ Sunday while his position was being considered. He asked to stay for a visit of around 3 weeks. He has not applied for political asylum.

Not for use : The PM has now agreed that Mr Nkomo should be granted a month's visit, starting from the date he arrived. Mr Nkomo is being contacted to inform him of that decision, and no announcement will be made until this has been done.

GREENHAM COMMON "PEACE CAMP"

Line to Take

The Government recognises the sincerity of the vast majority of those involved in such protests, and their genuine concern over nuclear weapons. Their protests serve to remind Governments all over the world of the importance of maintaining peace and reducing the level of armaments. But these people have no monopoly of a desire for peace or of moral concern. The overriding aim of this Government and our NATO Allies is to preserve the peace. We have successfully preserved the peace in Europe for nearly 40 years. And we are more likely to maintain that peace through the continuation of our policy of deterrence coupled with efforts to reach balanced and verifiable arms reduction agreement, than by abandoning our guarantee of security. One-sided disarmament on our part would increase rather than decrease the risk of war.

It is also worth remembering that it is only in democracies such as ours that peace movements and peace camps are allowed to exist at all; there is no peace camp outside the Kremlin or Murmansk naval base. But democratic rights need defending; to throw away NATO's well-tried system of defence would be highly irresponsible.

		1983-84	1984-85
1. Available Fiscal Adjustment (on basis of provisional Post-Budget Forecast) PSBR of 2¾% of GDP in 1983-84 and 2½% in 1984-85, rounded to £8 billion and £7.5 billion		1500	1750-2250
2. Provisional Budget Plan PSBR costs			
Persons: Income Tax Thresholds up	8½% over R/W (ie 14% in all)	1010	1060
	CB (Public Expenditure)	[90]	[250]
Specific Duties: Full revalorisation except for:-	Cigarettes and Cider	10	10
	Petrol and Derv, less VED	10	10
Industry:	Further NIS ½% cut from August	200	300
	Oil	80	120
	Corporation Tax	35	60
	ACT	-	0-60
	DTR	-	0-35
Packages:		200-300	280-400
Total costs		1545/1645	1840-2055
3. Approximate Revenue Costs Split (including ½% NIS cut from 1 April announced in Autumn Statement.)			
Persons		1330-1405	1810-1910
Businesses		890-915	1320-1455
Totals		2220-2320	3130-3365

CHANCELLOR OF THE EXCHEQUER

Is there quite enough on non-class. work? I think so

C.

This re-ordering is P Kemp's (and rather a good idea, I think, though the earlier one would do).

2. All the facts are now double-checked; and I've made a couple of mini-changes to make it water-tight.

[signature].

Fine – I've added a bit on the unemployed. ? is it quite enough: more for young people, training etc.

It's fine

Give me a ring if fresh ideas

I could have presented a very different Budget last Tuesday afternoon. It would have been the easiest thing in the world to slash billions more off taxes, and splash out with billions more on Government spending.

Labour's Peter Shore says I should have done just that. And that the result would have been economic take off. Now if that's what I had done, and if he were right about the results, he might not have been best pleased. Because I would have got all the credit for launching his instant, painless economic miracle. [The ~~grateful~~ voters of Darlington would all vote ~~Tory~~, and the General Election would be ~~a walk~~ over, with Margaret Thatcher back in ~~Downing Street for a generation~~.]

But that is going to happen anyway

Yes - I'd omit this.

Agree

So why did I reject this tempting alternative? Because we all know that the Shore plan is nonsense. Within a very few months the bonanza would come to an end. Price inflation and interest rates would soon be soaring towards the stratosphere, the £ sinking out of sight. Some new Chancellor would have to slam on the brakes. And all the hard-won gains of the last four years would have been thrown away.

Gains against inflation - ~~lower than for 13 years.~~ down to 5 per cent.
Gains on productivity - up over 14 per cent in manufacturing industry since the end of 1980. Gains against over-

/manning

and the confidence which goes with them

~~But what about jobs~~? Governments can't create jobs which last: higher profits, lower inflation, and lower interest rates, , are the key to that. But Governments can help people and businesses create them. That's why, for the third time in a year, we're cutting Labour's tax on jobs, the National Insurance Surcharge - which the Liberals supported too. It stood at 3½ per cent when we came into office. It's coming down to 1 per cent. It's on the way out. That's good news for business - and jobs.

The tax help for business and industry we've provided since last spring is worth more than £2 billion in a full year. And we're also concentrating help on the small

/and medium

manning and bloody-mindedness on the shop floor. Gains against our competitors, reversing the decline in our share of world trade.

In five Budgets I've resisted calls to spend, borrow, and devalue our money. Government will spend a smaller share of Britain's wealth next year. And borrowing too is being kept down ~~smaller share~~. And that's right.

Plans like Peter Shore's have in the past been the cause of the problems which have put 3 million out of work: they can't be their cure. If spending alone could have cured all our ills, we'd be pretty well off! But it doesn't. Today's unemployment is the price of too much government spending and borrowing, and resulting high inflation, in the past.

~~If spending would~~ ~~[illegible]~~ ~~we'd be~~ ~~pretty well off.~~ ~~But it doesn't.~~

So my first aim in planning this Budget was to make sure we go on keeping inflation down, and interest rates down. For that's the way to turn the gains we've made into more growth and new jobs.

and medium companies which will be tomorrow's household names, and will create tomorrow's jobs; on the building industry; on thrusting high technology pace-setters; on engineering firms; on people starting their own businesses; and much more. It's a Budget for opportunity.

But it's also a Budget for people. To the extent we responsibly can, we have cut taxes. The allowances are being raised by 14 per cent, that's more than 2½ times the rate of inflation - worth about £1.25 more a week for the average single person, and over £2 for the average married man. And considerably more for those who are retired. The Budget ~~increases~~ changes mean that about one and a quarter

/million

million people, who would have had to pay tax, won't pay any next year.

And it's a Budget for families. Our Party is in no doubt about the importance of the family, and in this Budget we've put up child benefit, paid to mothers, to £6.50 from November. It will then be worth more - after taking account of price rises - than it has ever before.

to next page.

~~But it does~~n't

~~mean that those who've given much for their~~ country

in ~~past years should be forgotten now.~~ But the old [illegible] And ~~so~~ ~~We~~ we've

continued to protect the retirement pension's value.

Indeed its real value will be higher than it ever was

under Labour. ~~And,~~ As in my earlier budgets, there are

special measures to help widows, the sick, the disabled

and the charities which care for them. And an

improvement in living standards for those who ~~[illegible]~~ are

~~[illegible]~~ unemployed – along with new

proposals to improve their chances of finding a job. //

~~I began by saying how easily false expectations build~~

~~up. But there's one other expectation that is even~~

~~more damaging if it's widespread. That's the belief~~

~~that one~~ No single budget, or package, or programme, ~~or even one~~

~~Parliament,~~ can change the real world we live in.

Only people, not Governments, can do that. And our

people have a real chance to do so.

/For things

For things <u>are</u> getting better. And they're going to get better still. The world economy is recovering. And though people don't realise it, our economy is recovering faster than the world's. People are spending and buying more than they were. They're investing more. And our industry is starting to produce more too.

Britain's economy will grow faster, this year and next. ~~than it has for years.~~ That's the result of persistence, of sticking to policies designed to win back the ground we'd lost over the years before 1979. It's the result of voters seeing, four years ago, that the determination of Margaret Thatcher provided the key to recovery. The country rejected then the "soft options"—like Peter Shore's - that don't work, that only speed economic decline. They wanted a Government with guts - the guts to reverse that decline. And it has been reversed.

We now have a chance to build on our achievements, and win back markets and then jobs. That means higher productivity still. And continued good sense about pay, pricing people back into jobs.

We've all come a long way together over these last few years. As recovery ~~begins~~ strengthens, I'm convinced that the nation is determined to make it a recovery which lasts. And that's what I've worked for, in five Budgets. And Why I stuck to the same course last Tuesday.

Sensible, responsible Governments act with an eye to the future. Not just their future, but Britain's future. That is what we're doing.

(PWP)

CHANCELLOR OF THE EXCHEQUER'S OFFICE: MEETING

SUBJECT If time allows. JOK	1. Budget 1983: Excise Duty Options 2. VAT Annual Accounting ("Small Firms/Enterprise" package: item 4) 3. Betting Duty, Casinos ("Betting and Breeding" package: items (b) and (c)) 4. VAT Relief for Tourism ("Tourism" package: item (a))
DATE AND TIME	28 January 11.00 p.m.
VENUE	Chancellor's Room, Treasury
PAPERS	Item 1. Sir D Lovelock: 24/1; EST 25/1; CST 25/1 Item 2. Mr Fraser: 20/1; EST 24/1; FST 24/1 Item 3. a) Mr Freedman: 11/1; EST 18/1 b) Mr Freedman: 21/1; EST 25/1 Item 4. Mr Robson: 13/1 (Paras 20/24 only); CST 17/1; FST 17/1; EST 19/1; MST(R) 21/1
THOSE ATTENDING	FST EST MST(R) Sir D Wass Mr Burns Mr Middleton Mr Moore Mr Kemp Mr Cassell Mr Griffiths Sir D Lovelock C&E Mr Howard C&E Mr Freedman C&E Mr Ridley Mr French

J O KERR
26 January 1982

CHANCELLOR OF THE EXCHEQUER'S OFFICE: MEETING

SUBJECT	1. Budget 1983: Excise Duty Options 2. ~~Small Firms/Enterprise package~~ VAT Annual Accounting ("Small Firms/Enterprise" package, item ii) 3. Betting Duty, & Casino's ("Betting and Breeding package: items (b) and (c)) 4. VAT Reliefs for Tourism ("Tourism" package : item (a))
DATE AND TIME	28 January 11.00 am
VENUE	Chancellor's Room, Treasury/~~No. 11/Conference Room/House of Commons~~
PAPERS	~~Sir D. Lovelock 24/1~~ Item 1. Sir D Lovelock ~~24 January~~ 24/I; EST 25/I; CST 25/I. Item 2. Mr ~~[illegible]~~ Fraser: 20/I, EST 24/I, FST 24/I. Item 3 a) Mr Freedman: 11/I, EST 18/I b) Mr Freedman: 21/I, EST 25/I. Item 4. Mr Robson: 13/I (paras 20/24 only); CST 17/I; FST 17/I; EST 19/I MST(R) 21/I
THOSE ATTENDING	FST EST MST(R) Sir D. Wass Mr Burns Mr Middleton Mr Moore Mr Kemp Mr Cassell Mr Griffiths Sir D. Lovelock C&E Mr Howard C&E Mr Freedman C&E Mr Ridley Mr French J.O. Kerr 26 January 1982

CH/EX REF NO B(83)17
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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

INCOME TAX THRESHOLDS

You asked me to think about the possibility of increasing the thresholds by 10 per cent.

2. In recent weeks I have, as you know, been planning a 8½ per cent increase, largely because:-

a. we need to demonstrate our determination to go on reducing borrowing, even if only at a moderate rate; this means a 1983-84 PSBR which can be shown (after some "rounding down") as no more than £8 billion;

b. which in turn means that our scope for total net tax reductions (after indexation and valorisation) is, on the latest forecast, limited - in terms of PSBR impact - to some £1.5 billion (and even that is pushing it a bit); and

c. to target more than three quarters of these reductions on individuals, rather than business and industry - and more than two thirds on the single area of income tax thresholds - would be open to sharp criticism. (Frankly, I think we would be accused of electioneering.)

3. There is no particular magic about the 8½ per cent figure: the £1 billion relief (in PSBR terms) which it represents, on top of indexation, is more important. But 8½ per cent does meet, or

/beat

beat, a number of important targets, viz:-

a. taking the Government Actuary's assumption of earnings growth of 6½ per cent between 1982-83 and 1983-84, it reduces or matches average rates of tax and NIC for 1982-83 for all people who are contracted-in;

b. it reduces average rates of tax compared to 1978-79 for married men on at least three quarters of average earnings - ie two thirds of married men; and

c. because I have rounded up the married man's allowance, it gives all married men a tax reduction of just over £2 a week.

4. As I told you, there is a huge choice of figures on which to base alternative calculations. They are all complicated by two things: the increases in NIC which we have had to make (including this year's special addition to the contracted out rate): a total of 2.[illegible]5 per cent for those contracted in, and of 2.85 per cent for those contracted out; and the very large increase in average earnings that has taken place.

5. With this in mind one can make a variety of comparisons with <u>1978/79</u>, Labour's last year. A reduction in the average <u>percentage</u> rate of <u>tax and NIC combined</u> to the levels in that year would require an increase of more than 30 per cent over indexation. On average rates of <u>tax alone</u>, indexation plus 8½ per cent improves the position for most married men, but indexation plus 15 per cent would be needed to match 1978/79 for a majority of the single (and earning wives).

6. The figure of indexation plus 10 per cent (which I mentioned) would, as it happens, restore allowances to their 1978/79 level as

/a percentage

a percentage of earnings. But it would take no particular tricks, since that milestone is seldom mentioned. Reference is more often made to the real value of the allowances expressed (as "Rooker-Wise" requires) in terms of prices; and by that yardstick indexation plus 3 per cent is sufficient to restore the 1978/79 level. (I see that the ITN Budget Factbook, for example, suggests that to "provide complete indexation during /his/ time as Chancellor" would require me to make an overall increase this year of 12 per cent and we shall be doing better than that.) Average earnings, of course, have increased more than prices - which means that all the options, including bare indexation, show real net earnings in 1983/84 after tax and NIC as higher than in 1978/79.

7. There is one other thing which may have been obscured by the way in which we are obliged to do our initial arithmetic in terms of the first year net PSBR cost of any measure. The income tax cuts which I now propose cost, on that basis, "only" £1 billion. But the full year revenue cost of such income tax cuts, including indexation, is about £2.5 billion, and that is the figure which will hit the headlines.

8. I believe it would be unwise to go beyond that, not least because it would make the PSBR up to £8.5 billion. To announce an intention of borrowing much more, in nominal terms and as a proportion of GDP, next year than in the current year would cause considerable surprise, since it would be inconsistent with the strategy we have been following over the years. And it would reduce still further our very limited room for manoeuvre in face of a sharp fall in oil prices.

9. So I really do think that 8½ per cent makes sense, and that more would be a mistake.

(G.H.)
8 March 1983

CH/EX REF NO B 8321

COPY NO 1 OF 31 COPIES

RECORD OF A MEETING ON BUDGET CONTINGENCY PLANNING FOR A LOWER OIL PRICE: 4.15PM, 9 MARCH, HM TREASURY

PRESENT:

Chancellor	Mr Burns	Mr Moore
Financial Secretary	Sir Lawrence Airey (IR)	Mr Cassell
Economic Secretary	Mr Fraser (C&E)	Mr Kemp
Minister of State (R)	Professor Walters (No 10)	Mr Ridley
Sir Douglas Wass	Mr Middleton	Mr Kerr
Sir Anthony Rawlinson	Mr Bailey	

PAPERS:

Sir Anthony Rawlinson's minute of 4 March;

Mr Cassell's minutes of 4, 8 and 9 March;

Sir L Airey's minute of 8 March.

The meeting considered whether any action would be necessary in the event of a fall in the oil price, before 15 March, to $27. It was agreed that it would be right to hold to the Budget measures as now proposed; and the forecast 1983-84 PSBR of £8.2 billion to be published; but that changes in the Budget speech would be required.

2. It was argued that the factors listed in paragraph 7 of Mr Cassell's minute of 8 March amounted to a strong case for changes to the proposed Budget measures which might reduce the PSBR by up to £0.5 billion in the event that the oil price fell to $25 before 15 March. It would be reasonable to expect a fairly substantial consequent fall in the exchange rate below the levels assumed in the FSBR forecast (not least because the present levels were below those assumed), but it would take a very large fall to maintain North Sea revenue with oil at $25. And it was suggested that any oil price fixed by OPEC in the immediate future would not stick for long, and that the price might be well below $25 before the end of the year.

3. It was argued, on the other hand, that it would be a mistake to make major Budget changes on the basis of a snapshot of oil prices in mid-March, and that this would entail giving excessive weight to one, admittedly important, variable. It was also argued that the regulator provided a means of mid-year correction, which would be widely understood, if the PSBR were in fact to show signs of over-shooting substantially, because of reduced oil revenue.

4. The Chancellor however thought it right to prepare a contingency plan providing for possible changes in the Budget measures saving up to £0.5b on the 1983-84 PSBR. In considering candidate changes, he thought that:-

a. reversal of the decision to raise the mortgage interest relief ceiling would, if attainable, be an obvious starter.

b. Among public expenditure measures, "enveloping" could be sacrificed relatively easily, together with £10 million on improvement grants.
A reduced uprating of child benefit was another possibility, but one which he would be reluctant to contemplate.

c. The NIS cut would be a logical casualty.

d. The proposals to advance the date of repayments under the Business Expansion Scheme, and to extend the Widow's Bereavement Allowance, could also be dropped (but he would be reluctant to drop any of the other measures mentioned in Sir L Airey's minute).

e. A modest increase - 2p a gallon - in the proposed new duty on petrol and derv might cause some political difficulties, but would be less disadvantageous than increases in the other excise duties, given the substantial RPI effect of

increases which would bring a relatively small yield. (A small - 1p - additional increase in the duty on cigarettes could however be considered, for the increase previously proposed did not amount to full revalorisation.)

..., 5. [I attach a note of the £0.49bn package thus provisionally agreed, on a contingency basis.]

6. It was also agreed that no further consideration need be given to an additional increase in VED; and that all or any of the measures listed would be less damaging than a cut in the proposed increase in income tax allowances.

J O KERR

Distribution:

Those present
Chief Secretary
Minister of State (C)
Mr Littler
Mr Evans
Mr Green (IR)
Mr Isaac (IR)
Mr Painter (IR)
Mr Hall
Mr Harris

£ million

CHANGES TO PRESENT PLANS TO SAVE UP TO ABOUT £500 MILLION ON 1983-84 PSBR

PROPOSED CHANGES		1983-84 Revenue Saving	1983-84 PSBR Saving ****	1984-85 PSBR Saving ****
1. MIRC	-hold at £25,000	50	45	70
2. Enveloping and Improvement Grants	- do not proceed	60	55	10
3. NIS	- hold at 1½%	220	200	300
4. BES	- later start	25	25	(25)
5. Widow's bereavement extension - No		25	25	30
6. Petrol	- + 2p* (becomes + 6p)	95		
7. Derv	- + 2p** (becomes + 5p)	25	105	105
8. Cigarettes	- + 1p*** (becomes + 4p)	35	35	35
		535	490	525

OTHER

		1983-84 PSBR Saving	1984-85 PSBR Saving
9. Petrol and Derv	- another 1p	50	50
10. Cigarettes	- another 1p	35	35
11. Child Benefit	- £6.25 instead of £6.50	45	120

* RPI effect of + 2p - under 0.1 per cent
** " + 2p - negligible
*** " + 1p - under 0.1 per cent
**** Approximate

Diana. A meeting on ~~M~~.
Excise Duties

Meeting on Excise Duties

1. All Ministers (Tho' MST(C) and MST(R) are not crucial)

2. Ridley and French. (neither crucial)

3. Wass, Burns, Middleton, Bailey
Moore, Kemp, Cassell, Griffiths
3559 5423
(Bailey not crucial)

4. Lovelock, ~~Fraser~~, Freedman
Red 2346 Howard 261515x 2496
(Lovelock not crucial – since he retires on 31/1!) (Customs + Excise)

Wed 26th pm., if poss
or Friday 28th am.

CHANCELLOR OF THE EXCHEQUER

C.

It's v. good, and to add to it could confuse. Yet I think that 2 additions must be considered.

(A) The world.

It would be good to get world recession in early on (p1); others' current problems played up (p4); and prospects for resumed growth in (p6), as part of the up-beat ending (which needs to be a little more beat up!)

(B) Caring.

Given 2% and all that, it'll be important not only to include a lot of "caring" in the description of measures. Would it be helpful also to get in early on a bit on Govt ~~ext~~ concern to help those ~~Those [illegible]~~ hard-hit by the problems of recession/transition? Perhaps on p 3?