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PO -CH /GH/0017



PART B

BUDGET SPEECH 1982
FOURTH AND FINAL DRAFT

PO -CH /GH/0017

PART B

BUDGET SECRET

Section 8 : N.I.S.

1. Our prime purpose is to help our industries to help themselves, by keeping down their costs. And I have no doubt from the representations I have received that the single measure that business would most welcome is a reduction in the National Insurance Surcharge.

2. This Surcharge was imposed and then increased by the previous Government. Indeed, in their last two and a half years in office the last Government increased the combined charge on employment, the Employers' National Insurance Contribution and the National Insurance Surcharge, from 8½ per cent to 13½ per cent.

3. The Surcharge is, of course, a tax on employment. It raises production costs. It is not rebatable on exports and it either puts up prices or cuts into profits. But it is an extremely cost-effective tax. It raises large amounts of revenue, at little administrative cost. It is much easier to put a tax of this kind on than to take it off.

4. This Government has already protected businesses, and so employment, from any increase in Employers' National Insurance Contribution rates for two consecutive years. Had we not done so, employers

/would have had ✓

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would have had to find nearly £1 billion more in the coming year.

5. It is now time to offer more positive relief. I accordingly propose to cut the rate of the National Insurance Surcharge from 3½ to 2½ per cent. This will help to reduce costs throughout the economy and will be of value to all businesses, whatever their tax position.

6. The cut will operate from 2 August, which is the earliest practicable date.

7. But I am anxious that industry should not suffer from this unavoidable delay. I shall therefore propose an extra reduction between August 1982 and April 1983. The effect of this will be to ensure that business as a whole will enjoy in the last two-thirds of 1982-83 the equivalent of a whole year's reduction of 1 per cent in the Surcharge. The cost of the relief during 1982/83 will be about [£1,000 million].

[8. Paragraph on clawback]

9. The aim of the relief I have just announced is to help profits and employment. If it were to find its way into higher pay, that would totally defeat the object of the exercise. In proposing the /reduction, we are

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reduction, we are offering business and industry, management and workforce, an exceptional opportunity to improve their own performance and prospects.

/SECTION 9 : INDIRECT TAX

Section 8 ~~(11a)~~

NIS

1. I have no doubt from the representations I have received that the single measure that business would most welcome is a reduction in the National Insurance Surcharge.

2. This Surcharge was imposed and then increased by the previous government. Indeed, in their last two and a half years in office the last government increased the combined charge on employment, the employers' National Insurance Contributions and the National Insurance Surcharge, from 8½ per cent to 13½ per cent.

3. The Surcharge is, of course, a tax on employment. It raises production costs. It is not rebatable on exports and it either puts up prices or cuts into profits. But it is an extremely efficient tax, in that it raises large amounts of revenue, at little

/administrative cost.

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administrative cost.. It is much easier to put on a tax of this kind than to take it off.

4. This Government has protected businesses, and so employment, from any increase in employers'

National Insurance Contribution rates. The effect has been to avoid £1b. extra taxation of jobs.

This will help to reduce costs throughout the economy and will be of value to all businesses, whatever their tax position.

5. It is now time to offer more positive relief.

I accordingly propose to cut the rate of the National Insurance Surcharge from 3½ to 2½ per cent.

6. Such a cut would in the normal course of events operate from October. To maximise the benefit to industry, I have however decided that it should on this occasion operate from [the beginning of] August, which is the earliest practicable date.

7. But I am anxious that industry should not suffer

/even from

even from this unavoidable short delay. I shall, therefore, propose an extra reduction between August 1982 and March 1983. The effect of this will be to ensure that business as a whole will enjoy in the last two-thirds of 1982-83 the equivalent of a whole year's reduction of 1 per cent in the Surcharge. The [net] value of the relief during 1982/83 will be about [~~£780~~^{£1000} million].

8. The aim of the relief I have just announced is to help profits and employment. If it were to find its way into higher pay, that would totally defeat the object of the exercise: creating and maintaining jobs. It is crucial that business and industry, management and workforce, respond constructively. The response to a reduction in the taxation of employment must be even greater moderation in pay increases. Pay increases which are too high operate to destroy jobs in exactly the same way as charges on employment like the National Insurance Surcharge itself.

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Section 8 : N.I.S.

1. I have no doubt from the representations I have received that the single measure that business would most welcome is a reduction in the National Insurance Surcharge.

2. This Surcharge was imposed and then increased by the previous Government. Indeed, in their last two and a half years in office the last Government increased the combined charge on employment, the Employers' National Insurance Contributions and the National Insurance Surcharge, from 8½ per cent to 13½ per cent.

3. The Surcharge is, of course, a tax on employment. It raises production costs. It is not rebatable on exports and it either puts up prices or cuts into profits. But it is an extremely efficient tax. It raises large amounts of revenue, at little

/administrative cost.

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administrative cost. It is much easier to put on a tax of this kind than to take it off.

4. This Government has already protected businesses, and so employment, from any increase in Employers' National Insurance Contribution rates for two consecutive years. Had we not done so, employers would have had to find nearly £1 billion more in the coming year.

5. It is now time to offer more positive relief. I accordingly propose to cut the rate of the National Insurance Surcharge from $3\frac{1}{2}$ to $2\frac{1}{2}$ per cent. This will help to reduce costs throughout the economy and will be of value to all businesses, whatever their tax position.

6. The cut will operate from 2 August, which is the earliest practicable date.

7. But I am anxious that industry should not suffer from this unavoidable short delay. I shall

/therefore,

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therefore, propose an extra reduction between August 1982 and April 1983. The effect of this will be to ensure that business as a whole will enjoy in the last two-thirds of 1982-83 the equivalent of a whole year's reduction of 1 per cent in the Surcharge. The cost of the relief during 1982/83 will be about £1,000 million.

8. The aim of the relief I have just announced is to help profits and employment. If it were to find its way into higher pay, that would totally defeat the object of the exercise. It is crucial that business and industry, management and workforce, respond constructively. Pay increases which are too high can destroy jobs in exactly the same way as charges on employment like the National Insurance Surcharge itself.

/ Section 9 : INDIRECT TAX

I now turn

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Section 8 : NATIONAL INSURANCE SURCHARGE

1. Our prime purpose is to help private commerce and industry to help itself, by cutting its costs. And I have no doubt, from the representations I have received, that the single measure that business would most welcome is a reduction in the National Insurance Surcharge.

2. This Surcharge was imposed and then increased by the previous Government. Indeed, in their last two and a half years in office the last Government increased the combined charge on employment, the Employers' National Insurance Contribution and the National Insurance Surcharge, from 8½ per cent to 13½ per cent.

3. The Surcharge is, of course, a tax on employment. It raises production costs. It is not rebatable on exports and it either puts up prices or cuts into profits. But it is an extremely cost-effective tax. It raises large amounts of revenue, at little administrative cost. It is much easier to put on a tax of this kind than to take it off.

4. This Government has already protected businesses, and so employment, from any increase in Employers' National Insurance Contribution rates for two consecutive years. Had we not done so, employers would have had to find nearly £1 billion more in the coming year than will actually be the case.

5. It is now time to offer more positive relief. I accordingly propose to cut the rate of the National Insurance Surcharge from 3½ to 2½ per cent. This will help to reduce costs throughout

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the economy and will be of value to all businesses, whatever their tax position.

6. The cut will operate from 2 August, which is the earliest practicable date.

7. But I am anxious that industry should not suffer from this unavoidable delay. I shall therefore propose an extra $\frac{1}{2}$ per cent reduction between August 1982 and April 1983. The effect of this will be to ensure that business as a whole will enjoy in the last two-thirds of 1982-83 the equivalent of a whole year's reduction of 1 per cent in the Surcharge. The revenue cost of these changes during 1982-83 will be about £1,000 million.

8. The aim of this relief is to help business costs in the private sector. However public sector employers also pay the Surcharge, and in order to leave them exactly where they would have been without the change, appropriate reductions will be made in the relevant cash limits and the Votes of central Government and the NHS, in the Rate Support Grant to local authorities, and in the External Financing Limits of the nationalised industries. The necessary changes will be announced as soon as possible.

9. The aim of the relief I have just announced is to help business costs and employment. If it were to find its way into higher pay, that would totally defeat the object of the exercise, and would obviously have to be taken into account in future. But

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I am confident that this will not happen.

10. In proposing this reduction, we are offering business and industry, management and workforce, an exceptional opportunity to improve their own performance and prospects. I believe that they will take it.

/Section 9 : INDIRECT TAX

Section 9: INDIRECT TAX

I come now to the indirect taxes. I propose no change in the rate of VAT.

2. For the excise duties there has grown up in recent years a sensible presumption that they should be adjusted in line with the movement in prices from one year to the next. That, after all, is what happens automatically with VAT and the ad valorem duties; and also to the personal tax allowances, unless Parliament decides otherwise.

3. I start with the duty on tobacco. Last year the duty was increased twice - in March as part of the Budget measures and in July to help recoup the loss of revenue from the Derv duty reduction. This year the increase I propose will represent, including VAT, 5 pence on the price of a typical packet of 20 cigarettes. There will be consequential increases for other tobacco products. These changes will take effect from midnight on Thursday.

4. Next, alcoholic drinks. I propose, to increase the duties from midnight tonight by amounts which represent about 2 pence on the price of a typical pint of beer, 10 pence on a bottle of table wine, and 13 pence on a bottle of sherry - all including

/VAT.

VAT. The full increase in the price of a bottle of spirits necessary to take account of inflation would have been over 50 pence. However, in the light of the representations about the state of the Scotch whisky industry which I have received from my hon. Friends representing Scottish constituencies and others, I have decided that it would be appropriate to limit the increase on spirits to 30 pence a bottle; again including VAT.

5. Next, the oil duties. Last year, as the House will recall, I felt it right to go some way to meet the representations made to me by hon. Members in favour of a lower increase in the case of Derv than of petrol, in view of the impact of Derv duty on industrial and distribution costs. I have decided this year slightly to widen that differential.

6. There is a strong case for a larger increase in the petrol duty than in the other duties, for our average pump prices are currently among the lowest in the European Community. They have moreover been favourably affected by recent changes in the price of oil. Pump prices have been falling rapidly.

7. Against this it has been impressed upon me by a number of my hon. Friends from rural constituencies, in Scotland, Wales and parts of

/England,

England, that pump prices in remote areas are very much higher than those in more heavily populated areas. Yet dependence on cars for transport is greatest in the more scattered communities.

8. On balance, I think it would be right, at least at this stage, to forego a large increase in the oil duties. I propose, therefore, to limit the increases in the duties on both petrol and Derv to amounts which no more than compensate for one year's inflation. The duty on petrol will accordingly increase by the equivalent, including VAT, of about 9 pence a gallon or 2 pence a litre. This will still leave most pump prices lower than they were at the end of last year. The duty on Derv will increase by the equivalent, including VAT, of 7 pence a gallon or 1.5 pence a litre. As almost all Derv is used by businesses, this smaller increase will help to hold down business costs.

9. As last year, I propose no change in the rate of duty on heavy fuel oil. I am not able, as some would wish, to cut the duty rate, but leaving it unchanged will help industry as the duty burden continued to fall in real terms.

10. Last year I undertook to review the rate of duty applied to aviation gasoline, or AVGAS. I

/have given

I have given very careful consideration to the representations which I have received on behalf of air taxis, flying schools, crop spraying and other specialist services, and from those concerned with air travel in the Highlands and Islands of Scotland. I cannot accept in full the arguments which have been put to me, but I have decided that it would be right to reduce the AVGAS duty rate to one-half of that on petrol. This amounts to a reduction of about 32 pence a gallon or 7 pence a litre.

11. All these changes take effect for oil delivered from refineries and warehouses from 6 p.m. tonight.

12. I also propose to increase most rates of vehicle excise duty. For the motorist the increase will be from £70 to £80. Duty levels on most other groups of vehicles will be increased by about 12 per cent.

13. I propose to make two important changes in the VED on commercial vehicles. I have decided that it would offer a substantial, and justifiable, help to small and medium sized businesses at this time to bring the duties on about half a million light commercial vans more closely into line with those on cars. On the other hand, it would be appropriate, in the light of the conclusions of the Armitage Report,

/to impose

to impose on the heavier lorries - the 80,000 or so
— of more than 9 tonnes unladen weight - a licence
duty which more closely reflects the actual cost
which they impose on the road network. So the
duty on this category will be increased by about
a quarter.

14. The changes I propose for commercial vehicles reflect the Government's intention to get a fairer balance between the taxation burden on different groups of lorries and their road costs. I propose to take a further step in this direction by including in the Finance Bill provisions for restructuring the basis of VED on heavy lorries, to a gross weight method of assessment, and for taxing all light commercial vehicles in due course at the same rate as cars. The House will recall that the framework for this major reform of the VED system was set out in the 1981 Transport Act. It will involve substantial changes in the pattern of commercial vehicle taxation and I think it right that the road transport industry should have time to adjustment. I therefore propose that the rates of duty on the new basis should take effect from 1 October.

15. And, last of the excise duties, taxes on betting and gaming. Many of ~~the~~ my hon. Friends pressed

last year for substantial increases here, and I made some changes in July. Since then I have looked at these duties again. I am conscious of the dangers of going too far. So I propose no further increase in the rates of duty on general betting and bingo, both of which were increased last July. But I have decided that pool betting duty (which has been unchanged since 1974) should go up from 40 per cent to 42½ per cent from 1 April. I also propose increases from the same date in the rates of duty on casinos, where I believe the existing rates of duty are too low.

16. My rt. hon. Friend the Chief Secretary announced last summer that Customs and Excise would undertake a comprehensive review of gaming machine taxation. A very large number of representations were received during the course of this review, from and on behalf of clubs, public houses, amusement arcades, and others. In the light of these representations I have decided that it would not be appropriate to introduce an ad valorem duty on gaming machines, or to impose an excise duty on amusement machines such as 'Space Invaders'. I have also decided that duty should no longer be charged on 2p gaming machines which are mostly to be found in the seaside arcades.

/However, I have

17. However, I have decided that there should be significant increases from 1 October in most rates of the existing licence duty on 5p and 10p gaming machines. [Specify]

18. The total effect of all these changes in excise duties will be to raise an additional £1,150 million in 1982-83, and £1,165 million in a full year. The impact effect on the RPI, which is taken fully into account in my forecast of falling inflation in the year ahead, will be about three-quarters of one per cent.

Section 10: OIL

Section 9: INDIRECT TAX

I come now to the indirect taxes. I propose no change in the 15 per cent rate of VAT.

2. For the excise duties there has grown up in recent years a sensible presumption that they should be adjusted in line with the movement in prices from one year to the next. That, after all, is what happens automatically to VAT and the ad valorem duties; and also to the personal tax allowances unless Parliament decides otherwise.

3. I start with the duty on tobacco. Last year the duty was increased twice - in March as part of the Budget measures and in July to help recoup the loss of revenue from the serv duty reduction. This year the increase I propose will represent, including VAT, 5p on the price of a typical packet of 20 cigarettes. There will be consequential increases for other tobacco products.

/Next, alcoholic

4. Next, alcoholic drinks. [In principle, there is a case for a significant increase in the duty on wine. But] I have to keep in mind the views of the European Community that the duties on table wine and beer should be kept in line. [Equally I have decided against any appreciable narrowing of the differential.] I propose, therefore, to increase the duties from midnight tonight by amounts which represent about 2p on the price of a typical pint of beer, 10p on a bottle of table wine, and 13^p on a bottle of sherry - all including VAT. The full increase in the price of a bottle of spirits necessary to take account of inflation would have been 50p. However, in the light of the representations about the state of the Scotch whisky industry which I have received from my hon. Friends representing Scottish constituencies and others, I have decided that it would be appropriate to limit this ^e increase ^{on spirits} to 30p a bottle, [again including VAT].

/Next, the

5. Next, the oil duties. Last year, as the House will recall, I felt it right to some way to meet the representations made to me by hon. Members in favour of a lower increase in the case of ~~D~~erv than of petrol, in view of the impact of ~~D~~erv duty on industrial and distribution costs. I have decided to [preserve that differential.]

6. In principle, however, there is a respectable case for a larger increase in the petrol duty than in the [other duties] ~~(meaning?)~~ for our average pump prices are currently among the lowest in the European Community. ~~They~~ have moreover been favourably affected by recent changes in the price of oil.

7. Against this it has been impressed upon me by a number of my hon. Friends from rural constituencies in Scotland, Wales and parts of England that pump prices in remote areas are very much higher than those in more heavily populated areas. Yet dependence

on cars for transport is greatest in the more scattered communities.

8. On balance I think it would be right [at least for the present,] to hold down the increase in the petrol duties. I propose, therefore, to raise the duties on both petrol and derv by the equivalent, including VAT, of ^{only} about 5p a gallon or 1.1p a litre*.

[This compares with increases of about 9p a gallon for petrol and 7½p for derv which would have been required to compensate for one year's inflation.]

~~(Doesn't this imply we've cutting the gap?)~~ As almost all derv and about one-third of petrol is used by businesses, this smaller increase will help to hold down business costs.

[9. Possible increases later on, depending on oil market.]

/As last year,

* Trade interests prefer you to announce any changes both in terms of per gallon and per litre.

10. As last year, I propose no change in the rate of duty on heavy fuel oil. I have carefully considered the case for a reduction, but this would cost more to the Exchequer than industry would receive in benefit, because of the effects on the price of certain gas supply contracts. [Explain more fully?] I know this will cause disappointment. However, even leaving the duty unchanged will be of some benefit to industry as the duty burden falls in real terms.

11. Last year I undertook to review the rate of duty applied to aviation gasoline, or AVGAS. I have given very careful consideration to the numerous representations which I have received on behalf of air taxis, flying schools, crop spraying and other specialist services, and from those concerned with air travel in the Highlands and Islands of Scotland. I have to tell the House that it would not be

/possible to

possible to reduce the duty on AVGAS to correspond to that applied to aviation jet fuel, or AVTUR. This would incur the likelihood of substantial diversion to use in cars. I have, however, decided that it would be right to reduce the AVGAS rate as far as possible without running that risk. In future AVGAS will be charged at (?) one-half the rate of duty on petrol.

12. All these changes take effect for oil delivered from refineries and warehouses from 6 p.m. tonight.

13. I also propose to increase most rates of vehicle excise duty. For the motorist the increase will be from £70 to £80. Duty levels on most other groups of vehicles will be increased by about 12 per cent.

14. I propose to make two important changes in the VED on commercial vehicles. I have decided that it would offer a substantial, and justifiable, help to

small and medium sized businesses at this time to bring the duties on about half a million light commercial vans more closely into line with those on cars. On the other hand, it would be appropriate, in the light of the conclusions of the Armitage Report, to impose on the heavier lorries - the 80,000 or so of more than 9 tonnes unladen weight - a licence duty which more closely reflects the actual cost which they impose on the road network. So the duty on this category will be increased by about a quarter.

15. The changes I propose for commercial vehicles reflect the Government's intention to get a fairer balance between the taxation burden on different groups of lorries and their road costs. I propose to take a further step in this direction by including in the Finance Bill provisions for restructuring the basis of WED on heavy lorries, to a gross weight

/method of

method of assessment, and for taxing all light commercial vehicles in due course at the same rate as cars. The House will recall that the framework for this major reform of the VED system was set out in the 1981 Transport Act. It will involve substantial changes in the pattern of vehicle taxation and I think it right that the road transport industry should have time to adjust. I therefore propose that the rates of duty on the new basis should take effect from 1 October. Details will be published in the Finance Bill.

16. And, last of the excise duties, taxes on betting and gaming. Many of my hon. Friends pressed last year for substantial increases here, and I made some changes in July. Since then I have looked at these duties again. I am conscious of the dangers of going too far. So I propose no further increase in the rates of duty on general betting and bingo,

/both of which

both of which were increased last July. But I have decided that pool betting duty which has been unchanged since 1974 should go up from 40 per cent to 42½ per cent from 1 April. I also propose increases from the same date in the rates of duty on casinos, where I believe the existing rates of duty are too low.

17. My rt. hon. Friend the Chief Secretary announced last summer that Customs and Excise would undertake a comprehensive review of gaming machine taxation. A very large number of representations were received during the course of this review, from and on behalf of clubs, public houses and amusement arcades. In the light of these representations I have decided that it would not be appropriate to introduce an ad valorem duty on gaming machines, or to impose an excise duty on amusement machines such as 'Space Invaders'. I have also decided that duty should no longer be charged on 2p gaming machines

/which are

which are mostly to be found in the seaside arcades.

18. However, I have decided that there should be a significant increase from 1 October in most rates of the existing licence duty on 5p and [19p] ? gaming machines.

19. The total ^{effect} of all these changes in excise duties will be to raise an additional £945m in 1982-83, and £960m in a full year.

Section 10: OIL

Section 9: INDIRECT TAX

I come now to the indirect taxes. I propose no change in the 15 per cent rate of VAT.

2. For the excise duties there has grown up in recent years a sensible presumption that they should be adjusted in line with the movement in prices from one year to the next. That, after all, is what happens automatically with VAT and the ad valorem duties, and also to the personal tax allowances unless Parliament decides otherwise.

3. I start with the duty on tobacco. Last year the duty was increased twice - in March as part of the Budget measures and in July to help recoup the loss of revenue from the Derv duty reduction. This year the increase I propose will represent, including VAT, 5 pence on the price of a typical packet of 20 [king-size] cigarettes. [The new price - some £1.04 - will be no higher in real terms than

/it was

it was in [].] There will be consequential increases for other tobacco products.

4. Next, alcoholic drinks. I propose, to increase the duties from midnight tonight by amounts which represent about 2p on the price of a typical pint of beer, 10p on a bottle of table wine, and 13p on a bottle of sherry - all including VAT. The full increase in the price of a bottle of spirits necessary to take account of inflation would have been 50p. However, in the light of the representations about the state of the Scotch whisky industry which I have received from my hon. Friends representing Scottish constituencies and others, I have decided that it would be appropriate to limit the increase on spirits to 30p a bottle, against including VAT.

5. Next, the oil duties. Last year, as the House will recall, I felt it right to some way go meet

/the representations

the representations made to me by hon. Members in favour of a lower increase in the case of Derv than of petrol, in view of the impact of Derv duty on industrial and distribution costs. I have decided this year slightly to widen that differential.

6. There is very strong case for a larger increase in the petrol duty than in the other duties, for our average pump prices are currently among the lowest in the European Community. They have moreover been favourably affected by recent changes in the price of oil. Pump prices have been falling rapidly.

7. Against this it has been impressed upon me by a number of my hon. Friends from rural constituencies in Scotland, Wales and parts of England that pump prices in remote areas are very much higher than those in more heavily populated

/areas.

areas. Yet dependence on cars for transport is greatest in the more scattered communities.

8. On balance I think it would be right, at least for the present, to hold down the increase in the petrol duties. I propose, therefore, to raise the duties on both petrol and Derv by no more than sufficient to compensate for one year's inflation. The duty on petrol will accordingly increase by the equivalent, including VAT, of only about 9p a gallon or 2p a litre, while the duty on Derv will increase by the equivalent, including VAT, if 7p a gallon or 1.5p a litre. As almost all Derv is used by businesses, this smaller increase will help to hold down business costs. In the case of both petrol and Derv the increase will still leave pump prices lower than they were [at the end of last year] [last autumn].

9. As last year, I propose no change in the rate of duty on heavy fuel oil. I am not able, as some would wish, to cut the duty rate; but leaving it unchanged will help industry as the duty burden will fall in real terms.

10. Last year I undertook to review the rate of duty applied to aviation gasoline, or AVGAS. I have given very careful consideration to the representations which I have received on behalf of air taxis, flying schools, crop spraying and other specialist services, and from those concerned with air travel in the Highlands and Islands of Scotland. I cannot accept in full the arguments which have been put to me, but I have decided that it would be right to reduce the duty on AVGAS rate to one-half of that on petrol.

11. All these changes take effect for oil delivered from refineries and warehouses from 6 p.m. tonight.

12. I also propose to increase most rates of vehicle

/excise duty.

excise duty. For the motorist the increase will be from £70 to £80. Duty levels on most other groups of vehicles will be increased by about 12 per cent.

13. I propose to make two important changes in the VED on commercial vehicles. I have decided that it would offer a substantial, and justifiable, help to small and medium sized businesses at this time to bring the duties on about half a million light commercial vans more closely into line with those on cars. On the other hand, it would be appropriate, in the light of the conclusions of the Armitage Report, to impose on the heavier lorries - the 80,000 or so of more than 9 tonnes unladen weight - a licence duty which more closely reflects the actual cost which they impose on the road network. So the duty on this category will be increased by about a quarter.

14. The changes I propose for commercial vehicles reflect the Government's intention to get a fairer balance between the taxation burden on different

/groups of lorries

groups of lorries and their road costs. I propose to take a further step in this direction by including in the Finance Bill provisions for restructuring the basis of VED on heavy lorries, to a gross weight method of assessment, and for taxing all light commercial vehicles in due course at the same rate as cars. The House will recall that the framework for this major reform of the VED system was set out in the 1981 Transport Act. It will involve substantial changes in the pattern of commercial vehicle taxation and I think it right that the road transport industry should have time to adjust. I therefore propose that the rates of duty on the new basis should take effect from 1 October.

15. And, last of the excise duties, taxes on betting and gaming. Many of my hon. Friends pressed last year for substantial increases here, and I made some changes in July. Since then I have looked at these duties again. I am conscious of the dangers of going too far. So I

propose no further increase in the rates of duty on general betting and bingo, both of which were increased last July. But I have decided that pool betting duty (which has been unchanged since 1974) should go up from 40 per cent to 42½ per cent from 1 April. I also propose increases from the same date in the rates of duty on casinos, where I believe the existing rates of duty are too low.

16. Mr rt. hon. Friend the Chief Secretary announced last summer that Customs and Excise would undertake a comprehensive review of gaming machine taxation. A very large number of representations were received during the course of this review, from and on behalf of clubs, public houses, amusement arcades, and others. In the light of these representations I have decided that it would not be appropriate to introduce an ad valorem duty on gaming machines, or to impose an excise duty on amusement machines such as 'Space Invaders'. I have also decided that duty should no

/longer be charged

longer be charged on 2p gaming machines which are mostly to be found in the seaside arcades.

17. However, I have decided that there should be a significant increase from 1 October in most rates of the existing licence duty on 5p and 10p gaming machines.

18. The total effect of all these changes in excise duties will be to raise an additional £1,150 million in 1982-83, and £1,165 million in a full year.

/ Section 10

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Section 9 : INDIRECT TAXES

1. I come now to the indirect taxes. I propose no change in the rate of VAT.

2. For the excise duties there has grown up in recent years a sensible presumption that they should be adjusted in line with the movement in prices from one year to the next. That, after all, is what happens automatically with VAT and the ad valorem duties, and also to the personal tax allowances, unless Parliament decides otherwise. And that is the basis of my approach to excise duty changes this year.

3. I start with the duty on tobacco. Last year the duty was increased twice - in March as part of the Budget measures and in July to help recoup the loss of revenue from the Derv duty reduction. This year the increase I propose will represent, including VAT 5 pence on the price of a typical packet of 20 cigarettes. There will be consequential increases for other tobacco products. These changes will take effect from midnight on Thursday.

4. Next, alcoholic drinks. I propose to increase the duties from midnight tonight by amounts which represent about 2 pence on the price of a typical pint of beer, 10 pence on a bottle of table wine, and 13 pence on a bottle of sherry - all including VAT. The full increase in the price of a bottle of spirits necessary to take account of inflation would have been over 50 pence. However, in the light of the representations about

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the state of the Scotch whisky industry which I have received from my hon. Friends representing Scottish constituencies and others, I have decided that it would be appropriate to limit the increase on spirits to 30 pence a bottle, again including VAT.

5. Next, the oil duties. Last year, as the House will recall, I felt it right to go some way to meet the representations made to me by hon. Members in favour of a lower increase in the case of Derv than of petrol, in view of the impact of Derv duty on industrial and distribution costs. I have decided this year slightly to widen that differential.

6. There is a strong case for a larger increase in the petrol duty than in the other duties, for our average pump prices are currently among the lowest in the European Community. They have moreover been favourably affected by recent changes in the price of oil. Pump prices have been falling rapidly.

7. Against this it has been impressed upon me by a number of my hon. Friends from rural constituencies, in all parts of the kingdom, that pump prices in remote areas are very much higher than those in more heavily populated areas. Yet dependence on cars for transport is greatest in the more scattered communities.

8. On balance, I think it would be right, at least at this stage, not to impose any real increase in the oil duties. I propose, therefore, to limit the increases in the duties on both petrol and Derv to amounts which no more than compensate

/for one year's

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for one year's inflation. The duty on petrol will accordingly increase by the equivalent, including VAT, of about 9 pence a gallon or 2 pence a litre. This will still leave most pump prices lower than they were at the end of last year. The duty on Derv will increase by the equivalent, including VAT, of about 7 pence a gallon or 1.5 pence a litre. As almost all Derv is used by businesses, this smaller increase will help to hold down business costs.

9. As last year, I propose no change in the rate of duty on heavy fuel oil. I am not able, as some would wish, to cut the duty rate, but leaving it unchanged will help industry as the duty burden continues to fall in real terms.

10. Last year I undertook to review the rate of duty applied to aviation gasoline, or AVGAS. I have given very careful consideration to the representations which I have received on behalf of air taxis, flying schools, crop-spraying and other specialist services, and from those concerned with air travel in the Highlands and Islands of Scotland. I cannot accept in full the arguments which have been put to me, but I have decided that it would be right to reduce the AVGAS duty rate to one-half of that on petrol. Including VAT, this amounts to a reduction of about 32 pence a gallon or 7 pence a litre.

11. All these changes take effect for oil delivered from refineries and warehouses from 6 p.m. tonight.

12. I also propose to increase most rates of vehicle excise

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duty. For the motorist the increase will be £10, from £70 to £80. Duty levels on most other groups of vehicles will be increased by about 12 per cent.

13. I propose to make two important changes in the VED on commercial vehicles. I have decided that it would offer a substantial, and justifiable, help to small and medium sized businesses at this time to bring the duties on about half a million light commercial vans more closely into line with those on cars. On the other hand, it would be appropriate, in the light of the conclusions of the Armitage Report, to impose on the heavier lorries - the 80,000 or so of more than 9 tons unladen weight - a licence duty which more closely reflects the actual cost which they impose on the road network. So the duty on this category will be increased by about a quarter. These changes have effect for licences taken out after today.

14. The changes I propose for commercial vehicles reflect the Government's intention to get a fairer balance between the taxation burden on different groups of lorries and their road costs. I propose to take a further step in this direction by including in the Finance Bill provisions for restructuring the basis of VED on heavy lorries, to a gross weight method of assessment, and for taxing all light commercial vehicles in due course at the same rate as cars. The House will recall that the framework for this major reform of the VED system was set out in the 1981 Transport Act. It will involve substantial changes in the pattern of commercial vehicle taxation and I think it right that the road transport industry should have

/time to adjust.

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time to adjust. I therefore propose that the rates of duty on the new gross-weight basis should take effect from 1 October.

15. And, last of the excise duties, taxes on betting and gaming. Many of my hon. Friends pressed last year for substantial increases here, and I made some changes in July. I now propose no further increase in the rates of duty on general betting and bingo, both of which were increased then. But I have decided that pool betting duty, which has been unchanged since 1974, should go up from 40 per cent to 42½ per cent from 1 April. I also propose increases from the same date in the rates of duty on casinos, where I believe the existing rates are too low. Full details of the new rates, and other changes which I shall be announcing today, will be given in Press Notices this afternoon.

16. My rt. hon. Friend, the Chief Secretary, announced last summer that Customs and Excise would undertake a comprehensive review of gaming machine taxation. A very large number of representations were received during the course of this review, from and on behalf of clubs, public houses, amusement arcades, and others. In the light of these representations I have decided that it would not be appropriate to introduce an ad valorem duty on gaming machines, or to impose an excise duty on amusement machines, such as 'Space Invaders'. I have also decided that duty should no longer be charged on 2p gaming machines which are mostly to be found in the seaside arcades.

Section 10: OIL

1. I revert now to the important issue of oil. The development of North Sea oil has been a story of enterprise and success, which is almost entirely due to the efforts of the private sector. As a nation we must never forget the great debt we owe to those on the oil rigs and elsewhere, who have been responsible for the exploration and development of the North Sea. It is important for them as well as for the British people that the rewards should be fairly shared.

2. Last year, in light of the massive increase in oil prices which had occurred in recent years, we changed the structure of North Sea tax, to make it more responsive to changes in price. At the same time tax revenue from the North Sea was brought forward, with an increase in the total level of taxation. I also invited the industry to suggest better ways of raising the revenue we needed. I am grateful to them and others who have commented for their careful and considered responses.

3. As I have mentioned, the current fall in oil prices reduces the revenue the Exchequer receives. But it also reduces the tax the industry has to pay. Because of the high marginal rate, most of this cost is borne by the Exchequer rather than by the companies.

/In this respect

In this respect the oil tax regime gives the companies considerable protection when prices fall in just the same way as it safeguards the Exchequer when prices rise.

4. I am satisfied, as a result of detailed study, that, subject to some marginal adjustment, the total tax burden is not such as to discourage exploration or development. Nor is it so high as to deprive the oil industry of a reasonable, and often attractive, yield. In these circumstances I cannot reduce the overall tax burden to the extent that the industry would have wished. But I do agree with them on the need for some change of structure. I see, in particular, the advantage of profit-related taxes in relation to additional investment in existing fields. The Supplementary Petroleum Duty will therefore be abolished with effect from the end of this calendar year.

5. I propose at the same time that the rate of Petroleum Revenue Tax should be increased from 70 per cent to 75 per cent; and that arrangements should be introduced for advancing PRT payments. Advance payments of PRT, although computed in the same way as SPD, will not be a separate tax but simply an acceleration of the existing tax. They will thus differ fundamentally from SPD in being fully set off without limit against ordinary PRT liabilities when these arise. This structural change is one which the industry have proposed.

6. As from mid-1983, as I have already said, there will also be a monthly instalment system of payment of PRT in order to secure a smoother public sector cash flow.

7. These changes will not affect the revenue yield in the coming year. But in 1983-84 there will be a net cost, after allowing for the saving in interest due to the new system of instalment payments, of some £70 million. This needs to be seen in relation to a current tax yield of about £6 billion from the North Sea.

8. There are great uncertainties both in relation to oil prices and to the future yield of tax from the North Sea, to which I have already referred. Nevertheless I am convinced that, even in the light of these uncertainties, the new tax structure I propose should provide a more secure and stable regime for the future, permitting development to go ahead without being inhibited by major fiscal uncertainties. *Full details of this change, and others, will be given in Press Releases this afternoon.*

9. I propose a number of other minor changes, in part in response to the views put forward by the industry. I propose that regional development grants paid in respect of expenditure incurred after Budget Day should be taken into account for the purposes of PRT and ring fence Corporation Tax. We shall also need to legislate next year to deal with certain special problems affecting

PRT expenditure reliefs, pipeline tariffs, and other non-oil receipts: these will be the subject of a consultative document which will be issued shortly.

10. These fiscal measures, combined with the decisions we have already announced on the abolition of the state's sole right to buy gas, and on the creation of the new private sector oil company will provide a sound basis for another decade of successful enterprise in the North Sea.

11. *I turn now from the energy indust to its customers.*

/Section 11:

BUSINESSES - ENERGY COSTS

Section 10: OIL

The development of North Sea oil has been the great success story of the British economy. As a nation we must never forget the great debt we owe to those ~~[in the board rooms]~~ and on the oil rigs who are responsible for the exploration, financing and development of the North Sea. It is important for them as well as for the British people that the rewards should be shared fairly and equitably.

2. The record in the North Sea is one of enterprise and success - enterprise and success which is almost entirely due to the efforts of the private sector.

3. This is the background against which I have framed my proposals for the future of the North Sea tax regime to which I now turn.

4. Last year, in light of the massive increase in oil prices which had occurred in recent years,

/we changed

we changed the structure of North Sea tax, to make it more responsive to changes in the oil prices. At the same time tax revenue from the North Sea was brought forward, increasing the total level of taxation. I also invited the industry to suggest better ways of raising the revenue we needed. I am grateful to them for their careful and considered response. I have also taken into account the major study carried out by the Institute for Fiscal Studies, and the reactions of the industry to it.

5. The recent fall in oil prices - which may not yet have come to an end - reduces the revenue the Exchequer receives but it also reduces the tax the industry has to pay. Because of the high marginal rate, most of this cost is borne by the Exchequer rather than by the companies. In this respect the oil tax regime gives the companies considerable protection when prices fall in just the same way as it safeguards the Exchequer when prices rise.

/I am satisfied,

I am satisfied, as a result of detailed studies we have done, that, subject to some marginal adjustment, the total tax burden is not such as to discourage exploration or development. Nor is it so high as to deprive the oil industry of a reasonable, and ~~if I may say so,~~ often attractive yield. In these circumstances I cannot reduce the overall tax burden to the extent that the industry would have wished. But I do agree with them in accepting the case for some change of structure. I see, in particular, the advantage of profit-related taxes in relation to additional investment in existing fields. The Supplementary Petroleum Duty will therefore be abolished with effect from the end of this year.

6. At the same time I propose that the rate of Petroleum Revenue Tax should be increased from 70 per cent to 75 per cent, and that arrangements

/should be

should be introduced for advancing PRT payments. Advance payments of PRT, although computed in the same way as SPD, will not be a separate tax but simply an acceleration of the existing PRT. They will thus differ fundamentally from SPD in being fully set off without limit against ordinary PRT liabilities when these arise.

7. As from mid-1983, as I have already said, there will also be a monthly instalment system of payment of PRT in order to secure a smoother public sector cash flow.

8. These changes will not affect the revenue yield in the coming year. But in 1983-84 there will be a net cost, after allowing for the gain to the Exchequer from lower interest charges and the new pattern of instalment payment, of some £70 million. This needs to be seen in relation to a current tax yield of some [£ billion] from the

North Sea, [a figure which could well increase to some £10 billion in the next few years.]

9. There are great uncertainties both in relation to oil prices and to the future yield of tax from the North Sea, to which I have already referred. Nevertheless I am convinced that, even in the light of these uncertainties, the new structure I propose will provide the secure and stable regime we need for the future. Full details will be given in an Inland Revenue Press Release. [Coupled with the decision not to propose production cuts announced by my rt. hon. Friend the Secretary of State for Energy, these measures mean that development should now go ahead without being inhibited by major uncertainties on the structure of the fiscal regime.]

10. I propose a number of other more minor changes, in part in response to the views put forward by the industry. We shall also need to legislate next

/year to deal

year to deal with certain special problems affecting PRT expenditure reliefs, pipeline tariffs, and other non-oil receipts: these will be the subject of a consultative document which will be issued shortly.

11. These fiscal measures, combined with the abolition of the state's sole right to buy gas, the creation of the new private sector oil company [and the decision on production cuts] provide the opportunity for the next decade of successful enterprise in the North Sea.

Section 10: OIL

I revert now to the important issue of oil. The development of North Sea oil has been a story of enterprise and success which is almost entirely due to the efforts of the private sector. As a nation we must never forget the great debt we owe to those on the oil rigs and elsewhere, who have been responsible for the exploration, and development of the North Sea. It is important for them as well as for the British people that the rewards should be shared fairly and equitably.

2. Last year, in light of the massive increase in oil prices which had occurred in recent years, we changed the structure of North Sea tax, to make it more responsive to changes in price. At the same time tax revenue from the North Sea was brought forward, with an increase in the total level of taxation. I also invited the industry to suggest better ways of raising the revenue we needed.

/I am grateful

I am grateful to them and others who have commented for their careful and considered responses. I have also taken into account the major study carried out by the Institute for Fiscal Studies, and the reactions of the industry to that.

3. As I have mentioned, the current fall in oil prices reduces the revenue the Exchequer receives. But it also reduces the tax the industry has to pay. [Because of the high marginal rate, most of this cost is borne by the Exchequer rather than by the companies. In this respect the oil tax regime gives the companies considerable protection when prices fall in just the same way as it safeguards the Exchequer when prices rise.] I am satisfied, as a result of detailed study, that, subject to some marginal adjustment, the total tax burden is not such as to discourage exploration or development. Nor is it so high as to deprive the oil industry

/of a reasonable,

of a reasonable, and often attractive yield. In these circumstances I cannot reduce the overall tax burden to the extent that the industry would have wished. But I do agree with them on the case for some change of structure. I see, in particular, the advantage of profit-related taxes in relation to additional investment in existing fields. The Supplementary Petroleum Duty will therefore be abolished with effect from the end of this calendar year.

4. I propose instead that the rate of Petroleum Revenue Tax should be increased from 70 per cent to 75 per cent, and that arrangements should be introduced for advancing PRT payments. Advance payments of PRT, although computed in the same way as SPD, will not be a separate tax but simply an acceleration of the existing tax. They will thus differ fundamentally from SPD in being fully

/set off without

set off without limit against ordinary PRT

liabilities when these arise.

5. As from mid-1983, as I have already said, there will also be a monthly instalment system of payment of PRT in order to secure a smoother public sector cash flow.

6. These changes will not affect the revenue yield in the coming year. But in 1983-84 there will be a net cost, after allowing for the gain to the Exchequer from lower interest charges due to the new system of instalment payments, of some £80 million. This needs to be seen in relation to a current tax yield of some £6 to 7 billion from the North Sea, a figure which could well increase to some £9 billion in the next few years.

7. There are great uncertainties both in relation to oil prices and to the future yield of tax from the North Sea, to which I have already referred.

/Nevertheless

Nevertheless I am convinced that, even in the light of these uncertainties, the new structure I propose should provide a more secure and stable regime for the future, permitting development to go ahead without being inhibited by major fiscal uncertainties. Full details will be given in an Inland Revenue Press Release.

8. I propose a number of other more minor changes, in part in response to the views put forward by the industry. [I propose that regional development grants paid in respect of expenditure incurred after Budget Day should be taken into account for the purposes of PRT and ring fence Corporation Tax.] We shall also need to legislate next year to deal with certain special problems affecting PRT expenditure reliefs, pipeline tariffs, and other non-oil receipts: these will be the subject of a consultative document which will be issued shortly.

9. These fiscal measures, combined with the abolition of the state's sole right to buy gas, and the creation of the new private sector oil company provide a sound basis for another decade of successful enterprise in the North Sea.

Section 11: BUSINESSES - ENERGY COSTS

Section 10: OIL TAXATION

I have spoken of the oil duties: I now turn to the oil-fields. The development of the North Sea has been a story of enterprise and success, which is almost entirely due to the efforts of the private sector. As a nation, we must never forget the great debt we owe to those on the oil rigs and elsewhere, who have been responsible for exploration and development. It is important for them as well as for the British people that the rewards should be fairly shared.

2. Last year, in light of the massive increase in oil prices which had occurred in earlier years, we changed the structure of North Sea tax, to make it more responsive to changes in price. At the same time tax revenue from the North Sea was brought forward, with an increase in the total level of taxation. I also invited the industry to suggest better ways of raising the revenue we needed. I am grateful to them and others who have commented for their careful and considered response.

3. As I have mentioned, the current fall in oil prices reduces the revenue the Exchequer receives. I recognise that it reduces the companies revenue as well - but it also reduces the tax they have to pay.

/I am satisfied,

4. I am satisfied, as a result of detailed study, that, subject to some marginal adjustment, the total tax burden is not such as to discourage exploration or development. Nor is it so high as to deprive the oil industry of a reasonable, and often attractive, yield. In these circumstances I cannot reduce the overall tax burden to the extent that the industry would have wished. But I do agree with them on the need for some change of structure. I see, in particular, the advantage of profit-related taxes in relation to additional investment in existing fields. The Supplementary Petroleum Duty will therefore be abolished with effect from the end of this calendar year.

5. I propose at the same time that the rate of Petroleum Revenue Tax should be increased from 70 per cent to 75 per cent, and that arrangements should be introduced for advancing PRT payments. Advance payments of PRT, although computed in the same way as SPD, will not be a separate tax but simply an acceleration of the existing tax. They will thus differ fundamentally from SPD in being fully set off without limit against ordinary PRT liabilities when these arise. This structural change is one which the industry have proposed.

6. As from mid-1983, as I have already said, there will also be a monthly instalment system of payment of PRT in order to secure a smoother public sector cash flow.

/These changes

7. These changes will not affect the revenue yield in the coming year. But in 1983-84 there will be a net cost, after allowing for the saving in interest due to the new system of instalment payments, of some £70 million, bringing the total current tax yield from the North Sea to some £6-7 billion.

8. I have spoken earlier about current uncertainties in relation to oil prices and the future yield of tax from the North Sea. But I am aware of the concern felt by the industry about the number of changes in the regime there have been in recent years. For this reason, my hope is that the new tax structure I have proposed will provide a more secure and stable regime for the future, permitting development to go ahead uninhibited by major fiscal uncertainties.

9. I propose a number of other minor changes, partly in response to the views put forward by the industry. I propose that regional development grants paid in respect of expenditure incurred after Budget Day should be taken into account for the purposes of PRT and ring fence Corporation Tax. We shall also need to legislate next year to deal with certain special problems affecting PRT expenditure reliefs, pipeline tariffs, and other non-oil receipts: these will be the subject of a consultation document which will be issued shortly.

10. These fiscal measures, combined with the decisions we have already announced on the abolition of the state's sole right to buy gas, and on the creation of the new private sector oil company will provide a sound basis for another decade of successful enterprise in the North Sea.

11. I turn now from the energy industry to its industrial customers.

Section 11: INDUSTRIAL ENERGY COSTS

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Section 11 : BUSINESSES - ENERGY COSTS

Last year, I announced measures to assist industry with energy prices. The NEDC Task Force which has made a valuable contribution to a wide understanding of these matters reported, in November, that these changes had made a significant contribution towards improving the position of large energy users here, compared with Continental competitors.

2. But we are very conscious of the problems which remain particularly for some industries which are large electricity users.

3. The Government has accordingly discussed with the electricity supply industry their pricing proposals for 1982-83. I am glad to be able to announce that these will include new special arrangements to benefit larger users - those heavy industrial users who face the greatest difficulties. A scheme will be introduced, under which customers can gain significant reductions in their charges in return for a commitment to accept load reductions. The industry estimate that over one hundred major companies should benefit.

4. This will be in addition to the arrangements for electricity prices which I announced last year and which will continue this year. But both the number of customers able to benefit from the new scheme,

/and the extent

BUDGET SECRET

and the extent of the benefits, on average, will be greater.

5. These measures have to be paid for. To do this, we are increasing the external financing limits for the electricity industry (including Scotland) by some £100 million in 1982-83. These costs are additional to the EFLs shown in the Public Expenditure White Paper.

6. Similar problems arise with some large industrial users of gas. There too we propose significant relief. For contract customers the price of gas taken after the first 25,000 therms in the contract year will be frozen at the level charged on 1 April 1982. This freeze will apply until the end of 1982. The cost of this measure is forecast to be some £60 million.

7. In addition we have asked the National Coal Board to renew the measures first announced last year, so as to avoid further increases in the list prices for foundry coke until the winter. The Board's deficit grant and EFL will be adjusted accordingly and the cost will be met from the contingency reserve.

8. Last year I announced the introduction of grants towards the costs of converting from oil-fired boilers to coal. We have now decided to extend the scope of these grants to cover conversions of other industrial oil-fired equipment and conversions of gas-fired

/equipment to coal.

BUDGET SECRET

equipment to coal. The scheme will also now cover conversions in service industries as well as in manufacturing. The cost of these changes will be met from within the £50 million already allocated for this scheme.

9. Taken together with the measures announced in my last Budget, these three measures - special arrangements for large electricity users, the freeze on gas contract renewal prices and on list prices for foundry coke - should reduce the energy costs of British industry by over £250 million over the two years concerned, compared with what they otherwise would have been. They represent a serious and significant response to industry's representations on energy prices.

/Section 12 :
INNOVATION

Section 11: BUSINESSES - ENERGY COSTS

Last year, I announced measures to assist industry with energy prices. The NEDC Task Force (which has made a valuable contribution to a wide understanding of these matters) found, in their November report, that these measures had made a significant contribution towards improving the position of large energy users here, compared with Continental competitors.

2. But we are very conscious of the problems which remain particularly for some industries which are large electricity users. It is right, therefore, that we should direct special help towards those industrial users who face the greatest difficulties.

3. The Government has accordingly discussed with the electricity supply industry their pricing proposals for 1982-83. I am glad to be able to

/announce that

announce that these will include special arrangements to benefit larger users, through the introduction of a new scheme in which customers can gain significant reductions in their charges in return for a commitment to accept load reductions. [The scheme will cover firms employing [] people, whose jobs will thereby become more secure.] [Really?]

[Perhaps a sample price reduction would be better?]

4. This will be in addition to the arrangements for electricity prices which I announced last year and which will continue this year. I understand, however, that both the number of customers able to benefit from the new scheme, and the extent of the benefits, on average, will be greater.

5. These measures will provide significant assistance to many intensive electricity users who currently face electricity price disadvantages relative to their overseas competitors. However,

/they have

they have to be paid for. As a result, I am increasing the external financing limits, for the electricity industry (including Scotland) by some £100 million in 1982-83. These costs are additional to the EFLs shown in the Public Expenditure White Paper. [They bring the total annual value to industry of the two years' electricity schemes, taken together, to [£ million]].

6. Similar problems arise for some large industrial users of gas. For the benefit of such firms the British Gas Corporation will hold renewal prices, for supplies under contract of gas in excess of 25,000 therms, constant at the levels which were set on 1 March for the remainder of this calendar year. Furthermore, the normal price escalation arrangements for contract supplies will not be applied during this period. [The cost of these measures is forecast to be some £60 million.]

/Taken together,

[Taken together, with last year's scheme, this brings the total annual value of the help on gas prices now available to industry to [£ million]].

7. We have also asked the National Coal Board to renew the measures first announced last year so as to avoid further increases in the list prices for foundry coke until the end of the calendar year. The Board's deficit grant and EFL will accordingly be adjusted by £7 million. The cost [of [all] [the last of] these measures] will be met from the contingency reserve.

8. Last year I announced the introduction of grants towards the costs of converting from oil-fired boilers to coal. We have now decided to extend the scope of these grants to cover conversions of other industrial oil-fired equipment and conversions of gas-fired equipment to coal. The cost of these changes will be contained within the £50 million already allocated for this scheme.

/Perhaps as an

NB.

[Perhaps as an alternative to the sentences at the end of paragraphs 5 and 6 - but perhaps additionally - a further paragraph is needed here, drawing the whole energy package together (including its costs), and stating that it is a serious and significant response to industry's representations. It mustn't get "lost", like last year.]

Section 12: INNOVATION

Section 11: BUSINESSES - ENERGY COSTS

Last year, I announced measures to assist industry with energy prices. The NEDC Task Force which has made a valuable contribution to a wide understanding of these matters found, in their November report, that these changes had made a significant contribution towards improving the position of large energy users here, compared with Continental competitors.

2. But we are very conscious of the problems which remain particularly for some industries which are large electricity users.

3. The Government has accordingly discussed with the electricity supply industry their pricing proposals for 1982-83. I am glad to be able to announce that these will include special arrangements to benefit larger users - those heavy industrial

/users who

users who face the greatest difficulties. A new scheme will be introduced, under which customers can gain significant reductions in their charges in return for a commitment to accept loan reductions. The industry estimate that over 100 companies should benefit.

4. This will be in addition to the arrangements for electricity prices which I announced last year and which will continue this year. But both the number of customers able to benefit from the new scheme, and the extent of the benefits, on average, will be greater.

5. These measures have to be paid for. To do this, we are increasing the external financing limits for the electricity industry (including Scotland) by some £100 million in 1982-83. These costs are additional to the EFLs shown in the Public Expenditure White Paper.

6. Similar problems arise for some large industrial users of gas. For the benefit of such firms the British Gas Corporation will hold renewal prices, for supplies under contract of gas in excess of 25,000 therms, constant at the levels which were set on 1 March for the remainder of this calendar year. Furthermore, the normal price escalation arrangements for contract supplies will not be applied during this period. The cost of these measures is forecast to be some £60 million.

7. We have also asked the National Coal Board to renew the measures first announced last year so as to avoid further increases in the list prices for foundry coke until the winter. The Board's deficit grant and EFL will be adjusted accordingly and the cost will be met from the contingency reserve.

/Last year

8. Last year I announced the introduction of grants towards the costs of converting from oil-fired boilers to coal. We have now decided to extend the scope of these grants to cover conversions of other industrial oil-fired equipment and conversions of gas-fired equipment to coal. The scheme will also now cover conversions in service industries as well as in manufacturing. The cost of these changes will be contained within the £50 million already allocated for this scheme.

9. Taken together with the measures announced in my last Budget, these three measures - special arrangements for large electricity users, the freeze on gas contract renewal prices and on list prices for foundry coke - should reduce the energy costs of British industry by over £250 million over the two years concerned, compared to what they otherwise would have been. They represent our serious and significant response to industry's representations on energy prices.

BUDGET SECRET

Section 12: INNOVATION

1. I turn now to the continuing effort to encourage innovation in industry. If we are to be more successful in winning worthwhile orders both at home and abroad British industry must also become more advanced in its design and production techniques.

2. There is no more important area to which this applies than micro-electronics and information technology. The Government have already given a lead by designating 1982 as Information Technology Year. We have authorised the investment of well over £2,000 million in the British Telecommunications network - more than at any time since 1974-75. A third of the planned investment by nationalised industries over the next three years is to go to British Telecoms to modernise and expand national telecommunications. This investment will breed new services, new firms and /new jobs.

BUDGET SECRET

new jobs. So will the development of alternative and competing services for electronic communication; such as the new Mercury network for business, being pioneered by Cable and Wireless, Barclays Bank, and BP.

3. Because this new technology is important on a wider front, I propose to make a further allocation for this purpose. The Secretary of State for Industry will shortly be announcing a series of new and expanded schemes. These will include additional assistance towards space technology, and production engineering - including the introduction of a special scheme of assistance to small engineering firms. And the 100 per cent first year allowances for leased television sets, due to be phased out this June, will be extended for a further year for sets incorporating a teletext facility. This will permit a more widespread adoption of a leading product of British Information Technology. /4. These

BUDGET SECRET

4. These measures will cost £130 million over three years.

5. To take account of the increase in expenditure on industrial innovation the Secretary of State for Industry will be introducing a short Bill to raise the limit on payments and guarantees under Section 8 of the Industry Act 1982. The increase in the limit will allow headroom for the future, as well as for the proposals I have announced today.

Section 13: BUSINESS - CONSTRUCTION
MEASURES

Section 11: INDUSTRIAL ENERGY COSTS

1. Last year, I announced substantial help for industry on energy prices. The NEDC Task Force, which has made a valuable contribution to a wider understanding of these matters reported, in November, that these changes had significantly improved the position of large energy users here, compared with their Continental competitors.
2. But we are very conscious of the problems which remain, particularly for some industries.
3. The Government has accordingly discussed with the electricity supply industry their pricing proposals for 1982-83. I am glad to be able to announce that these will include new special arrangements to benefit larger users - those heavy industrial users who face the greatest difficulties. A scheme will be introduced, under which customers can gain significant reductions in their charges in return for a commitment to accept load reductions. The industry estimate that over one hundred major companies should benefit.
4. This will be in addition to the arrangements for electricity prices which I announced last year and which will continue this year. But both the number of customers able to benefit from the new scheme, and the extent of the benefits, on average, will be greater.

5. These measures have to be paid for. To do this, we are increasing the external financing limits for the electricity industry (including Scotland) by some £100 million in 1982-83. These costs are additional to the EFLs shown in the Public Expenditure White Paper.

6. Similar problems arise with some large industrial users of gas. There too we propose significant relief. For contract customers the price of gas taken after the first 25,000 therms in the contract year will be frozen at the level charged on 1 April 1982. This freeze will apply until the end of 1982. The cost of this measure is forecast to be some £60 million.

7. In addition, we have asked the National Coal Board to renew the measures first announced last year, so as to avoid further increases in the list prices for foundry coke until the winter. The Board's deficit grant and EFL will be adjusted accordingly and the cost will be met from the contingency reserve.

8. Last year I announced the introduction of grants towards the costs of converting from oil-fired boilers to coal. We have now decided to extend the scope of these grants to cover conversions of other industrial oil-fired equipment and conversions of gas-fired equipment to coal. The scheme will also now cover conversions in service industries as well as in manufacturing. The cost of these changes will be met

from within the £50 million already allocated for this scheme.

9. Taken together with the measures announced in my last Budget, these three measures - special arrangements for large electricity users, the freeze on gas contract renewal prices and on list prices for foundry coke - should reduce the energy costs of British industry, compared with what they otherwise would have been, by over £250 million over the two years concerned. They represent a serious and significant response to industry's representations on energy prices.

/Section 12: INDUSTRIAL INNOVATION

Section 12: INNOVATION

1. I turn now to the continuing effort to encourage innovation in industry. If we are to be more successful in winning worthwhile orders both at home and abroad British industry must also become more advanced in its design and production techniques.

2. There is no more important area to which this applies than micro-electronics and information technology. The Government have already given a lead by designating 1982 as Information Technology Year. We have authorised the investment of well over £2 billion in the British Telecommunications network - more in real terms than at any time since 1974-75. This investment will breed new services, new firms and new jobs. So will the development of alternative and competing services for electronic communication; such as the new Mercury network for business.

3. Because this new technology is important on a wider front, I propose to make a further allocation for this purpose. My rt. hon. Friend, the Secretary of State for Industry, will shortly be announcing a series of new and expanded schemes. These will include additional assistance towards space technology, and production engineering - including the introduction of a special scheme of assistance to small engineering firms. And the 100 per cent first year allowances for leased

/television sets,

television sets, which was due to be phased out this June, will be extended for a further year for sets incorporating a teletext facility. This will encourage the wider use of a leading product of British Information Technology.

4. These measures will cost £130 million over three years.

/Section 13:

BUSINESS - CONSTRUCTION MEASURES

Section 12: INNOVATION

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A third of the planned investment by nationalised industries over the next is to go to British Telecoms. This network will spawn new services, new firms and new jobs.

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for this purpose. The Minister of State for Information Technology will shortly be announcing a series of new and expanded schemes. These will include additional assistance towards space technology, and production engineering - including the introduction of a special scheme of assistance to small engineering firms. [Passage on Teletext]

4. These measures will cost £130 million over three years.

5. To take account of the increase in expenditure on industrial innovation and [in the ceiling on the loan guarantee scheme,] the Secretary of State for Industry will be introducing a short Bill to raise the limit on payments and guarantees under Section 8 of the Industry Act 1982. The increase in the limit will allow headroom for acceptable new schemes in the future, as well as for the proposals I have announced today.

BUDGET SECRET

Section 12 : INDUSTRIAL INNOVATION

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BUDGET SECRET

Section 13 : BUSINESS - CONSTRUCTION MEASURES

1. My Budget last year contained a number of measures to help the construction industry, which was very hard-pressed. Activity in construction is particularly productive of new jobs. Accordingly I now propose further help to this industry.

2. As I have already mentioned, the public expenditure plans published today provide work for the construction industry in 1982-83 worth about £10¼ billion - an increase of 13 per cent compared with last year. For housing we are looking for a more marked increase. This year local authorities have greatly underestimated the success of our policy of selling council houses and land. The extra revenue which this is bringing in has not been spent.

3. For 1982-83 local authorities in Great Britain have been assured that they can spend up to a total of some £3 billion on housing, including about £1 billion of funds which they are expected to receive as a direct result of the widely appreciated and very successful right-to-buy legislation. This should allow an increase of a third in the amount of their capital spending compared with what they look like having ^{spent} in 1981-82.

4. I now propose a further addition for 1982-83,
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BUDGET SECRET

designed to help private home-owners whose houses fall well short of today's standards.

5. The value of grants given for major repairs, and for the provision of basic amenities in the home, under the Home Improvement Grant System will be increased for a limited period, to a maximum 90 per cent of the eligible cost, instead of the 75 per cent currently available.

6. This increased rate of grant will apply only to applications received before the end of 1982. The purpose is not to add to longer term demands on the industry but to encourage the take-up of immediate spare capacity. We also intend to enable more people to get grants for home insulation. This will be an addition to the White Paper public expenditure totals

7. To pay for these changes and to encourage local authorities to make more general improvement grants available their capital allocations in 1982-83 will be increased by £100 million.

8. My rt. hon. Friend, the Secretary of State for the Environment, has already announced measures for 1982-83 to give priority to inner city projects that offer the greatest degree of participation by the private sector. Building on this, up to £70 million of the provision for the Urban Programme and for

/Derelict Land

BUDGET SECRET

Derelict Land reclamation will be earmarked for this purpose in 1983-84.

9. We have also decided to offer further encouragement to the private sector and nationalised industries to bring derelict land into productive use by increasing the grants payable, from 50 per cent of the cost of reclamation to 80 per cent, in Assisted Areas and Derelict Land Clearance Areas. The cost will be contained within the existing programme.

10. In addition, we shall give further encouragement to an increase ~~to~~ⁱⁿ new private investment in housing for rent. I now propose to introduce capital allowances, at the rate of 75 per cent for the first year only, for expenditure on the construction of properties wholly for letting as assured tenancies by bodies approved by the Secretary of State. The scheme will run for an experimental period of 5 years. Allowances ~~will be~~^{may be} ~~claimable~~^{claimed} for expenditure incurred as from today.

11. In my Budget two years ago, I introduced the small industrial workshop scheme, under which industrial buildings allowance at the rate of 100 per cent can be claimed on the construction of small buildings. The scheme has been a resounding success. Over 5,000 new workshops have already been constructed for letting to small businesses, at an estimated Exchequer cost, spread over several years, of £125-150 million.

/12. I wish to

BUDGET SECRET

12. I wish to improve this scheme. I propose to bring within the scope of the industrial buildings allowance and so within the scheme, certain kinds of servicing, repairing and warehousing activities.

13. The scheme has succeeded in increasing the stock of industrial workshops at or near the upper size limit. But there has been relatively little investment at the very small end of the range. I therefore propose to extend the scheme for very small workshops, of not more than 1,250 square feet, for a further two years, until March 1985.

14. I also propose to make changes in the liability to VAT of certain kinds of building alterations. If applied in its entirety, a recent judgement of the House of Lords would have led to the standard rate of VAT being charged for the first time on a range of non-structural building alterations. This would have imposed an extra tax burden on the construction industry of about £80 million a year. But even at that cost it would not have succeeded in simplifying this very complex part of the law.

15. I propose, therefore, to draw clear lines, which can be more easily understood - and to relieve the industry of all but £10 million of the extra tax burden. I shall in due course lay before the House an Order which will have the effect of continuing

/to zero-rate

BUDGET SECRET

zero-rate three important kinds of alterations which might otherwise be adversely affected by the House of Lords' judgement. These are the most commonly recognised forms of double glazing, loft and cavity wall insulation and damp-proof coursing. This useful simplification of the law will cost the revenue about £70 million a year. The other kinds of non-structural alteration covered by the judgement will become subject to VAT but, pending the completion of discussions with the industry, no steps will be taken to apply the tax before about the beginning of September.

16. My final proposal in this area concerns Stamp Duty on house purchase. I propose to raise the exemption by £5,000, to £25,000, and the other thresholds also by £5,000, at a total cost ~~cost~~ of £70 million in 1982-83.

17. This will help to improve job mobility and give some encouragement to house construction. But most of all it will help those who are buying their first homes. By the end of this Parliament, no less than [three out of every ~~four~~ ^{five}] families will own their own houses - and will, in that sense be shareholders in a property-owning democracy.

18. All in all, these proposals should bring substantial help to the construction industry, as well as to a much wider range of businesses and individuals.

Section 14: BUSINESS, ENTERPRISE AND SMALL FIRMS

Many of the measures I have already announced form part of the Government's consistent strategy, to help create the conditions in which businesses can earn the profits which must provide both the motive and the finance for new investment.

2. There can be no doubt that rates of interest at their present level and the consequent reluctance of companies to borrow long-term at high fixed rates has caused a distortion of balance sheets. Too much reliance is now placed on short-term bank finance. In consequence there is additional pressure~~s~~ on monetary growth. We are all indebted to my rt. hon. Friend, the Member for Chertsey, (Mr. Grylls) and others for the way in which they have focussed public attention on this problem.

3. A number of suggestions have been made for selective interest rate subsidies, in one form or

/another.

another. In many cases, the selectivity in the scheme has favoured lending by the banks, and lending to "tax-exhausted" companies, in particular industrial sectors such as manufacturing. We have considered these ideas very carefully. But we have not yet been persuaded that they offer the best way forward. [If he is lucky enough to catch your eye, Mr. Speaker, my hon. Friend, the Financial Secretary will have something more to say about this at a late stage in the debate.]

4. ^{wanted on the other hand, I would} hope also that, following the introduction of the new indexed Government security which I have announced this afternoon, companies ~~equally~~ will feel free from any inhibition in using indexed debt, wherever their Boards of Directors consider that appropriate.

5. However, I attach particular important to encouraging the provision of equity capital, which can put the finances of businesses as a whole onto a sounder basis.

6. Turning now to the unquoted sector, helping small firms to start and to expand is a vital part of our policy to increase jobs and output. We are determined to assist more people to start and expand their own businesses. As they prosper they will provide increasing numbers of new jobs [? figures].

7. In previous Budgets I established the Business Start-Up Scheme, the Loan Guarantee Scheme and the Small Workshop Scheme, as well as a large number of other measures benefiting small businesses. These schemes are working well. We shall improve them, both now and progressively, as we get more knowledge of the way they are working.

8. The reduction in NIS I have already announced will, of course, be of benefit to firms of all sizes. I now propose a series of measures designed specifically to help small firms.

9. I begin with equity finance. The Business Start-Up Scheme, which provides income tax relief for investments of up to £10,000 in the equity of companies starting new trades, has been widely welcomed. I propose to increase the annual limit from £10,000 to £20,000. In addition, as less than a full year has elapsed since it became law, some potential investors may have been unable to use up the full £10,000 limit in 1982-82. I propose that any unused balance of this year's limit should be added to next year's. This means that, in some cases, the effective limit for 1982-83 will be as much as £30,000. This should provide a further stimulus to investment in new corporate trades.

10. Where capital for development is concerned, many people have emphasised to me the importance of the new provisions introduced in the 1982 Companies Act for companies purchasing their own shares. These

/provisions will

provisions will significantly increase the attractions of equity capital, both to the investor (who under present arrangements may be reluctant to lock himself into a minority equity holding) and to the entrepreneur (who may be reluctant to surrender an equity stake permanently).

11. Last summer the Inland Revenue issued a consultative document about the changes that are needed in the tax system to help with a number of problems arising in small and family businesses. Following discussions, I now propose that certain purchases by unquoted companies of their own shares will not be subject to ACT and income tax. They will be treated instead as sales of shares by the shareholder, and therefore subject to Capital Gains Tax only. This measure will be of special benefit to small companies which have a limited market for their shares.

/Two years ago,

12. Two years ago, I relaxed the conditions governing profit sharing schemes and reintroduced legislation enabling employees to take up options to buy shares in their companies without incurring income tax liability. I did this because I believe that by acquiring shares employees develop a commitment to the success of their company. Since then the increase in the numbers of schemes and employees covered by them has been extremely encouraging: there are now some [400] approved schemes, compared with less than 30 three years ago.

13. It is important to maintain and extend that. [Spread of wider-share ownership.] Accordingly, I now propose to increase the value of shares that can be allocated each year to any one employee under the profit sharing provisions from £1,000 to £1,250. I also propose to amend the detail^{ed} rules to help simplify the administrative problems arising on rights issues. I think we should also give some

/help and incentive

help and incentive to those who acquire options outside the ambit of approved schemes. I therefore propose that the income tax chargeable on the exercise of such an option should be collected over [3] years rather than in a single sum.

14. Now, loan finance. In the last two years I have substantially relaxed the rules for tax relief for interest on money borrowed to invest in small companies. This year I propose to take this a stage further. If a shareholder works full-time in the management of a business he will in future be able to qualify for tax relief even though he does not have more than 5 per cent of the shares.

15. In my last Budget I announced the establishment of a pilot Loan Guarantee Scheme. The scheme started in June 1981; and since then the demand for loans has far exceeded expectations. Last December, in response to that demand, we increased

/the allocation

the allocation for the first year from £50 million to £100 million; but with loans of over [£90] million already approved after nine months, some further increase is desirable. Accordingly, following consultations with the major lending institutions participating in the scheme, I propose to increase the sum allocated for the first year to £150 million. A further £150 million will be available for ~~scheme~~ *under the scheme* loans during its second year, to June 1983.

16. I also propose that the limits for the "small companies" rate of corporation tax should go up from £80,000 to £90,000, and from £200,000 to £225,000. This will mean that since 1979 the lower limit has been increased by 80 per cent and the upper limit by more than 150 per cent.

17. The period for income and corporation tax relief for pre-trading expenditure will be extended from and to three years.

18. Many hon. Members will, I feel sure, have been impressed by the value of the work done by local enterprise agencies. I have recently seen something of this for myself. These agencies depend in the main on the local business community. Clearly they play a valuable part in helping small local firms to start and to prosper and grow. I therefore propose to allow businesses to deduct for tax purposes the contribution they make to certain enterprise agencies, which concentrate on helping small firms. I hope this measure will encourage more widespread support for such agencies.

19. On VAT I have two changes to propose. The registration threshold will be increased from £15,000 to £17,000. And I propose to introduce VAT relief for services supplied before registration. This measure, and the extension of relief for pre-trading expenditure, will [significantly] reduce the costs of starting a new business.

20. Many small businesses will, of course, also benefit from our proposals to reduce the rate of VED on light vans from next October.

21. We also introducing during 1981, in three pilot areas, the Enterprise Allowance Scheme. This was designed to test the effectiveness of financial assistance to help those who might be deterred by the benefits rules from using their redundancy money to set up small businesses. The allowance, of £40 a week for twelve months, is available to unemployed people who invest at least £1,000 of their own money to start a business. The scheme will now be extended to include areas in Scotland and [, as already announced by my rt. hon. Friend, the Welsh Secretary,] the Shotton and Wrexham areas of Wales.

[22. I wish also to continue our policy of helping the self-employed make better provision for their retirement. I therefore propose to increase the limits on retirement annuity relief for contributors /who are now

who are now in their 50s and 60s: to 20 per cent for those born between 1916 and 1933, to 21 per cent for those born in 1914 or 1915, and to 24 per cent for those born in 1912 or 1913. I also propose to alter the present restrictions on the relief to allow more self-employed people to benefit from these higher levels. These changes will cost £12 million in 1982-83 and £25 million in a full year. They will provide a significant improvement in the position of the older contributor whose lifetime savings have suffered particularly from high rates of inflation in the 1970s.]

23. The total revenue cost of these measures is about [£80] million in a full year.

Section 13: BUSINESS - CONSTRUCTION MEASURES

1. My Budget last year contained a number of measures to help the construction industry, which was particularly hard pressed. In 1981 private sector housing starts were up 19 per cent on 1980. Total starts in the fourth quarter of 1981 were up 16 per cent on a year earlier. Construction firms have been notably successful in keeping their prices down. But the problems of the industry remain serious.

2. Activity in construction is particularly productive of new jobs. Accordingly I propose some further help to this industry.

3. As I have already mentioned, the public expenditure plans published today provide work for the construction industry in 1982-83 worth about £10½ billion - an increase of 13 per cent compared with last year. In some fields the increase is more dramatic: local authorities should next year be able to spend up to

30 per cent more on housing than they have spent in 1981-82. This is partly because they this year greatly underestimated the success of our policy of selling council houses and land, and the extra revenue which it would bring.

4. For 1982-83 local authorities in Great Britain have been assured that they can spend up to a total of some £3 billion on housing, including about £1 billion of funds which they are expected to receive as a consequence of the Government's successful right-to-buy legislation.

5. I now propose a further addition for 1982-83.

6. The value of grants given for substantial and structural repairs, and for the provision of basic amenities in people's homes, will be increased for a limited period, to 90 per cent of the eligible cost, instead of the 75 per cent currently available.

7. This increased rate of grant will apply only to

applications received before the end of 1982. The purpose is not to add to longer term demands on the industry but to encourage the take-up of immediate spare capacity.

[Please check]

8. The Government is providing an extra [£90] million in 1982-83 to pay for this, and to encourage local authorities to make more general improvement grants

[Please check]

available. A further [£10] million will also be provided to enable more people to get grants for home insulation which can make an important contribution to reducing heating costs. These will be additions to the White Paper public expenditure totals.

9. My rt. hon. Friend, the Secretary of State for the Environment, intends, moreover, to make special arrangements for giving high priority to joint development projects between the public and private sectors. £70 million of the provision for the Urban Programme and for Derelict Lane reclamation will be earmarked for this purpose in 1983-84.

/We have also

10. We have also decided to offer further encouragement to private owners to bring derelict land into productive use by increasing the grants payable, from 50 per cent of the cost of reclamation to 80 per cent, in Assisted Areas and Derelict Land Clearance Areas. Appropriate legislation will be brought forward. The cost will be contained within the existing programme.

11. In addition we shall give further encouragement to an increase in the stock of new rented housing. I now propose to introduce capital allowances, at the rate of 75 per cent for the first year only, for expenditure on the construction of properties wholly for letting as assured tenancies by bodies approved by the Secretary of State. The scheme will run for an experimental period of 5 years. Allowances will be claimable for expenditure incurred as from today.

12. In my Budget two years ago, I introduced the small industrial workshop scheme, under which industrial

/buildings

buildings allowance at the rate of 100 per cent can be claimed on the construction of small buildings.

The scheme has been a resounding success. Over 5,000 new workshops have already been constructed for letting to small businesses, at an estimated Exchequer cost, spread over several years, of £125-150 million.

13. I wish to improve this scheme, by removing the uncertainty caused by some recent Court decisions. I propose bringing within its scope certain kinds of servicing, repairing and warehousing activities.

14. The scheme has succeeded in increasing the stock of industrial workshops at or near the upper size limit, but there has been relatively little investment at the very small end of the range. I therefore propose to extend the scheme for very small workshops, of not more than 1250 square feet, for a further two years, until March 1985.

15. I also propose to make changes in the liability

/to VAT of

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If applied in its entirety, a recent legal judgement of the House of Lords would have led to the standard rate of VAT being charged for the first time on a range of non-structural building alterations. I have decided that this would impose too heavy a burden on the construction industry at the present time.

16. I intend therefore in due course to lay before the House an Order which will have the effect of continuing to zero-rate three important kinds of alterations which might otherwise be affected by the legal ruling. These are the most commonly recognised forms of double glazing, loft and cavity wall insulation and damp-proof coursing. The cost to the revenue will be about £70 million a year. Other kinds of non-structural alteration will become subject to VAT but, pending the completion of discussions with the industry, no steps will be taken to apply the tax before about the beginning of September.

/My final

17. My final proposal in this area concerns stamp duty on house purchase. I propose to raise the exemption and the various thresholds by £5,000 at each point at a cost of £70 million in 1982-83. This will raise the exemption to £25,000, and so bring particular benefit to those buying their first homes. Home construction will be given a boost. And this measure will contribute substantially to improving job mobility.

18. All in all, these proposals should give a major boost to the construction industry, as well as benefitting a much wider range of businesses and individuals.

/Section 14 : BUSINESS,
ENTERPRISE, SMALL FIRMS

Section 14: THE CONSTRUCTION INDUSTRY

1. I now revert to my principal theme today: help for business and industry and hence for jobs and people. My Budget last year contained a number of measures to help the construction industry, which was very hard-pressed. Activity in construction is particularly productive of new jobs. Accordingly, I now propose further help to this industry. This help comes on both sides of the account.

2. As I have already mentioned, the public expenditure plans published today provide work for the construction industry in 1982-83 worth about £10½ billion - an increase of 14 per cent compared with last year. For housing we are looking for a more marked increase. This year local authorities have greatly underestimated the success of our policy of selling council houses and land. The extra revenue which this is bringing in has not been spent.

3. For 1982-83 local authorities in Great Britain have been assured that they can spend up to a total of some £3 billion on housing, including about £1 billion of funds which they are expected to receive mainly as a result of the widely appreciated and very successful right-to-buy legislation. This should allow an increase of nearly a third in the amount of their capital spending compared with what they seem likely to spend in 1981-82.

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4. I now propose a further addition for 1982-83, designed to help private home-owners whose houses fall well short of today's standards.

5. The value of grants given for major repairs, and for the provision of basic amenities in the home, under the Home Improvement Grant System, will be increased for a limited period, to a maximum 90 per cent of the eligible cost, instead of the 75 per cent currently available.

6. This increased rate of grant will apply only to applications received before the end of 1982. The purpose is not to add to longer term demands on the industry but to encourage the take-up of immediate spare capacity. We also intend both to enable more people to get grants for home insulation and to increase the value of these grants.

7. To pay for these changes and to encourage local authorities to make more general improvement grants available, their capital allocations in 1982-83 will be increased by £100 million. This will be an addition to the White Paper public expenditure totals.

8. My rt. hon. Friend, the Secretary of State for the Environment, has already announced measures for 1982-83 to give priority to inner city projects that offer the greatest degree of participation by the private sector. Building on this, up to £70 million of the provision for the Urban Programme

and for Derelict Land reclamation will be earmarked for this purpose in 1983-84.

9. We have also decided to offer further encouragement to the private sector and nationalised industries to bring derelict land into productive use by increasing the grants payable, from 50 per cent of the cost of reclamation to 80 per cent, in Assisted Areas and Derelict Land Clearance Areas when legislation can be brought forward. The cost will be contained within the existing programme.

10. In addition, we shall give further encouragement to an increase in new private investment in housing for rent. I now propose to introduce capital allowances, at the rate of 75 per cent for the first year only, for expenditure on the construction of properties wholly for letting as assured tenancies by bodies approved by the Secretary of State. The scheme will run for an experimental period of 5 years. Allowances may be claimed for expenditure incurred as from today.

11. In my Budget two years ago, I introduced the small industrial workshop scheme, under which industrial buildings allowance at the rate of 100 per cent can be claimed on the construction of small buildings. The scheme has been a resounding success. Over 5,000 new workshops have already been constructed for letting to small businesses, at an estimated Exchequer cost, spread over several years, of £125-150 million.

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13. I also propose to bring within the scope of the industrial buildings allowance certain kinds of servicing, repairing and warehousing activities. This too will benefit the small workshop scheme.

14. I also propose to make changes in the liability to VAT of certain kinds of building alterations. If applied in its entirety, a recent judgement of the House of Lords would have led to the standard rate of VAT being charged for the first time on a range of non-structural building alterations. This would have introduced clearer borderlines into this very complex area of the law. But it would have imposed an extra tax burden on the construction industry of about £80 million a year.

15. I accept the need for greater clarity but I intend to achieve this in a way which will relieve the industry of all but £10 million of the extra tax burden. I shall, in due course, lay before the House an Order which will have the effect of continuing to zero-rate three important kinds of alterations which might otherwise be adversely affected by

the House of Lords' judgement. These are the most commonly recognised forms of double glazing, loft and cavity wall insulation and damp-proof coursing. This useful simplification of the law will cost the revenue about £70 million a year. The other kinds of non-structural alteration covered by the judgement will become subject to VAT but, pending the completion of discussions with the industry, no steps will be taken to apply the tax before about the beginning of September.

16. My final proposal in this area concerns Stamp Duty on house purchase. I propose to raise the exemption by £5,000, to £25,000, and the other thresholds also by £5,000, at a total cost of £70 million in 1982-83.

17. This will help to improve job mobility and give some encouragement to house construction. But most of all it will help those who are buying their first homes. By the end of this Parliament, nearly three out of every five families will own their own homes. This will represent a significant extension of the property-owning democracy.

18. All in all, these proposals should bring substantial help to the construction industry, as well as to a much wider range of businesses and individuals.

Section 14: BUSINESS, ENTERPRISE AND SMALL FIRMS

1. Most of the measures I have already announced form part of the Government's consistent strategy, to help create the conditions in which businesses can earn the profits which must provide both the motive and the finance for the new investment needed to create new jobs.

2. There can be no doubt that higher rates of interest and the consequent reluctance of companies to borrow long-term at high fixed rates have caused a distortion of balance sheets. Too much reliance is now placed on short-term bank finance. As a result there is additional pressure on monetary growth.

3. A number of suggestions have been made for reducing the burden of interest rates on companies. We are all indebted to my ~~at~~ hon. Friend, the Member for Chertsey, (Mr Grylls) and others for the way in which they have focused public attention on this problem. In many cases, the selectivity in the schemes proposed would favour lending by the banks, and lending to "tax-exhausted" companies. We have considered these ideas very carefully. But we have not so far been persuaded that they offer the best way forward.

4. I do, however, attach particular importance to

/encouraging the

encouraging the provision of equity capital. And I have some new proposals to make.

5. The Business Start-Up Scheme, which provides income tax relief for investments of up to £10,000 in the equity of companies starting new trades, has been widely welcomed. I propose for 1982-83 and 1983-84 to increase the annual limit from £10,000 to £20,000. In addition, as less than a full year has elapsed since it became law, some potential investors may have been unable to use up the full £10,000 limit in 1981-82. I propose that any unused balance of this year's limit should be added to next year's. This means that, in some cases, the effective limit for 1982-83 will be as much as £30,000. *These improvements should provide a further stimulus to investment in new enterprises.*

6. Where capital for small businesses generally is concerned, many people have emphasised to me the importance of the new provisions introduced in the 1981 Companies Act for companies purchasing their own shares. Clearly it would be wrong to change the tax law in such a way that these provisions could be used to pay out what would amount to tax-free dividends. But I believe there is scope for tax changes which will significantly increase the attractions of equity capital, both to the investor and to the entrepreneur.

7. I now propose that certain purchases by unquoted trading companies, mainly small and family businesses,

/of their own

of their own shares should not be subject to ACT and income tax. They will be treated instead as sales of shares by the shareholder, and therefore, subject in most cases to Capital Gains Tax only. This measure will be of special benefit to small companies which have a limited market for their shares.

8. Two years ago, I relaxed the conditions governing profit-sharing schemes and reintroduced legislation enabling employees to take up options to buy shares in their companies without incurring income tax liability.

9. I did this because I have no doubt that employees who own shares in the company for which they work develop a greater sense of commitment to the success of the business. Since I made my first changes two years ago the increase in the numbers of profit-sharing schemes has been extremely encouraging. In 1979 there were only thirty such schemes. Now there are over 400. This is exactly as we should wish. Wider share-ownership is good for the business, good for the worker and good for Britain.

10. It is important to maintain and extend this progress. Accordingly, I now propose to increase the value of shares that can be allocated each year to any one employee from £1,000 to £1,250. I also propose to amend the detailed rules to help simplify the

administrative problems arising on rights issues. I think we should also give some help and incentive to those who acquire options outside the ambit of approved schemes. I therefore propose that the income tax chargeable on the exercise of such an option should be collected over 3 years, rather than in a single sum.

11. In the last two years I have substantially relaxed the rules for tax relief for interest on money borrowed to invest in small companies. This year I propose to move a stage further. If a shareholder works full-time in the management of a business he will in future be able to qualify for tax relief to invest in that business even though he does not have more than 5 per cent of the shares.

12. Now, loan finance. In my last Budget I announced the establishment of a pilot Loan Guarantee Scheme. The scheme started in June 1981, and since then the demand for loans has far exceeded expectations. Last October, in response to that demand, we increased the allocation for the first year from £50 million to £100 million; but with 2,500 loans worth over £90 million already approved after nine months, some further increase is desirable. Accordingly, I propose to increase the amount which the participating institutions may lend to £150 million for the first year. A further £150 million will be available for loans under the scheme

/during its

during its second year, to June 1983.

13. I also propose that the limits for the "small companies" rate of corporation tax should go up again from £80,000 to £90,000, and from £200,000, to £225,000. This will mean that this Government has increased the lower limit by 80 per cent and the upper limit by more than 150 per cent.

14. The period for income and corporation tax relief for pre-trading expenditure will be extended from one to three years.

15. Many hon. Members, I know, have been impressed by the value of the work done by local enterprise agencies. These agencies depend in the main on businesses already established in the local community. They clearly play a valuable part in helping small local firms to start and to prosper. I therefore propose to allow businesses to deduct for tax purposes the contribution they make to certain enterprise agencies, which concentrate on helping small firms. I hope this measure will encourage more widespread support for such agencies. The relief will be available from 31 March and will run for 10 years.

16. On VAT I have two principal changes to propose. The registration threshold will be increased from £15,000 to £17,000. And I propose to introduce VAT relief for services supplied before registration. This measure,

/and the extension

and the extension of relief for pre-trading expenditure, will reduce the costs of starting a new business.

18. I also want to make it easier for school-leavers to start a business. School-leavers have hitherto not been able to qualify for the so-called 714 certificates under the construction industry tax deduction scheme. The present system, designed to prevent tax evasion, may actually keep young people out of work as sub-contractors in the industry. The certificates are widely used in the industry but the rules require an individual, before he can secure a certificate, to show that he already has three years good record as a taxpayer. By definition, someone who has just left school or college cannot qualify under this 3 year rule. I now propose to change it, so as to enable school and college leavers to obtain special certificates. I also propose a guarantee scheme which may help others to obtain these special certificates.

17. The total revenue cost of these measures to help small firms is about £80 million in a full year.

19. Finally I wish to extend our policy of helping the self-employed make better provision for their retirement. I, therefore, propose to increase the limits on retirement annuity relief for contributors who are now in their 50's and 60's: to 20 per cent for those born between 1916 and 1933; to 21 per cent

/for those

Section 14: BUSINESS, ENTERPRISE AND SMALL FIRMS

Many of the measures I have already announced form part of the Government's consistent strategy, to help create the conditions in which businesses can earn the profits which must provide both the motive and the finance for the new investment needed to create new jobs.

2. There can be no doubt that higher rates of interest and the consequent reluctance of companies to borrow long-term at high fixed rates have caused a distortion of balance sheets. Too much reliance is now placed on short-term bank finance. In consequence there is additional pressure on monetary growth.

3. A number of suggestions have been made for reducing the burden of interest rates on companies. We are all indebted to my rt. hon. Friend, the Member for Chertsey, (Mr. Grylls) and others for the way

in which they have focussed public attention on this problem. In many cases, the selectivity in the proposed schemes would favour lending by the banks, and lending to "tax-exhausted" companies, in particular industrial sectors such as manufacturing. We have considered these ideas very carefully. But are not persuaded that they offer the best way forward. [If he catches your eye, Mr. Speaker, my hon. Friend, the Financial Secretary will have something more to say about this at a later stage in the debate.]

4. However, I attach particular importance to encouraging the provision of equity capital, and I have new proposals to make.

5. The Business Start-Up Scheme, which provides income tax relief for investments of up to £10,000 in the equity of companies starting new trades, has been widely welcomed. I propose for

1982-83 to increase the annual limit from £10,000 to £20,000. In addition, as less than a full year has elapsed since it became law, some potential investors may have been unable to use up the full £10,000 limit in 1981-82. I propose that any unused balance of this year's limit should be added to next year's. This means that, in some cases, the effective limit for 1982-83 will be as much as £30,000. I shall also remove a small but troublesome capital gains anomaly. These improvements should provide a further stimulus to investment in new corporate trades.

6. Where capital for small businesses generally is concerned, many people have emphasised to me the importance of the new provisions introduced in the 1982 Companies Act for companies purchasing their own shares. Clearly it would be wrong to change the tax law in such a way that these dividends could be used to pay out what would amount to tax-free

/dividends

dividends. But I believe there is scope for tax changes which will significantly increase the attractions of equity capital, both to the investor (who under present arrangements may be reluctant to lock himself into a minority equity holding) and to the entrepreneur (who may be reluctant to surrender an equity stake permanently).

7. Last autumn the Inland Revenue issued a consultative document about the changes that are needed in the tax system to help with a number of problems arising in small and family businesses. Following discussions, I now propose that certain purchases by unquoted trading companies of their own shares will not be subject to ACT and income tax. They will be treated instead as sales of shares by the shareholder, and therefore, subject in most cases to Capital Gains Tax only. This measure will be of special benefit to small companies which have a limited market for their shares.

/Two years ago,

8. Two years ago, I relaxed the conditions governing profit-sharing schemes and reintroduced legislation enabling employees to take up options to buy shares in their companies without incurring income tax liability. I did this because I believe that by acquiring shares employees develop a commitment to the success of their company. Since then the increase in the numbers of schemes and employees covered by them has been extremely encouraging: there are now over 400 approved schemes, compared with less than 30 three years ago.

9. It is important to maintain and extend this progress. Accordingly, I now propose to increase the value of shares that can be allocated each year to any one employee from £1,000 to £1,250. I also propose to amend the detailed rules to help simplify the administrative problems arising on rights issues. I think we should also give some help and

/incentive to

incentive to those who acquire options outside the ambit of approved schemes. I therefore propose that the income tax chargeable on the exercise of such an option should be collected over 3 years rather than in a single sum.

10. In the last two years I have substantially relaxed the rules for tax relief for interest on money borrowed to invest in small companies. This year I propose to take this a stage further. If a shareholder works full-time in the management of a business he will in future be able to qualify for tax relief even though he does not have more than 5 per cent of the shares.

11. Now, loan finance. In my last Budget I announced the establishment of a pilot Loan Guarantee Scheme. The scheme started in June 1981, and since then the demand for loans has far exceeded expectations. Last December, in response to that

/demand, we

demand, we increased the allocation for the first year from £50 million to £100 million; but with 2,500 loans worth over £90 million already approved after nine months, some further increase is desirable. Accordingly, I propose to increase the amount which the participating institutions may lend to £150 million for the first year. A further [£150] million will be available for loans under the scheme during its second year, to June 1983.

12. I also propose that the limits for the "small companies" rate of ~~corpo~~ corporation tax should go up from £80,000 to £90,000, and from £200,000 to £225,000. This will mean that this Government has increased the lower limit by 80 per cent and the upper limit by more than 150 per cent.

13. The period for income and corporation tax relief for pre-trading expenditure will be extended from one to three years.

14. Many hon. Members will, I feel sure, have been impressed by the value of the work done by local enterprise agencies. These agencies depend in the main on the local business community. Clearly they play a valuable part in helping small local firms to start and to prosper and grow. I therefore propose to allow businesses to deduct for tax purposes the contribution they make to certain enterprise agencies, which concentrate on helping small firms. I hope this measure will encourage more widespread support for such agencies.

15. On VAT I have two changes to propose. The registration threshold will be increased from £15,000 to £17,000. And I propose to introduce VAT relief for services supplied before registration. This measure, and the extension of relief for pre-trading expenditure, will reduce the costs of starting a new business.

16. During 1981, we also introduced, in three pilot areas, the Enterprise Allowance Scheme. This was designed to test the effectiveness of financial assistance for those who might be deterred by the benefits rules from using their redundancy money to set up small businesses. The allowance, of £40 a week for twelve months, is available to unemployed people who invest at least £1,000 of their own money to start a business. As already announced by my rt. hon. Friend, the Welsh Secretary, the scheme will now be extended to include the Shotton and Wrexham areas of Wales.

17. The total revenue cost of these measures to help small firms is about £80 million in a full year.

Section 15: BUSINESS, ENTERPRISE AND SMALL FIRMS

Evident in the measures I have already announced is the Government's consistent determination to help create the right conditions for the new investment needed to create new jobs.

2. There can be no doubt that higher rates of interest and the consequent reluctance of companies to borrow long-term at high fixed rates have caused a distortion of balance sheets. Too much reliance is now placed on short-term bank finance. As a result there is additional pressure on monetary growth.

3. A number of suggestions have been made for reducing the burden of interest rates on companies. We are all indebted to my hon. Friend, the Member for Chertsey, and others, for the way in which they have focused public attention on this problem. In many cases, the selectivity in the schemes proposed would favour lending by the banks, and lending to "tax-exhausted" companies. We have considered these ideas very carefully. But we are not persuaded that they offer the best way forward.

4. I do, however, attach particular importance to encouraging the provision of equity capital. And I have some new proposals to make.

5. The Business Start-Up Scheme, which provides income tax relief for investments of up to £10,000 in the equity of companies starting new trades, has been widely welcomed. I propose for 1982-83 and 1983-84 to increase the annual limit from £10,000 to £20,000. In addition, as less than a full year has elapsed since it became law, some potential investors may have been unable to use up the full £10,000 limit in 1981-82. I propose that any unused balance of this year's limit should be added to next year's. This means that, in some cases, the effective limit for 1982-83 will be as much as £30,000. These improvements should provide a further stimulus to investment in new enterprises.

6. Where capital for small businesses generally is concerned, many people have emphasised to me the importance of the new provisions introduced in the 1981 Companies Act for companies purchasing their own shares. Clearly, it would be wrong to change the tax law in such a way that these provisions could be used to pay out what would amount to tax-free dividends. But I believe there is scope for tax changes which will significantly increase the attractions of equity capital, both to the investor and to the entrepreneur.

7. I now propose that certain purchases by unquoted trading companies, mainly small and family businesses, of their own shares should not be subject to ACT and income tax. They will be treated instead as sales of shares by the shareholder, and therefore, subject in most cases to Capital Gains Tax only. This measure will be of special

/benefit to

benefit to small companies which have a limited market for their shares.

8. Two years ago, I relaxed the conditions governing profit-sharing schemes and reintroduced legislation enabling employees to take up options to buy shares in their companies without incurring income tax liability.

9. I did this because I have no doubt that employees who own shares in the company for which they work develop a greater sense of commitment to the success of the business. Since I made my first changes two years ago, the increase in the numbers of employee share schemes has been extremely encouraging. In 1979 there were only thirty such schemes. Now there are over 400. This is exactly as we should wish. Wider share-ownership is good for the business, good for the worker and good for Britain.

10. It is important to maintain and extend this progress. Accordingly, I now propose to increase the value of shares that can be allocated each year to any one employee from £1,000 to £1,250. I also propose to amend the detailed rules to help simplify the administrative problems arising on rights issues. I think we should also give some help and incentive to those who acquire share options outside the ambit of approved schemes. I therefore propose that the income tax chargeable on the exercise of such an option should be collected over 3 years, rather than in a single sum.

11. In the last two years I have substantially relaxed the rules for tax relief for interest on money borrowed to invest in small companies. This year I propose to move a stage further. If a shareholder works full-time in the management of a business he will in future be able to qualify for tax relief to invest in that business even though he does not have more than 5 per cent of the shares.

12. Now, loan finance. In my last Budget I announced the establishment of a pilot Loan Guarantee Scheme. The scheme started in June 1981, and since then the demand for loans has far exceeded expectations. Last October, in response to that demand, we increased the allocation for the first year from £50 million to £100 million; but with 2,500 loans worth over £90 million already approved after nine months, some further increase is desirable. Accordingly, I propose to increase the amount which the participating institutions may lend to £150 million for the first year. A further £150 million will be available for loans under the scheme during its second year, to June 1983.

13. I also propose that the limits for the "small companies" rate of corporation tax should go up again from £80,000 to £90,000, and from £200,000, to £225,000. This will mean that this Government has increased the lower limit by 80 per cent and the upper limit by more than 150 per cent.

14. The period for income and corporation tax relief for pre-trading expenditure will be extended from one to three years.

15. Many hon. Members, I know, have been impressed by the value of the work done by local enterprise agencies. These agencies depend in the main on businesses already established in the local community. They clearly play a valuable part in helping small local firms to start and to prosper. I therefore propose to allow businesses to deduct for tax purposes the contribution they make to certain enterprise agencies, which concentrate on helping small firms. I hope this measure will encourage more widespread support for such agencies. The relief will be available from 31 March and will run for 10 years.

16. On VAT, I have two principal changes to propose. The registration threshold will be increased from £15,000 to £17,000. And I propose to introduce VAT relief for services supplied before registration. This measure, and the extension of relief for pre-trading expenditure, will reduce the costs of starting a new business.

17. The total revenue cost of these measures to help small firms is about £80 million in a full year.

18. I also want to make it easier for those who have recently left school or college to start a business. Hitherto they

/have not

20. The self-employed play a key role in the economy. Their contribution to its vitality, its adaptability, is apparent to all. They fully merit this encouragement.

Section 16: CAPITAL TAXES

Section 15: CAPITAL TAXES

I have described a series of measures designed to encourage enterprise and small business. I turn now to a part of our tax system which is impeding the efficient working of capital markets and doing injustice to individuals and businesses alike. I refer to the capital taxes.

2. There is room for wide differences of view about the principle of taxing capital. But there is no case whatever for maintaining a system of capital taxes which, by impeding business success or penalising personal endeavour, does economic and social damage.

3. In each of my last two Budgets, we have taken significant steps to reduce such damage. I propose carrying this process one step further today.

4. The threshold for Capital Transfer Tax will now be increased to £55,000. The rate bands which apply above the threshold have remained virtually unaltered since the tax was introduced in 1975. These will now be extended. Under the new scale, details of which will appear in the FSBR, the top rate of tax will be reached at £2.5 million. In real terms, this is still not as high as the figure set by my predecessor, when he introduced the tax, in 1975. The lifetime scale will be improved

/ to a similar

to a similar extent. The cost this year will be £35 million: and in a full year £85 million.

5. I also propose that the indexation principles, already applied to income tax allowances, should in future apply as well to the CTT threshold, and bands.

6. On a technical but complex matter, I propose that the Finance Bill should deal with the new regime for settled property. Draft clauses were published in December. The comments we have received will help us to clarify and improve the provisions. They have more than justified this exercise in open Government. I am grateful to all those who have contributed. There will also be a number of technical provisions related to the Heritage. I have decided, in the light particularly of the reductions in the lifetime rates of charge I made last year, not to alter the rate ^{or} of which the periodic charge is payable.

7. I also propose that foreign currency accounts belonging to individuals who have no connection with the United Kingdom should not be caught by the CTT. It is important for London's position as the world's leading financial centre that this matter should be cleared up.

8. I now

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8. I now come to the incidence of Capital Gains Tax on inflationary gains, a matter on which there has rightly been a great deal of feeling. No-one has yet succeeded in finding a solution to this problem. Innumerable proposals for full indexation, for tapering and other ingenious devices have been put forward. None, unfortunately, overcame all the practical difficulties. I cannot, however, allow this situation to continue. It is unacceptable, and intolerable, that people should permanently be condemned to paying tax on gains that are apparent but not real - that exist only on paper.

9. I propose, therefore, that, as from this April, gains, including those of companies, will, in principle, be calculated after taking account of inflation which occurs after that date. No relief will, however, be given in respect of the first year of ownership. The problem we seek to solve is one which relates essentially to assets held for a period of years; and it should not be necessary to extend relief to assets bought and sold within a comparatively short period of time. The details are necessarily complex. ~~a fuller explanation will be given in a Press Notice available today.~~ The relief will be of substantial help to businesses as well as individuals.

10. Because we have not found it possible to extend the new scheme to cover past gains, I propose also that the exempt slice should be increased to £5,000. That is the best solution to the problem of the past and will simplify administration both for the taxpayer and the Revenue. For the future, I intend that this threshold too should be statutorily indexed.

11. There will be no revenue cost in the coming year. In 1983-84 the cost of these two measures will be £55 million. But this ought not to be looked at as a measure of the cost to the Exchequer. It is rather a measure of the tax which ought never to have been levied in the first place. This change is no more than simple justice, which should be welcomed on all sides of the House.

12. These measures will greatly increase the attraction of equities to UK taxpayers. One result should be that companies can raise more equity at lower cost than would previously have been possible. An increase in the scale of equity issues by companies will also bring real benefits to monetary policy.

13. I also propose a number of other specific changes: in future rollover relief will be available on compulsory purchase: and, completing our policy of avoiding a double charge to CGT and CTT on the

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one event, rollover relief will also be available on assets coming out of trust. These proposals involve no cost this coming year and a cost of £11 million in 1983-84.

14. I believe that these changes, taken together, will be widely welcomed as a further major reform of the capital taxes.

/Section 16: FISCAL
JUSTICE

But it is not only

Section 15: CAPITAL TAXES

I have described a series of measures designed to encourage enterprise and small business. I turn now to a part of our tax system which is creating injustice and impeding the efficient working of capital markets.

2. We accept that in any fiscal system there is a proper place for capital taxes. What we do not accept is that capital taxes should impose an unreasonable burden which does economic and social damage either to businesses or to the individual who builds up a modest competence. [Capital taxes in the way we have seen them develop in this country are the outstanding example of a good idea pushed much too far.] Our policy therefore has been, and is, directed to cutting them down to size. In each of my last three Budgets, we have made significant progress in this direction. Today I propose carrying this process one step further.

/The threshold

3. The threshold for Capital Transfer tax will now be increased to £55,000. The rate bands which apply above the threshold have remained virtually unaltered since the tax was introduced in 1975. These will now be extended. Under the new scale, details of which will appear in the Financial Statement, the top rate of tax will be reached at £2.5 million. This is still, in real terms, very much below the figure set by the rt. hon. Gentleman, the Member for Leeds East in 1975. The lifetime scale will be kept in line. The cost this year will be £35 million: and in a full year £85 million. ^{3 big.} I ^{also} propose that in future the well tried and accepted indexation principles, already applied to income tax allowances, ^{should} ~~will~~ also apply to the CTT threshold and bands.

4. On a technical but complex matter, I propose that the Finance Bill should deal with the new regime for settled property. [This is essentially a matter of ensuring that the changes already made

should run for settled property as well as for free estate, while at the same time simplifying the regime in so far as that is possible.] Draft clauses were published in December. The comments we have received will help us to clarify and improve the provisions. They have more than justified this exercise in open Government. I am grateful to all those who have contributed ~~to this result~~. There will also be a number of technical provisions related to the Heritage. I have decided, in the light particularly of the reductions in the lifetime rate of charge I made last year, not to alter the rate at which the periodic charge is payable.

5. On a minor, but important matter, I propose that foreign current accounts belonging to individuals who have no connection with the United Kingdom should not be caught by the CTT. It is important for London's future as the world's most important financial centre that this matter should be cleared up.

6. I now come to the incidence of Capital Gains Tax on inflationary gains, a matter on which there has rightly been a great deal of ~~feeling~~ feeling. No-one has yet succeeded in finding a solution to this problem. Innumerable proposals for full indexation, for tapering and other ingenious devices have been put forward. None, unfortunately, overcame all the practical difficulties. I cannot however allow this situation to continue. It is unacceptable, and intolerable, that people should permanently be condemned to paying tax on ~~paper~~ gains *that are only paper gains*.

7. I propose therefore that, as from 1 April, gains will in principle be calculated ^{after} taking account of inflation which occurs after that date. No relief will be given in respect of the first year of ownership. The problem we seek to solve is one which relates essentially to assets held for a period of years and it should not be necessary to extend relief to assets bought and sold within a

/comparatively short

comparatively short period of time. The details are necessarily complex: a fuller explanation will be given in a Press Notice available today.

8. Because we have not found it possible to extend the new scheme to cover past gains, I propose also that the exempt slice should be increased to £5,000. This will ensure that modest gains are excluded from charge altogether. That is the best solution to the problem of the past and will simplify the administration both for the taxpayer and the Revenue.

9. There will be no revenue cost this coming year: in 1983-84 the cost will be £80 million. But this ought not to be looked at as a measure of the cost to the Exchequer but rather as a measure of the tax which ought not to have been levied in the first place.

/I propose a

10. I propose a number of other specific changes: in future rollover relief will be available on compulsory purchase: and completing our policy of avoiding a double charge to CGT and CTT on the one event, on assets coming out of trust. These changes involve no cost this coming year and a cost of £11 million in 1983-84.

Section 16: FISCAL JUSTICE

BUDGET SECRET

Section 15 : CAPITAL TAXES

I have described a series of measures designed to encourage enterprise and small business. I turn now to a part of our tax system which is impeding the efficient working of capital markets and creating injustice. I refer to the capital taxes.

2. There is room for wide differences of view about the principle of taxing capital. But there is no case whatever for maintaining a system of capital taxes which, by impeding business success or penalising personal endeavour, does economic and social damage, either to businesses or to the individual. Our policy therefore has been, and is, directed to cutting these taxes down to size. In each of my last three Budgets, we have made significant progress in this direction. Today I propose carrying this process one step further.

/3. The threshold

BUDGET SECRET

3. The threshold for Capital Transfer Tax will now be increased to £55,000. The rate bands which apply above the threshold have remained virtually unaltered since the tax was introduced in 1975. These will now be extended. Under the new scale, details of which will appear in the FSBR, the top rate of tax will be reached at £2.5 million. This is still, in real terms, very much below the figure set by my predecessor, when he introduced the tax, in 1975. The lifetime scale will be kept in line. The cost this year will be £35 million: and in a full year £85 million.

4. I also propose that in future the indexation principles, already applied to income tax allowances, should also apply to the CTT threshold, and bands.

5. On a technical but complex matter, I propose that the Finance Bill should deal with the new regime for settled property. Draft clauses were

/published in

BUDGET SECRET

published in December. The comments we have received will help us to clarify and improve the provisions. They have more than justified this exercise in open Government. I am grateful to all those who have contributed. There will also be a number of technical provisions related to the Heritage. I have decided, in the light particularly of the reductions in the lifetime rate of charge I made last year, not to alter the rate at which the periodic charge is payable.

6. I also propose that foreign currency accounts belonging to individuals who have no connection with the United Kingdom should not be caught by the CTT. It is important for London's position as the world's leading financial centre that this matter should be cleared up.

7. I now come to the incidence of Capital Gains Tax on inflationary gains, a matter on which there

/ has rightly been

BUDGET SECRET

has rightly been a great deal of feeling. No-one has yet succeeded in finding a solution to this problem. Innumerable proposals for full indexation, for tapering and other ingenious devices have been put forward. None, unfortunately, overcame all the practical difficulties. I cannot, however, allow this situation to continue. It is unacceptable, and intolerable, that people should permanently be condemned to paying tax on gains that are only paper gains.

8. I propose therefore that, as from 1 April, gains will, in principle, be calculated after taking account of inflation which occurs after that date. No relief will be given in respect of the first year of ownership. The problem we seek to solve is one which relates essentially to assets held for a period of years; and it should not be necessary to extend relief to assets bought and sold within a comparatively short period of time.

/The details are

BUDGET SECRET

The details are necessarily complex; a fuller explanation will be given in a Press Notice available today.

9. Because we have not found it possible to extend the new scheme to cover past gains, I propose also that the exempt slice should be increased to £5,000. This will ensure that modest gains are excluded from charge altogether. That is the best solution to the problem of the past and will simplify administration both for the taxpayer and the Revenue. For the future, I intend that this threshold too should be statutorily indexed.

10. There will be no revenue cost in the coming year: in 1983-84 the cost of these two measures will be £55 million. But this ought not to be looked at as a measure of the cost to the Exchequer, but rather as a measure of the tax which ought not to have been levied in the first place. The

/relief will be

BUDGET SECRET

relief will be of substantial help to businesses as well as individuals.

11. These measures will greatly increase the attraction to UK taxpayers of equities. The result should be that companies can raise more equity at lower cost than would previously have been possible. An increase in the scale of equity issues by companies will also bring benefits for monetary policy.

12. I also propose a number of other specific changes: in future rollover relief will be available on compulsory purchase: and, completing our policy of avoiding a double charge to CGT and CTT on the one event, on assets coming out of trust. These changes involve no cost this coming year and a cost of £11 million in 1983-84.

13. I believe that these changes to capital taxes will be widely welcomed as a further major reform

BUDGET SECRET

of the capital taxes.

/Section 16: FISCAL JUSTICE

But it is not only

Section 16 : CAPITAL TAXES

1. I have described a series of measures designed to encourage enterprise and small business. I turn now to a part of our tax system which is impeding the efficient working of capital markets and doing injustice to individuals and businesses alike. I refer to the capital taxes.

2. There is room for wide differences of view about the principle of taxing capital. But there is no case whatever for maintaining a system of capital taxes which, by impeding business success or penalising personal endeavour, does economic and social damage.

3. In each of my last two Budgets, we have taken significant steps to reduce such damage. I propose carrying this process one step further today.

4. The threshold for Capital Transfer Tax will now be increased to £55,000. The rate bands which apply above the threshold have remained virtually unaltered since the tax was introduced in 1975. These will now be extended. Under the new scale, details of which will appear in the FSR, the top rate of tax will be reached at £2.5 million. In real terms, this is still not as high as the figure set by my predecessor, when he introduced the tax, in 1975. The lifetime scale will be improved to a similar extent. The cost this year will be £35 million; and in a full year £85 million.

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5. I also propose that the indexation principles, already applied to income tax allowances, should in future apply as well to the CTT threshold and bands.

6. I should add that it is my intention that the Finance Bill should deal with the new regime for settled property. Draft clauses were published in December. The comments we have received will help us to clarify and improve the provisions. They have more than justified this exercise in open Government. I am grateful to all those who have contributed. There will also be a number of technical provisions related to the Heritage. I have decided, in the light particularly of the reductions in the lifetime rates of charge I made last year, not to alter the rate at which the periodic charge is payable.

7. I also propose that foreign currency accounts belonging to individuals who have no connection with the United Kingdom should not be caught by the CTT. It is important for London's position as the world's leading financial centre that this matter should be cleared up.

8. I now come to the incidence of Capital Gains Tax on inflationary gains, a matter on which there has rightly been a great deal of feeling. No-one has yet succeeded in finding a solution to this problem. Innumerable proposals for full indexation, for tapering and other ingenious devices have been put forward. None, unfortunately, overcame all the practical difficulties. I cannot, however, allow this situation to continue. It is unacceptable, and intolerable, that people

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should permanently be condemned to paying tax on gains that are apparent but not real - that exist only on paper.

9. I propose, therefore, that, as from this April, gains, including those of companies, will, in principle, be calculated after taking account of inflation which occurs after that date. No relief will, however, be given in respect of the first year of ownership. The problem we seek to solve is one which relates essentially to assets held for a period of years; and it should not be necessary to extend relief to assets bought and sold within a comparatively short period of time.

10. Because we have not found it possible to extend the new scheme to cover past gains, I propose also that the exempt slice should be increased to £5,000. That is the best solution to the problem of the past and will simplify administration both for the taxpayer and the Revenue. For the future, I intend that this threshold too should be statutorily indexed.

11. There will be no revenue cost in the coming year. In 1983-84 the cost of these two measures will be £55 million. But this ought not to be looked at as a measure of the cost to the Exchequer. It is rather a measure of the tax which ought never to have been levied in the first place. This change is no more than simple justice, which should be welcomed on all sides of the House.

12. The benefit of these measures will be of substantial help to business as well as the individual. They will greatly
/increase the

BUDGET SECRET

increase the attraction of equities to UK taxpayers. One result should be that companies can raise more equity at lower cost than would previously have been possible. An increase in the scale of equity issues by companies will help to reduce their dependence on bank borrowing.

13. I also propose a number of other specific changes: in future, rollover relief will be available on compulsory purchase; and, completing our policy of avoiding a double charge to CGT and CTT on the one event, rollover relief will also be available on assets coming out of trust. These proposals involve no cost this coming year and a cost of £11 million in 1983-84.

14. I believe that these changes, taken together, will be widely welcomed as a further major reform of the capital taxes.

/Section 17: INCOME TAX

Section 16: FISCAL JUSTICE

But it is not only in relation to capital taxes that Chancellors of the Exchequer come under pressure every year to remedy hardships and anomalies in the tax system. This year has been no exception, and I am glad to have been able to meet a large number of such points - not only on the capital taxes, including the relief on compulsory purchase, and rollover on property coming out of trust, but also on the duty on AVGAS, retirement annuity relief, and additional reliefs for charities and the disabled. All these I have already announced, all should evoke a positive response.

2. But there is another side to this medal. Justice is indivisible. Justice to the taxpayer must be matched by justice to the Exchequer, which represents the interests of taxpayers generally. Unfortunately there has been a growing tendency for people to decide with the aid of expert advice, to pay a great deal less tax than Parliament intended that they should. We must all be glad to see the Courts taking an increasingly robust line on such avoidance. They are adopting a new approach towards contrived and artificial avoidance schemes. As a direct result, we expect to collect a very large sum of tax, possibly as much as £400 million, which the

/people concerned

people concerned thought they had avoided. The proper vigilance of the Revenue Departments in these matters needs to be matched by the determination of Parliament to legislate where this is needed. Last year I asked Parliament to do so on a number of important matters. This year I propose further action.

3. We must, however, tread a very careful path between safeguarding the interests of the taxpaying community on the one hand and avoiding economic damage on the other.

4. This need for caution applies, for example, to the proposals affecting the tax liability of companies engaged in international business, on which the Inland Revenue put out consultative papers last year. The proposed draft clauses deal with three subjects: the possibility of a change in the definition of residence for companies, the need to prevent avoidance of tax through the accumulation of profits in subsidiaries in tax havens, and the treatment of loans made to UK residents by overseas companies which they control, so-called "upstream loans".

5. It is clear from the response that much more time is needed for examination of these proposals. It would not be right to include legislation on

matters of such importance in this year's Finance Bill. The Inland Revenue will continue their consultations.

6. I now turn to the areas in which I do propose to take action in this Finance Bill.

7. First, international leasing. At present, assets leased abroad attract capital allowances at what is, in many cases, a favourable rate of 25 per cent per annum. Figures published recently showed that leasing of this kind jumped sharply to £572 million in 1981, almost all in the early part of the year.

8. Not only that. There is evidence of UK tax incentives being used to subsidise deals between other countries - deals by foreign businesses in foreign-made goods, competing with our own home producers. The present arrangements sometimes go even further and can provide for the same asset to attract investment incentives both in this country and in the country where the investment takes place - the so-called "double dip". I therefore propose, for new commitments after today, to reduce from 25 per cent to 10 per cent the rate of writing down allowance for all assets leased abroad.

9. Second, films. Following legal advice, the Inland Revenue announced in a Statement of Practice in 1979 that investment in films qualified for 100 per cent first year allowances. As with other capital allowance provisions, these investment incentives are available without regard to whether the film is made in this country or overseas. I have reason to believe that schemes for investment of this kind - primarily in foreign-produced films - are currently being marketed actively in this country, to the value of several hundreds of millions of £s. A number of such deals have already been carried out. The potential loss to the revenue is very great.

10. I propose therefore to withdraw the 100 per cent first year allowance for films and to introduce in its place a provision which will, broadly speaking, allow companies to write off expenditure over the income producing life of the film.

11. I know that a change of this kind could have serious implications for the British film industry, if introduced immediately, at a time when there are signs that it is just beginning to establish a new and more competitive position. I intend therefore to introduce transitional relief for British made films - broadly speaking, films registered for the purposes of the Eady levy arrangements - for a

2 year period. I shall be inviting the industry for urgent discussions about the form which this assistance might take.

12. Third, shipping. Here again, I have to tell the House that arrangements are being made to exploit UK investment incentives for the benefit of foreign businesses. In this case, a typical arrangement may involve a foreign shipping company chartering a vessel built abroad from a company specially set up in the UK to attract 100 per cent capital allowances. I propose, therefore, to reduce the rate of capital allowance in these cases to the 10 per cent rate for international leasing generally. Again, I am concerned to safeguard the position of British companies chartering their vessels abroad in the course of a genuine shipping business. I shall be inviting the shipping industry to discuss the detailed arrangements accordingly.

13. On each of these 3 subjects - international leasing, films, shipping - the changes will take effect from today. I shall be bringing forward the necessary detailed legislation at Committee Stage of the Finance Bill, in the light of my consultations with the industries affected.

/Fourth, so-called

14. Fourth, so-called Section 233 loans. These are contrived arrangements under which interest paid on certain bank loans escapes liability to corporation tax in the hands of the banks. I propose, therefore, to ensure that in future these payments are treated like other interest payments, and taxed accordingly. The new rules will apply from today. In the case of contracts entered into before today, the new rules will apply to payments due on or after 1 April 1983.

15. Fifth, as the law stands banks can lend overseas at abnormally low interest rates which are in effect subsidised by the UK taxpayer. I believe it would be wrong to allow this exploitation of our tax system to continue and I, therefore, propose to take measures in the coming Finance Bill to stop it. They will take effect from 1 April 1982 but in the case of existing loans will apply only to interest arising from 1 April 1983.

16. A number of the measures I have announced will help to ensure that the profits of the banks are more appropriately taxed. We shall need to give much further thought in the coming year to the problem of how best to ensure a sufficient contribution to tax revenues from the banking sector. The problem is not an easy one as the benefit of some of the devices I have just described is shared between the banks

and their domestic customers. There is a danger that measures directed to ensuring that the banks pay a more equitable amount of tax are all too simply bypassed by the banks shifting the burden on to their customers.

17. I return to the important theme upon which my hon. Friend the Member for Chertsey has done so much valuable work - finance for industry. I believe the House will see that what I have done in this Budget to encourage investment in equity capital (particularly in relation to Capital Gains Tax) will enable companies to improve their gearing. I would also remind companies that they can follow our example and borrow on indexed-linked terms so that at a time of falling inflation they don't get locked into high nominal interest rates. I believe that these two important developments are the right way to improve the terms upon which industrial finance is provided.

18. On a different note, a number of building societies have recently issued a new form of negotiable bond. I have no reason to believe that any improper use has been made of these new bonds. But as an obvious precaution, I propose to extend to these bonds, from today, the existing provisions against bond-washing.

/I also propose

19. I also propose some tightening up of the law relating to very large golden handshakes. The tax relief will be withdrawn on a sliding scale with the effect that the excess of sums over £75,000 will be fully charged to tax.

20. We owe it to the ordinary taxpayer to take action in these fields.

Section 17: DIRECT TAXES

Section 13: FISCAL JUSTICE

I have now virtually completed my review of proposals involving spending, and spending foregone. I have described my decisions on excise duties, and the major cut in National Insurance Surcharge which we propose. In the remainder of my speech I shall be dealing primarily with fiscal issues.

2. I wish to deal first, and briefly, with the key issue of fiscal justice. All Chancellors of the Exchequer come under pressure every year to remedy hardships and anomalies in the tax system. This year has been no exception, and by the end of this afternoon I shall have been able to meet a large number of such points.

3. But there is another side to this medal. Justice is indivisible. Justice to the taxpayer must be matched by justice to the Exchequer, which represents the interests of taxpayers generally. Unfortunately there has been a growing tendency for people to decide, with the aid of expert advice, to pay a great deal less tax than Parliament intended that they should. We must all be glad to see the Courts adopting a new approach towards contrived and artificial avoidance schemes. As a direct result, we expect to collect a very large sum of tax, possibly as much as £400 million, which the people concerned, had hoped to avoid. The proper vigilance of the Revenue Departments in these matters needs to be matched by the

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determination of Parliament to legislate where this is needed. Last year I asked Parliament to do so on a number of important matters. This year I propose further action.

4. We must, however, tread a very careful path between safeguarding the interests of the taxpaying community on the one hand and avoiding economic damage on the other.

5. This need for caution applies, for example, to the proposals affecting the tax liability of companies engaged in international business, on which the Inland Revenue put out consultative papers last year.

Tax Havens and Company Residence

6. These papers and the draft clauses dealing with these matters have caused considerable anxiety. In the case of company residence the primary objective was simply to replace the present ill defined rules with ones which were clearer and more certain. This was not an attempt to extend the coverage of the tax. But I accept that some people might be adversely affected. The matter therefore needs to be looked at again.

7. The problem of tax havens was a different one. If one has an open world in which there is free movement of capital and of persons - something which in itself is a good thing - this offers increased opportunities for tax

/avoidance.

avoidance. We must be very careful not to prejudice legitimate business, particularly because of the importance of London as a financial centre. We need to find the right via media and one which is accepted as right. It is to this end we shall be directing our efforts. Clearly this precludes legislation this year on any of these topics.

8. I now turn to the areas in which I do propose to take action in this Finance Bill.

9. First, international leasing. At present, assets leased abroad attract capital allowances at what is, in many cases, a favourable rate of 25 per cent per annum. Figures published recently showed that leasing of this kind jumped sharply to £572 million in 1981, almost all in the early part of the year.

10. Not only that. There is evidence of UK tax incentives being used to subsidise deals between other countries - deals by foreign businesses in foreign-made goods, competing with our own home producers. The present arrangements sometimes go even further and can provide for the same asset to attract investment incentives both in this country and in the country where the investment takes place - the so-called "double dip". I therefore propose, for new commitments after today, to reduce from 25 per cent to 10 per cent the rate of writing down allowance for all assets leased abroad.

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12. I propose therefore to withdraw the 100 per cent first year allowance for films and to introduce in its place a provision which will, broadly speaking, allow companies to write off expenditure over the income producing life of the film.

13. I know that a change of this kind could have serious implications for the British film industry, if introduced immediately, at a time when there are signs that it is just beginning to establish a new and more competitive position. I intend therefore to introduce transitional relief for British made films - broadly speaking, films registered for the purposes of the Eady levy arrangements - for a 2 year period. I shall be inviting the industry for urgent discussions about the form which this assistance might take.

/Third, shipping.

14. Third, shipping. Here again, I have to tell the House that arrangements are being made to exploit UK investment incentives for the benefit of foreign businesses. In this case, a typical arrangement may involve a foreign shipping company chartering a vessel built abroad from a company specially set up in the UK to attract 100 per cent capital allowances. I propose, therefore, to reduce the rate of capital allowance in these cases to the 10 per cent rate for international leasing generally. Again, I am concerned to safeguard the position of British companies chartering their vessels abroad in the course of a genuine shipping business. I shall accordingly be inviting the shipping industry to discuss the detailed arrangements.

15. On each of these 3 subjects - international leasing, films, shipping - the changes will take effect from today. I shall be bringing forward the necessary detailed legislation at Committee Stage of the Finance Bill, in the light of my consultations with the industries affected.

16. Fourth, so-called Section 233 loans. These are contrived arrangements under which interest paid on certain bank loans escapes liability to corporation tax in the hands of the banks. I propose, therefore, to ensure that in future these payments are treated like other interest payments, and taxed accordingly. The new rules will apply from today. In the case of contracts entered into before today, the new rules will apply to payments due on or after 1 April 1983.

17. Fifth, as the law stands banks can lend overseas at abnormally low interest rates which are in effect subsidised by the UK taxpayer. I believe it would be wrong to allow this exploitation of our tax system to continue and I, therefore, propose to take measures in the coming Finance Bill to stop it. They will take effect from 1 April 1982 but in the case of existing loans will apply only to interest arising from 1 April 1983.

18. A number of the measures I have announced will help to ensure that the profits of the banks are more appropriately taxed. We shall need to give much further thought in the coming year to the problem of how best to ensure a sufficient contribution to tax revenues from the banking sector. The problem is not an easy one, as the benefit of some of the devices I have just described is shared between the banks and their domestic customers. There is a danger that measures directed to ensuring that the banks pay a more equitable amount of tax are all too simply bypassed by the banks shifting the burden on to their customers.

19. On a different note, a number of building societies have recently issued a new form of negotiable bond. I have no reason to believe that any improper use has been made of these new bonds. But as an obvious precaution, I propose to extend to these bonds, from today, the existing provisions dealing with the "manufacture of dividends".

/I also propose

20. I also propose some tightening up of the law relating to very large golden handshakes. The tax relief will be withdrawn on a sliding scale with the effect that the excess of sums over £75,000 will be fully charged to tax.

21. We owe it to the ordinary taxpayer to take action in these fields.

Section 14: THE CONSTRUCTION INDUSTRY

Section 16: FISCAL JUSTICE

Every year the Chancellor of the Exchequer comes under pressure to remedy hardships and anomalies in the tax system. This year has been no exception and I am glad to have been able to meet a large number of such points - on the capital taxes, indexation of gains, relief on compulsory purchase, rollover on property coming out of trust; in the indirect tax field, the duty on AVGAS and a whole series of anomalies on the vehicle excise duties; on the direct taxes, retirement annuity relief, additional reliefs for charities and the disabled. *All these I have already announced; all should evoke a positive response.*

2. But there is another side to this medal.

Justice is indivisible. Justice to the taxpayer must be matched by justice to the Exchequer, which represents the interests of taxpayers generally. Unfortunately there has been a growing tendency for people, with the aid of expert - perhaps too

expert - advice, to decide for themselves to pay a great deal less tax than Parliament intended that they should. We must all be glad to see the Courts are taking an increasingly robust line on such avoidance. They are looking through series of highly artificial transactions to see the substance of what has happened. One recent decision alone means that [over the years] we shall collect a very large sum of tax, possibly as much as £400 million, which the people concerned thought they had avoided. The proper vigilance of the Inland Revenue in these matters needs to be matched by the determination of Parliament to legislate where this is needed. Last year I asked Parliament to do so on a number of important matters. This year I propose further action.

3. In addition to highly artificial avoidance ^{measures,} of ~~this kind,~~ particular difficulties arise from

/practices which

practices which stand on the borderline between the legitimate and the objectionable, but which nevertheless are motivated by a desire not to pay tax. Unfortunately, if something is not done to curb these practices they grow until ultimately they become a public scandal. It is important therefore that they should be dealt with before this stage is reached.

4. There is often a real dilemma here. Not infrequently the devices employed also assist economic activity, sometimes as the main purpose, sometimes merely ancillary to tax avoidance. We need, therefore, to tread a very careful path between safeguarding the interests of the taxpaying community on the one hand and avoiding economic damage on the other.

5. [Tax havens: no action this year]

6. First, international leasing. At present, assets leased abroad attract capital allowances at what is in many cases a favourable rate of 25 per cent annum. Figures published recently by the Equipment Leasing Association showed that leasing of this kind jumped sharply to £572 million in 1981, almost all in the early part of the year. It is entirely wrong that UK tax incentives should be available to subsidise deals between other countries - especially by foreign businesses in foreign-made goods competing with our own home producers. The present arrangements provide for the same asset to attract capital allowances both in this country and in the country where the investment takes place - the so-called "double dip". I therefore propose, for new commitments after today, to reduce from 25 per cent to 10 per cent the rate of writing down allowance for assets leased abroad.

/Second, films.

7. Second, films. Following legal advice, the Inland Revenue announced in a Statement of Practice in 1979 that investment in films qualified for 100 per cent first year allowances. As with other capital allowance provisions, these investment incentives are available without regard to whether the film is made in this country or overseas. I have reason to believe that schemes for investment of this kind - primarily in foreign produced films - are currently being marketed actively in this country, totalling several hundred millions £s, and a number of such deals have already been carried out. The potential loss to the revenue is very great. [I propose therefore].

8. Third, shipping. [].

9. Fourth, Section 233 loans. These are contrived arrangements under which interest paid on certain bank loans escapes liability to corporation tax in

/the hands of

the hands of the banks. I propose, therefore, to ensure that in future these payments are treated like other interest payments, and tax^{ed} accordingly. The new rules will apply ~~[after]~~ ^[from] today.

In the case of contracts entered into before today, the new rules will apply to payments due on or after 1 April 1983.

10. Fifth, as the law stands banks can lend overseas at abnormally low interest rates which are in effect subsidised by a UK taxpayer. I believe it would be wrong to allow this exploitation of our tax system to continue and I therefore propose to take measures in the coming Finance Bill to stop it.

11. Sixth, a number of building societies have recently issued a new form of negotiable bond. I have no reason to believe that any improper use has been made of these new bonds. But as an obvious precaution, I propose to extend to these bonds, from today, the existing provisions against bond-washing.

12. The measures I have announced will at least ensure that the banks pay some tax on their profits. The problem is not an easy one as the benefit of many of these devices is shared between the banks and their customers and we must ensure that measures directed to ensuring that the banks pay an equitable amount of tax are not simply bypassed by the banks shifting the burden on to their customers. We shall need to give much further thought in the coming year to the problem of how best to ensure a fair contribution from the banking sector.

13. I propose, finally, two other changes of a more technical character. Both are important for fairness as between taxpayers. As in previous years, I propose an increase in the scale relating to car benefits. [In a typical case, this will] This change will still leave the charges much below the true benefit, but it is a further step in the right direction. I also propose some tightening

up of the law relating to very large golden
handshakes. [One sentence to explain].

14. At the same time I propose to rectify a long
standing anomaly in the field of self-employed
retirement annuities

Section 17: DIRECT TAXES

Section 13: BUSINESS - CONSTRUCTION MEASURES

My Budget last year contained a number of measures to help the construction industry, which was particularly hard pressed. In 1981 private sector housing starts were up 19 per cent on 1980. Total starts in the fourth quarter of 1981 were up 16 per cent on a year earlier. Construction firms have been [notably] successful in keeping their costs down.

2. Activity in construction is particularly productive of new jobs. Accordingly I propose some further help to this industry.

3. The public expenditure plans published today provide work for the construction industry in 1982-83 worth about £10½ billion - an increase of 13 per cent compared with last year. In some fields the increase is more dramatic: local authorities should next year be able to spend up

/to 30 per

to 30 per cent more on housing than they have spent in 1981-82.

4. This year we expect local authority capital cash limits to be heavily underspent. Their levels of new investment fell short of what would have been possible largely because of uncertainty about the proceeds from sales of council houses and land.

5. For 1982-83 local authorities in Great Britain have been assured that they can spend up to a total of some £3 billion on housing, including about £1 billion of funds which they are expected to receive as a consequence of the Government's successful right-to-buy legislation.

6. I now propose a further addition to the public expenditure provision for 1982-83. Much of our housing stock is suffering from neglect - inadequate attention to repairs and maintenance and a

reluctance to install modern amenities.

7. I therefore propose, for a limited period, to raise the value of grants given for substantial and structural repairs, and for the provision of basic amenities in people's homes, to 90 per cent of the eligible cost, instead of the 75 per cent current available.

8. This bonus will apply only to applications received before the end of 1982. The purpose not to add to longer term demands on the industry but to encourage the take-up of immediate spare capacity.

9. The Government is providing an extra [£90] million to pay for this, and to encourage local authorities to make more general improvement grants available. A further [£10] million will also be provided to enable more people to get grants for

/home insulation

home insulation which can make an important contribution to reducing heating costs. These will be additions to the White Paper ^{Public expenditure} totals.

10. I hope this will give owner-occupiers, landlords and tenants a real incentive to do the work which is needed to bring their homes into good repair now. I especially hope that inner city areas, where as much of the worst housing is to be found, will benefit.

11. My rt. hon. Friend, the Secretary of State for the Environment, intends, moreover, to make special arrangements for giving high priority to joint development projects between the public and private sectors. £70 million of the provision for the Urban Programme and Derelict Land reclamation will be earmarked for this purpose in 1983-84.

/We have also

12. We have also decided to offer further encouragement to private owners to bring derelict land into productive use by increasing the grants payable, from 50 per cent of the cost of reclamation to 80 per cent, in Assisted Areas and Derelict Land Clearance Areas.

13. Private rented accommodation ought to be satisfying an important demand for first homes.

Yet the level of new investment in this sector has been minimal in recent years. This Government has already taken some steps to improve the operation of the market with the shorthold and assured tenancies schemes.

14. It is now time to offer a further boost, both to increase the stock of new rented housing and to assist the construction industry. I therefore propose to introduce capital allowances, at the rate of 75 per cent for the first year, for expenditure on

/the construction

the construction of properties for letting us assured tenancies by bodies approved by the Secretary of State. Allowances will be claimable from [].

15. In my Budget two years ago, I introduced the small industrial workshop scheme, under which industrial buildings allowance at the rate of 100 per cent can be claimed on the construction of small buildings. The evidence from the first eighteen months is that the scheme has been a resounding success. Over 5,000 new workshops have already been constructed for letting to small businesses, at an estimated Exchequer cost of £125-150 million, spread over several years.

16. I propose to improve this scheme by removing the uncertainty caused by some recent Court decisions. I propose bringing within its scope certain servicing, repairing and warehousing activities. ^{NB,} [Isn't "warehousing" misleadingly wide?]

17. The scheme has succeeded in increasing the stock of industrial workshops at or near the upper size limit, but there has been relatively little investment at the very small end of the range. I therefore propose to extend the scheme for a further two years, until March 1985, for workshops of not more than 1250 square feet.

[18. Turning to VAT, a recent judgement by the House of Lords would result in future in the application of the 15 per cent rate of VAT to certain alterations, notably double glazing. To date these have been zero-rated. I propose to take steps to ensure they remain zero-rated in future. This means foregoing some £80 million additional revenue in future years.]

19. My final proposal in this area concerns stamp duty on house purchase. I propose to raise the exemption and ~~the other rate~~ ^{various} thresholds by £5,000 at each point at a cost of £70 million in 1982-83. This will raise

/the exemption .

the exemption to £25,000, which will particularly benefit those buying their first homes. Home construction will ^{be} ~~give~~ given a boost. ^{And this} ~~The~~ measures will ^{substantially be improving} ~~also~~ contribute ^{to} job mobility.

[20. Lastly, school leavers have hitherto been excluded from participation in the Construction Industry Tax Deduction Scheme. I now propose to open this Scheme to them. I believe this will help school leavers in the job market as well as making the Scheme fairer.]

Section 14: BUSINESS, ENTERPRISE AND SMALL FIRMS

Section 16: FISCAL JUSTICE

1. But it is not only in relation to capital taxes that the Chancellor of the Exchequer comes under pressure every year to remedy hardships and anomalies in the tax system. This year has been no exception and I am glad to have been able to meet a large number of such points - not only on the capital taxes, but also on relief on compulsory purchase, rollover on property coming out of trust, the duty on AVGAS, retirement annuity relief, and additional reliefs for charities and the disabled. All these I have already announced; all should evoke a positive response.

2. But there is another side to this medal. Justice is indivisible. Justice to the taxpayer must be matched by justice to the Exchequer, which represents the interests of taxpayers generally. Unfortunately there has been a growing tendency for people, with the aid of expert advice, to decide for themselves to pay a

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great deal less tax than Parliament intended that they should. We must all be glad to see the Courts taking an increasingly robust line on such avoidance. They are adopting a new approach towards continued and artificial avoidance schemes. As a result, we expect to collect a very large sum of tax, possibly as much as £400 million, which the people concerned thought they had avoided. The proper vigilance of the Inland Revenue in these matters needs to be matched by the determination of Parliament to legislate where this is needed. Last year I asked Parliament to do so on a number of important matters. This year I propose further action.

3. In addition to continued avoidance schemes particular difficulties arise from practices which stand on the borderline between the legitimate and the objectionable, but which, nevertheless, are motivated by a desire not to pay tax. Unfortunately, if something is not done to curb these practices they

grow until ultimately they become a public scandal.

It is, therefore, important that they should be dealt with before that stage is reached.

4. There is often a real dilemma here. Not infrequently the devices employed also assist economic activity, sometimes as their main purpose, sometimes only as a trivial by-product of tax avoidance. We need, therefore, to tread a very careful path between safeguarding the interests of the taxpaying community on the one hand and avoiding economic damage on the other.

[Short paragraph required]

5. [Tax havens: no action this year]

6. First, international leasing. At present, assets leased abroad attract capital allowances at what is, in many cases, a favourable rate of 25 per cent per annum. Figures published recently by the Equipment Leasing Association showed that leasing of this kind jumped sharply to £572 million in 1981, almost all in

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7. Second, films. Following legal advice, the Inland Revenue announced in a Statement of Practice in 1979 that investment in films qualified for 100 per cent first year allowances. As with other capital allowance provisions, these investment incentives are available without regard to whether the film is made in this country or overseas. I have reason to believe

/that schemes

that schemes for investment of this kind - primarily in foreign-produced films - are currently being marketed actively in this country, to the value of several hundreds of millions of £s. A number of such deals have already been carried out. The potential loss to the revenue is very great. [I propose therefore].

[Sentence required]

8. Third, shipping. [].

[Paragraph required]

9. Fourth, so-called Section 233 loans. These are contrived arrangements under which interest paid on certain bank loans escapes liability to corporation tax in the hands of the banks. I propose, therefore, to ensure that in future these payments are treated like other interest payments, and taxed accordingly. The new rules will apply from today. In the case of contracts entered into before today, the new rules will apply to payments due on or after 1 April 1983.

10. Fifth, as the law stands banks can lend overseas

/at abnormally

at abnormally low interest rates which are in effect subsidised by the UK taxpayer. I believe it would be wrong to allow this exploitation of our tax system to continue and I, therefore, propose to take measures in the coming Finance Bill to stop it.

11. On a different note, a number of building societies have recently issued a new form of negotiable bond.

I have no reason to believe that any improper use has been made of these new bonds. But as an obvious precaution, I propose to extend to these bonds, from today, the existing provisions against bond-washing.

12. A number of the measures I have announced will help to ensure that the banks pay appropriate tax on their profits. We shall need to give much further thought in the coming year to the problem of how best to ensure a fair contribution to tax revenues from the banking sector. The problem is not an easy one as the benefit of many of the devices I have just described is shared between the banks and their customers.

There is a danger that measures directed to ensuring that the banks pay a more equitable amount of tax are all too simply bypassed by the banks shifting the burden on to their customers.

13. I have two other changes to propose. Both are important for fairness as between taxpayers. As in previous years, I propose an increase in the scale relating to car benefits for 1983-84. [In a typical case, this will] This change will still leave the charges much below the true benefit, but it is a further step in the right direction. I also propose some tightening up of the law relating to very large golden handshakes. The tax relief will be withdrawn on a sliding scale with the effect that the excess of sums over £75,000 will be fully charged to tax.

[sentence required]

14. We owe it to the ordinary taxpayer to take action in these fields.

15. I wish also to

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15. I wish also to continue our policy of helping the self-employed make better provision for their retirement. I, therefore, propose to increase the limits on retirement annuity relief for contributors who are now in their 50s and 60s: to 20 per cent for those born between 1916 and 1933; to 21 per cent for those born in 1914 or 1915; and to 24 per cent for those born in 1912 or 1913. I also propose to alter the present restrictions on the relief to allow more self-employed people to benefit from these higher levels. These changes will cost £12 million in 1982-83 and £25 million in a full year. They will provide a significant improvement in the position of the older contributor whose lifetime savings have suffered particularly from high rates of inflation in the 1970s.

BUDGET SECRET

Section 17 : DIRECT TAXES

But for the vast majority of individuals what really matters is income tax. There are about 26 million income taxpayers in this country. They will contribute in round figures about £30 billion this year. Income tax is far and away the biggest source of Government revenue.

2. As I said at the outset, this is a Budget for industry, for business, for jobs. We think it right that the bulk of the available fiscal relief should be targeted to encourage growth, enterprise and employment, and that is where I have concentrated my attention.

3. But it is also helpful to business and employment if some of the scope available is used to reduce the tax people pay directly. Such reductions increase the money people have to spend. ~~It would~~ ^{They} help incentives and, at the lower end of the income scale, help reduce disincentives to find work, and the poverty trap. It has been argued - I believe correctly - that ~~they~~ ^{they} would play a part in persuading people to moderate wage demands.

4. I have considered these arguments carefully and sympathetically. I have kept them very much in mind in preparing the package which I have been able to

/propose. But my main

propose. But my main priority has had to be rather different. It would clearly be welcome if I was able to put forward proposals in this field too.

5. But there are always, of course, competing arguments as to whether one should reduce the rates of income tax or raise the thresholds at which people pay tax. Any Chancellor would like to be able to do both. But this year I have had to make a choice. We have already reduced the basic rate of tax from 33 per cent to 30 per cent, and reduced the higher rates of tax as well.

6. I propose, therefore, to concentrate the relief that is available this year on raising the tax thresholds. The single personal allowance will accordingly be increased by £190 to £1,565 and the married allowance by £300 to £2,445.

7. There will be corresponding increases in the age allowances, the higher rate threshold and bands, and the threshold for the Investment Income Surcharge. Effect will be given to these reductions under ~~Paye~~ ^{PAME} as from the first pay day after 26 April.

8. These increases are up 2 percentage points more than the 12 per cent required to take account of inflation. They are worth £1.8 billion this year and almost £2½ billion in a full year. As a result
/some 1.2 million

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some 1.2 million people who would have paid tax next year will not now have to do so.

Section 18 : CONCLUSION

Section 17: DIRECT TAXES

But important though the capital taxes are, for the vast majority of individuals what really matters is income tax. There are about [] million income tax payers in this country. They contribute in total around £30 billion per year; income tax is far and away the biggest source of Government revenue.

2. As I said at the outset, this is a Budget for industry, for business, for jobs. We think it right that the bulk of the available fiscal relief should be targeted to encourage growth, enterprise and employment, and I have described my proposals at some length.

3. In recent weeks it has been suggested that it would be helpful to business and employment if I were to use some of the scope available to me directly to reduce the tax people pay. The point

/has been made

has been made that such reductions increase the money people have to spend, and thereby stimulate demand. It has been suggested that they would help incentives and, at the lower end of the income scale, help to reduce the poverty trap and the so-called "Why Work" syndrome. It has been argued - I believe correctly - that they would play a part in persuading people to moderate wage demands.

4. I have considered these arguments carefully and sympathetically. I have kept them very much in mind in formulating the package of fiscal proposals which I have described. And I have concluded that they are quite right.

5. I am therefore glad to be able to announce a substantial measure of relief to the individual income taxpayer.

6. There are always competing arguments as to whether one should reduce the rates of income tax

/or raise the

or raise the thresholds at which people pay tax. Ideally one would like to do both. But for the moment I have to make a choice. We have already reduced the basic rate of tax from 33 per cent to 30 per cent, and reduced the higher rates of tax as well. This year, therefore, I propose concentrating the relief available on raising the tax thresholds. The single personal allowance will therefore be increased by £190 to £1565 and the married allowance by £300 to £2445. There will be corresponding increases in the age allowances, the higher rate bands, and the thresholds for the Investment Income Surcharge.

7, These increases are some 2 per cent more than the 12 per cent required under what is popularly known as the Rooker-Wise provision. They will take [] people out of income tax completely;

/and incidentally

and incidentally reduce the administrative burdens on the Inland Revenue. They will cost £1.8 billion this year and £2.5 billion in a full year. By any standards this represents a substantial reduction in personal taxation. Effect will be given to these reductions under PAYE as from July. [? Give examples of effects on individuals? MST(L)]

8. In my view, and I am sure the House shares it, these changes will reinforce what we are in this Budget proposing to do for industry.

Section 17: DIRECT TAXES

But for the vast majority of individuals what really matters is income tax. There are about 26 million income taxpayers in this country. They contribute in round figures about £30 billion per year. Income tax is far and away the biggest source of Government revenue.

2. As I said at the outset, this is a Budget for industry, for business, for jobs. We think it right that the bulk of the available fiscal relief should be targeted to encourage growth, enterprise and employment, and I have described my proposals at some length.

3. In recent weeks it has been pointed out that it is also helpful to business and employment if some of the scope available to me is used to reduce the tax people pay directly. The point has been made that such reductions increase the money people

/have to

have to spend, and thereby stimulate demand. It has been suggested that they would help incentives and, at the lower end of the income scale, help to reduce the poverty trap and the so-called "Why Work" syndrome. It has been argued - I believe correctly - that they would play a part in persuading people to moderate wage demands.

4. I have considered these arguments carefully and sympathetically. I have kept them very much in mind in formulating the package of fiscal proposals which I have described. And I have concluded that it would not be right to ignore them.

5. There are always competing arguments as to whether one should reduce the rates of income tax or raise the thresholds at which people pay tax. Ideally one would like to do both. But this year I have to make a choice. We have already reduced

/the basic

the basic rate of tax from 33 per cent to 30 per cent, and reduced the higher rates of tax as well. I propose, therefore, to concentrate the relief available on raising the tax thresholds. The single personal allowance will accordingly be increased by £190 to £1565 and the married allowance by £300 to £2445.

6. There will be corresponding increases in the age allowances, the higher rate bands, and the thresholds for the Investment Income Surcharge.

7. These increases are up to 2 percentage points more than the 12 per cent required by the statutory provisions for increasing allowances [and higher rate tax bands] to take account of inflation. They will take [about half a million] people out of income tax completely, and incidentally reduce the administrative burdens on the Inland Revenue. They will cost £1.8 billion this year and almost

/£2½ billion

£2½ billion in a full year.

8. By any standards these are substantial reliefs.

For a single person paying tax at the basic rate, this will mean a reduction in tax of £1.16 a week; for a married man £1.73 a week. For the elderly, the weekly tax reductions will be £1.44 for the single and £2.31 for the married. This means that a single person over 65 will be able to have over £9 a week income in addition to basic pension before having to pay tax.

9. Effect will be given to these reductions under PAYE as from the first pay day after 27 April.

10. In my view, and I am sure the House shares it, these changes will reinforce what we are, in this Budget, proposing to do for industry.

Section 17: INCOME TAX

1. But for the vast majority of individuals what really matters is income tax. There are about 26 million income taxpayers in this country. They will contribute, in round figures, about £30 billion this year. Income tax is far and away the biggest source of Government revenue.

2. Quite rightly people look for some reduction in their own tax burden. As I have explained at the outset, and demonstrated by my proposals, the paramount aim of this Budget is to help industry, to encourage business, to create jobs. But I want also to assist people directly. The one helps the other. People need industry: but industry also needs people - as workers, as customers, as investors. We remain firmly committed as ever, over the years, to reduce the burden of direct taxation. It is essential to do so: to improve incentives: to remove disincentives: to reduce the poverty trap.

3. There are always, of course, competing arguments as to whether one should reduce the rates of income tax or raise the thresholds at which people pay tax. Any Chancellor would like to be able to do both. But this year, given my principal aim, I have had to make a choice.

4. We have already reduced the basic rate of tax from 33 per cent to 30 per cent, and reduced the higher rates

/of tax as well.

of tax as well. I propose, therefore, to concentrate the relief that is available this year on raising the tax thresholds.

5. The single personal allowance will accordingly be increased by £190 to £1,565 and the married allowance by £300 to £2,445.

6. The additional allowance for single parents will, as a consequence, rise by £110 to £880, so too will the widow's bereavement allowance. And there will be corresponding increases in the age allowances, the higher rate threshold and bands, and the threshold for the Investment Income Surcharge. Effect will be given to changes under PAYE as from the first pay day after 26 April.

7. These increases are up to 2 percentage points more than the 12 per cent required to take account of inflation in 1981. They are worth £1.8 billion this year and almost £2½ billion in a full year. As a result some 1.2 million people who would have paid tax next year will not now have to do so. This news will be very welcome both to the House and to the country at large.

Section 18: CONCLUSION

In framing the Budget, my aim has been to offer as much encouragement as I believe we can afford to an economy which is now moving in the right direction. The combination of a substantial surrender of revenue and a prospective level of borrowing which is nevertheless below that of the year now ending will give a vital boost to confidence. Confidence at home that growing markets will be there for those prepared to win them. Confidence abroad that Britain stays on course to put a dismal record of performance behind her. I commend this Budget to the House and to the nation.

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Section 18 : CONCLUSION

1. At the beginning of my speech, Mr. Speaker, I made it clear this Budget was designed to meet three essential purposes: to persevere in the fight against inflation; to give the utmost help, within the resources available, to industry and to business; and, thereby, to help create conditions in which there will be more jobs.

2. My proposals do just that.

3. In each of the four Budgets which I have presented to the House, there has been recognition of the truth that it is to industry and business - and to the service industries and new technology - that we must look if we are to create a sure foundation for renewed prosperity.

4. This Budget marks a further significant step in the reform of our tax system; in the creation of a more efficient and more free enterprise economy; in the removal of obstacles to the expansion of small business; in the dispersal and wider ownership of wealth; and in lower borrowing with the prospect of lower interest rates.

5. It is a Budget which will maintain confidence overseas and which will strengthen confidence at Home.

6. And I am confident that it is a Budget which will win the support of this House and of the country.

