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Part. A.

ET

Begins: 11/2/81.
Ends: 29/4/81.

PO -CH /GH/0085

PART A

Chancellor's (Howe) ~~1981 Budget~~,

THE 1981 BUDGET AND THE
INCREASE ON ROAD FUEL
DUTY

Disposal Directions: 25 years

26/7/95.

PO -CH /GH/0085
PART A

NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM AT 10.15 AM, ON WEDNESDAY 11 FEBRUARY 1981

PRESENT:

Chancellor of the Exchequer (in the chair)

Chief Secretary
MST(C)
MST(L)
Sir A Rawlinson
Mr Ryrie
Mr Burns
Mr Middleton
Mr Byatt
Mr Unwin
Mr Lovell
Mr Battishill
Mr Dixon
Mr Burgner
Mr Corlett
Mr Wiggins
Mr Tyler
Mr Tolkien

Mr Ridley
Mr Cropper

Sir L Airey)
Mr Dalton)Inland Revenue
Mr Isaac)

Mr Howard Customs & Excise

THE BUSINESS SECTOR AND THE BUDGET

The Chancellor invited the meeting to consider the issues as set out in Mr Corlett's agenda of 10 February.

2. The Chancellor explained that he hoped that the meeting would enable him to narrow the field of tax and expenditure possibilities. It was not yet possible to say what size of a package might be feasible. In the circumstances, he would not, at this stage, want to commit himself to a purist approach as to the direction towards which any assistance should be pointed.

TAX ISSUES

Stock Relief

3. The scheme, without the credit restriction, had now been settled. MST(L) said that it was important that the presentation

in the Budget should claim the full year cost of the assistance being provided to industry (ie £600 million).

Corporation Tax

4. Mr Byatt said that he did not favour ruling out the possibility of a reduction in the rate. A cut would help the profitable and thus fit well with an enterprise package, and have less chance of leaking into wages. The Chancellor, noting that a CT reduction would represent a cheaper substitute for an NIS cut, agreed that the option should be kept open for the time being.

ACT

5. It was agreed there should be no action on ACT.

Capital Allowances

6. MST(C) said he thought that some increase in the rate of initial allowance for industrial buildings could be a widely welcomed gesture, and a useful shot in the arm for the construction industry. He noted it would be costless in 1981-82. Mr Dixon said he would rate this option fairly highly: almost the whole of the benefit would go to manufacturing, and it would be useful for seedcorn investment. In Mr Dalton's view, however, it would only sharpen the discrimination against commercial buildings, and increase pressure for allowances for non-industrial buildings. To concede allowances for commercial buildings would be very expensive indeed in the long term. Mr Isaac said that in the present company situation much of the allowance would go into companies' carried forward losses. It would also show up in a fall-off in tax receipts from the financial sector. MST(L) did not think it was right to return to a policy of trying to fine tune the economy by raising and lowering the industrial buildings allowance. In summing up the discussion, the Chancellor said that the issue

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raised wide questions. He invited the Inland Revenue to produce a note on the main issues; it should include costings for raising the allowance to 75% and 100%. It could be considered further at the forthcoming enterprise meeting.

The Lord Scheme

7. It was agreed that this should be ruled out.

Industrial Rates

8. Sir Lawrence Airey said that the Inland Revenue did not entirely accept the DOE lawyers' view that the reintroduction of the earlier scheme for industrial de-rating would require extensive further work before it was reintroduced. Mr Battishill said that, while he accepted that DOE lawyers may have exaggerated the difficulties, he was doubtful of the wisdom of early action in this area. The DOE were considering a number of schemes for improving control of local authority expenditure affecting both domestic and non-domestic rates. There was a risk of prejudicing more considered changes by hasty action to help companies. Moreover, an announcement on industrial de-rating in the Budget was bound to re-open the whole question of the future of domestic rates. The Chancellor said that industrial de-rating should be considered in a much longer time scale as one of the possibililities in any overall scheme for softening the hard corners of domestic and non-domestic rates. He did not favour including any reference to industrial rates in the Budget. The best course would be to wait and see what the Secretary of State for the Environment proposed on rates generally, before deciding if any further action was required.

National Insurance Surcharge

9. The Chancellor said that this was the favourite candidate for assistance to businesses of the CBI and of many other organisations. The difficulty was that a substantial cut was expensive, and that a small reduction would spread the jam very thinkly. He agreed, however, that the option of a 1% reduction, with effect from October 1981, should continue to rate as a possibility.

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Heavy Fuel Oil

10. The Chancellor said that superficially this looked a good idea. However, he noted that no way had yet been found around the difficulties caused by the Frigg contract, which made the PSBR cost so much larger than the revenue cost. There was also a resource cost to the UK. Nevertheless, he would have a further discussion that afternoon with the Secretary of State for Energy to see whether he had any further ideas about what might be done about the Frigg contract.

VAT on Imports

11. The Chancellor asked Customs & Excise, in conjunction with FP and IP, to re-draft the minute to the Prime Minister about this, in order to bring out more clearly the implications of this measure for businesses.

North Sea Oil

12. Mr Dalton said that he had received telegrams from Mr Pollard (Inland Revenue) who had seen the US Internal Revenue Service in Washington twice. PRT was not creditable under US tax law, but only under the UK/US double taxation treaty. Mr Pollard had received no clear answer on whether the changes proposed for PRT would alter the creditability of this tax under the treaty. US officials had suggested that the UK Government should make a formal request to them for a view. Mr Dalton promised the Chancellor early advice on the issues, once he had had a chance to study the telegrams. This was also on the agenda for discussion with the Secretary of State for Energy.

EXPENDITURE ISSUES

13. Sir A Rawlinson said it would not be very easy to square fresh spending on the business sector with the presentational and substantive requirements of public expenditure control

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Further measures would have to be met from the Contingency Reserve. Although the PSBR would not be affected by additional measures, they would have to be met from the Contingency Reserve which, for 1981-82, was very tight indeed. It might just be possible to contemplate measures costing up to £100 million at 1979 prices, but it would be more comfortable not to do so.

Energy Pricing

14. The Chancellor said that the three minor measures which had been discussed with the Prime Minister were of limited cost. The possibility of some easing up on nationalised industry price increases should still remain as a possibility, even though the benefits to industry would be spread very thinly. He would discuss this option further with the Secretary of State for Energy.

Regional Development Grants

15. Mr Lovell said that the idea of unwinding the deferment of the payment of regional development grants, at a cost to the PSBR in 1981-82 of £100 million, was not unattractive. The assistance would help company liquidity, and be concentrated in the regions where there were special difficulties at present. It would also help the Government clear itself of the charge of being administratively inefficient in the payment of grants. The Chief Secretary said that, in his view, this option should have a low priority. The amount was not inconsiderable. In his constituency, firms had already taken into account the revised arrangements for RDG payments, and made their financial dispositions accordingly. They were not looking for a change, and would be surprised if the Government altered its plans. The Chancellor said that the proposal would be regarded as a minor U turn, and would be difficult to handle politically. It should not be pursued.

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Additional DOI PESC Provision

16. It was agreed that DOI should not be given an increased PESC provision. If the DOI produced further specific proposals these could be looked at.

Boiler Conversion Grants

17. The Chancellor said that this was an unattractive option and should not be pursued.

Additional Construction Spending

18. The Chancellor agreed with Mr Dixon's view that additional public expenditure did not seem the right way of helping the construction industry.

HANDLING

19. The Chancellor said he would convey the decisions taken at the meeting to the Secretaries of State for Industry, Environment and Energy, at meetings which would be arranged during the next few days.

cc

Sir D Wass
Mr Kitcatt
Mr Wicks
Mr Pickering

Sir D Lovelock - Customs & Excise

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CH/EX. REF. NO. B(81)7
COPY NO. 1 OF 18 COPIES

NOTE OF A MEETING HELD AT 11 DOWNING STREET AT 5.45 P.M. ON THURSDAY, 12 FEBRUARY, 1981

Present:

Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Mr. Burns
Mr. Ryrie
Mr. Middleton
Mr. Unwin
Mr. Ridley
Mr. Cropper

OVERVIEW OF THE BUDGET

The discussion was based on a summary note by Mr. Unwin of 11 February. Mr. Ridley provided a further note on the problems posed by the prospective PSBR in 1981-82.

2. The question was raised whether the current PSBR forecast of £13¾ billion for next year was biased downwards in the same way as its predecessors. Mr. Burns said he saw no reason to believe there was an such bias. The PSBR tended to overshoot when output was falling, but to fall short of the estimate once the bottom of the recession had been passed. He accepted that there were still great uncertainties, but he saw no reason to fear that the PSBR would turn out substantially higher than the forecast now suggested; the forecasters were inclined to be more sceptical than the public expenditure controllers about the prospective course of public expenditure.

3. The Chancellor noted that the PSBR position represented a very telling argument in favour of planning public expenditure programmes in cash, and operating a cash Contingency Reserve.

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But neither he nor the other Ministers concerned thought it would be desirable to go for larger tax increases than would be required to reduce the PSBR to £11-11½ billion. To attempt to do more than this was likely to be seen as an unreasonably deflationary approach, and would risk losing much of the support for the Government's strategy.

4. In further discussion, the following main points were made:-

(i) too unambiguous a re-commitment to the monetary targets in the MTFS could put the Government into the position of having in the course of 1981-82 both to abandon the targets and to make a substantial increase in interest rates. There would be a strong case for some overt relaxation of monetary policy for the coming year.

(ii) It would be desirable to be able to relate the post-Budget PSBR forecast with the MTFS projection which showed a PSBR corresponding to 3 per cent of GDP; a higher PSBR could be accepted, to the extend that it could be attributed to the unexpected depth of the recession, but tax increases would be justified to offset the further worsening attributable for example to the relatively larger shake-out of labour than the fall in output would have suggested.

(iii) Even a 10 per cent increase in income tax personal allowances seemed likely to be more than could be afforded; an increase of 5 per cent would be needed to keep allowances in real terms above their pre-1979-80 levels, whilst the preservation of "clear water" between allowances and benefit levels would require an increase of 6½ per cent. It was provisionally agreed to follow a broad-brush approach, and go for "half revalorisation" - i.e. 7½ per cent.

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CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

(iv) The logic of the public expenditure decisions on Child Benefit, on the assumption of a 7½ per cent increase in tax allowances, pointed to an increase in CB of 2½ per cent; the forecast, on the other hand, assumed an increase of 10 per cent, in line with inflation. It was agreed that the increase should be 50p - about 10 per cent.

(v) On the assumption of twice revalorisation of the specific duties, the price forecast range for 1981 Q4 would be 8½-13½ per cent. It was agreed that the central estimate in the published forecast should be shaded down to 10 per cent.

(vi) In view of the better prospect for inflation, the 11 per cent allowance for price increases in cash limits would prove undesirably generous. However, it would not be possible at this stage to re-open the decision, and reduce the factor to 10 per cent. Nevertheless Treasury Ministers should make clear to their colleagues that they would now look for a greater degree of underspending, and if circumstances warranted it might be possible to reduce the cash limits later in the year.

(vii) It was agreed that the Prime Minister's pressure for advancing VAT on imports should be resisted; this was administratively expensive, and would damage business cash flow. Most Ministers were against VAT blocking of petrol, although it appeared less damaging than the change in VAT on imports. The possibility of blocking expenditure on petrol for corporate tax purposes was canvassed as an alternative; although the treatment of business entertainment provided a precedent, the effects would be very uneven, given the large number of tax-exhausted companies.

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(viii) The levy on bank profits would in a sense be an undesirable precedent for a Labour Administration. On the other hand, it had clear political advantages. If Ministers were satisfied that it was right in principle to go ahead with this, then it would be sensible to secure as much revenue as possible from this source - there was no point in incurring all the difficulty for only a very modest reduction in the PSBR. It was pointed out, however, that the payment of the levy would have implications for the level of banks' free reserves; HF would be making a further submission on the rate of the levy, taking this into account.

5. The Chancellor, concluding the discussion, said that he would be guided by the provisional conclusions reached in further discussions with the Prime Minister. He noted that it would be necessary to look again at the provisional decisions on capital taxation (where the severity of the Budget made substantial concessions more difficult to justify, even if their first year cost was negligible), and a further meeting would be held on the possible ingredients in the "enterprise package". The possibility of action on energy prices should also be kept in mind.

R.I.T.
for

(A.J. WIGGINS)
16 February 1981

Distribution

Those present
Mr. Battishill
Mr. Cardona

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COPY NO. 1 OF 25 COPIES

CH/EX. REF. NO. B(81)8

NOTE OF A MEETING HELD AT NO.11, DOWNING STREET AT 3 PM ON WEDNESDAY 11 FEBRUARY 1981

Present:

Chancellor of the Exchequer (in the chair)
Minister of State (Commons)
Mr. Dalton (Inland Revenue)
Mr. Battishill
Mr. Wicks

Secretary of State for Energy
Mr. P. Jones (Dept. of Energy)
Mr. J. Guinness (Dept. Energy)

North Sea Fiscal Regime

1. The Chancellor said that it was his impression that the oil companies recognized that there was additional taxable capacity, though they had expressed concern at the Government's proposals for tapping it, and had suggested a one year advance payment of PRT, creditable against future liabilities, and further discussions to produce better proposals. He had indicated that the Government would continue to be open to suggestions, though it judged action in the 1981 Budget justified and necessary. He did propose however to take the additional step of legislating for the SPD for one year only. The Secretary of State thought that this represented the right approach. It was agreed that an explicit invitation should be sent to the oil companies seeking their further views on the fiscal regime as it would be after the introduction of the SPD. The Secretary of State agreed that the rate of the new tax should be 20 per cent and that the oil allowance be set at 1 million tonnes per year.

2. The Chancellor said that the proposed timing of the payments of SPD, which had been designed to assist meet the objective of smoothing the PSBR, as were the proposed changes to timing of payments of PRT from 1982-83, had been criticised by the oil companies. However, he judged the proposals to be worth continuing with, though he would

remain open to suggestions from the oil companies as to how they might be improved and the Revenue would be prepared to consider hardship cases. The Secretary of State said he could understand why the proposals were unpopular: they could hit small licensees particularly hard, requiring them to pay tax before receiving receipts. The proposals could be very rough for the industry and cause political difficulties. He would want to respond to the Chancellor's suggested approach after taking account of his proposals on PRT reliefs.

3. It was agreed that a rationalisation of the fiscal regime would be advantageous both to the oil companies and to the Revenue. However, this would have implications for the Government's cash flow and it would be important not to raise undue hopes about what might be achieved. The Chancellor said that the proposed changes to the PRT reliefs would increase revenue by about £100 million in 1981-82. The proposals would also discourage wasteful capital expenditure. Subject to a satisfactory resolution of the creditibility problem, he envisaged giving a safeguard for only the first 5 years of production and limiting uplift on expenditure to 4 years. Mr. Jones asked whether uplift could not be fixed by reference to payback periods: this would avoid penalising fields with long payback periods. It was agreed that officials should consider further the periods for safeguard and uplift.

4. The Chancellor said he proposed no changes to the existing provisions for advanced payments of PRT. He explained that, notwithstanding the SPD, the bulk of North Sea revenues would still come from PRT and that its advance payment was built into the arithmetic for 1981-82. The payment of PRT needed therefore to be considered against the objective of smoothing revenues. The Secretary of State thought that the proposed timing for payments of SPD - 10 monthly payments, i.e. to avoid payment in the month when the PRT was due - would be very difficult. On the other hand, it was recognised that there was a strong case for starting the new tax on a basis which met the objective of smoothing. The Chancellor concluded that SPD should

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be introduced on a smoothing basis and that proposals to smooth the receipts of PRT should be put forward, though he recognised that, in the last resort, it might be necessary to back down on PRT smoothing.

Creditability

5. PRT was not creditable under ordinary US law; US companies received relief under a special UK/US double taxation agreement. The question was whether the proposed changes to the PRT reliefs would leave PRT creditable. Mr. Dalton said that the preliminary indication was that whilst the Inland Revenue Service were sympathetic they could give no assurances. If, in the event, PRT ceased to be creditable HMG could seek an amendment to the fourth protocol to the existing treaty. If successful, the creditability of PRT could be "restored" in a matter of months. If this route failed, the economics of the US oil companies and the UK's North Sea tax take would be substantially harmed. One danger was that, in assessing whether the proposed changes to the PRT reliefs invalidated the tax's creditability, the IRS might aggregate all the changes which had been made to the tax since the agreement was signed in 1975.

6. There were clearly risks involved in proceeding against a background of uncertainty. Not to proceed with the proposed changes to the PRT reliefs would mean foregoing the benefit of additional revenue in the MTFS and eliminating wasteful expenditure, though to proceed only to discover that the changes were not creditable could put the eighth Round of oil licences at risk, with all the implications that carried for the MTFS. The Secretary of State was fearful of the wider political consequences which could follow an IRS ruling that the changes rendered PRT non-creditable emerging when the changes were under consideration during the Committee Stage of the Finance Bill. Mr. Dalton said the "competent authority" procedure might make it better for the Government to consult the IRS before making proposals, rather than after they had been announced, and this would suggest a clause being introduced at Committee stage. He would however need to discuss this with Mr. Pollard, who was still in the

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United States, before coming to a firm view. The Chancellor said that his inclination was to include the proposed changes in the Finance Bill, though he would want to take the Revenue's advice before coming to a final view.

7. It was agreed that after further consideration of outstanding points, the Chancellor would minute the Prime Minister outlining how he intended to proceed. This minute would be shown to the Secretary of State in draft.

Heavy fuel oil duty

8. The Chancellor noted that after a fall in the UK's relative position, we were now second in the European league of energy prices. There was a strong case for using such money as was available to reduce the cost of energy to industry through some alleviation of HFOD. The Frigg contract, however, doubled the cost of any given reduction in the duty, much to the benefit of the Norwegians. It seemed to pose an insuperable cost and presentational obstacle to reducing the duty. Mr Jones said that BGC and Department of Energy lawyers had examined the contract closely and saw no way out of it. It contained no break clause and would run until Frigg expired. Even if the contract could somehow be broken, gas under a new contract would be more expensive than that purchased under the existing contract. The Secretary of State thought that in considering the revenue cost of a reduction in the duty, the Chancellor should give more weight to the effects of the reduction on activity, which would reduce the revenue cost. The Chancellor agreed that whilst dynamic effects might reduce the revenue cost over time, he had primarily to be concerned with the immediate revenue effects.

9. Mr Guinness wondered whether a way forward which would avoid the problem of Frigg might be to allow users of heavy fuel oil to claim an interest relief grant to meet the interest costs of holding stocks. Eligibility would probably have to extend to stockists. The Chancellor was not attracted to this suggestion: it would add to expenditure, rather than reducing taxation and was merely a device to circumvent the Frigg problem.

10. The Secretary of State said that the evidence which the NEDO task force on energy pricing would produce was unlikely to be

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helpful. He stressed the political and psychological importance of taking action; the issue was unlikely to go away and failure to act in the Budget could mean more costly action at a later stage. The Chancellor indicated that he was fully seized of the pressures for action, but the problem remained Frigg. Mr. Wicks noted that the UK's seeming inability to reduce HFOD without substantially benefiting the Norwegian economy must mean that the Norwegians stood to lose from an increase in the duty and this might provide a basis on which the Norwegian Government might be persuaded to review the contract. The Chancellor asked that officials consider further the contract. The Secretary of State undertook to keep the Chancellor precisely informed of developments on the NEDO task force.

Oil substitution programme

10. The Department of Energy representatives thought that there was a strong case for adopting their proposal for an oil substitution programme, particularly if no reduction in HFOD were possible. The immediate costs should be reduced by reduced coal stock costs and social security benefits. They were not however willing to contemplate an offsetting reduction in the NCB's EFL. The Chancellor said he was not attracted to the proposal, though it could be considered in the context of the NEDO task force's report.

Electricity and gas prices

11. In response to a question from the Chancellor, the Secretary of State said that the minimal credible response to the NEDO task force report would be, in his view, concessions to bulk users of energy costing upwards of £25 million for electricity and upwards of £50 million for gas. He feared that if the Government did not head off criticism at this stage then the whole principle of economic pricing in the energy industries could be threatened, possibly at vast cost. He hoped to provide the Chancellor with detailed proposals by Friday, 13 February.

R.I.T.

R.I. TOLKIEN
16 February 1981

F6

Circulation:

Those present
Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Mr. Ryrie
Mr. Middleton
Mr. Burgner
Mr. Unwin
Mr. Ridley
PS/Inland Revenue

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cc: Chief Secretary
Financial Secretary
Sir Douglas Wass
Mr. Ryrie
Mr. Burns
Mr. Middleton
Mr. Unwin
Mr. Evans
Mr. Kemp
Mr. Battishill
Mr. Boulton

MR. NEUBURGER

PROSPECTS FOR THE RPI

The Chancellor was grateful for your minute of 11 February on the effect of the RPI of Budget changes. He has commented that there must be a question whether the whole of the effect of double valorisation of specific duties would pass through to prices; if it did not then presumably the increase would be below 1 per cent. He notes that you would not expect as large an effect on the mortgage rate as 4 per cent to result from the implementation of the package in question, but at least it would be some help. Can it be quantified? He would be grateful if Mr. Burns, Mr. Middleton and Mr. Unwin would consider these points further.

PSJ

(P.S. JENKINS)
12 February 1981

BUDGET CONFIDENTIAL

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cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Mr Battishill
Mr Ridley
Mr Cardona
Mr Cropper
PS/C&E

MR FREEDMAN

TAXATION OF ALCOHOL AND CIDER DUTY

The Chancellor has seen your minute of 10 February on the letters from the Minister of Agriculture, Fisheries and Food dated 30 January and 5 February. He is content with the proposal to treat the cider duty more favourably than that on beer - you had in mind that any increase on cider should be about 1 half in percentage terms (or marginally more) of that decided for beer. He is content for you to submit a specific proposal for the cider duty to the MST(C) when the level of the increase in the beer duty had been decided. He has written to Mr Walker on the lines you suggested.

PSJ

P S JENKINS
12 February 1981

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THE ENTERPRISE PACKAGE

RECORD OF A MEETING HELD IN THE CHANCELLOR'S ROOM IN THE TREASURY, AT 11.00 AM ON FRIDAY 13 FEBRUARY

Present:

Chancellor of the Exchequer	Sir Lawrence Airey	Inland Revenue
Chief Secretary	Mr Dalton	
Financial Secretary	Mr Green	
Minister of State (Commons)	Mr Isaac	
Minister of State (Lords)		
Mr Middleton	Mrs Strachan	Customs and Excise
Mr Battishill	Mr Howard	
Mr Dixon		
Mr Unwin		
Mr Corlett		
Mr Wiggins		
Mr Kelly		
Mr Tolkien		
Mr Ridley		
Mr Cropper		

The meeting took as its agenda the note circulated with Mr Corlett's minute of 12 February. The Minister of State (C) said that, while he welcomed annotated agendas of this sort, it would be helpful if they could be circulated rather earlier.

Aunt Agatha

2. The Chancellor said that, despite the difficulties and the points made in Sir Lawrence Airey's note of 9 February, he thought it was desirable to produce something along the lines of the proposed Aunt Agatha scheme, which would be seen politically as more important than it might in reality be.

3. The Minister of State (L) agreed that they should introduce a scheme, and he thought that the main limitations proposed were right. But he had some reservations about the proposals to limit the relief to the basic rate and to £10,000, which might provide insufficient incentive. The two were clearly related, and in his view they should consider relaxing one, but not both of them. The Financial Secretary said that,

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if there was to be any relaxation, his preference would be to give relief at the marginal rate. Without this, take-up might be limited since high-rate taxpayers would find other tax shelters more attractive. To prevent abuse there must, however, be a strict monetary limit to the amount of relief. The Minister of State (C) and the Chief Secretary agreed.

4. Sir Lawrence Airey thought that the £10,000 limit could be relaxed, but he was more doubtful about giving relief at the marginal rate. He thought it was significant that the Tax Consultative Committee had asked not for this, but for relaxations in the amount and in the period during which the relief could be clawed back. Mr Isaac added that there was a link between the rate at which relief was given and the other conditions. Giving relief at the marginal rate would certainly increase the attractiveness of the scheme, but by the same token it would make the problem of abuse more difficult and correspondingly require a firmer approach to other restrictions, for example on the kind of activity which would qualify. It might then be necessary to confine the relief to manufacturing. Mr Battishill suggested that, paradoxically, giving relief at the marginal rate could increase pressure during Finance Bill debates for further relaxations. The Minister of State (C) doubted this, however. He thought that it should be possible to justify proceeding carefully and modestly with such a new venture.

5. The Chancellor suggested that one restriction which would be particularly criticised was that which prevented an investor from also becoming a director. Mr Isaac argued that to do otherwise would lay the scheme wide open to abuse. It might, however, be possible to allow investors or their associates to become un-paid directors or, alternatively, if they were paid, to disallow their remuneration as a deduction from companies' corporation tax liability.

6. Mr Battishill asked whether the scheme should be presented as experimental, for a fixed period. The outside

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members of FASE had seen some advantage in this, because it might help to bring investment forward. It would also make it easier to wind up the scheme if did not prove to be working as hoped. The Minister of State (C) was opposed to this. He felt that it would create uncertainty in people's minds and reduce the scheme's effectiveness. The Financial Secretary suggested that there was a risk that at the end of the period expectations might be raised of an even more generous scheme. The Chancellor said that he would like to consider this separately, together with the proposal to suspend Development Land Tax.

7. The Chancellor said that, if the scheme was included in the Budget, he felt that relief should be given at the marginal rate and that the other restrictions should be as proposed, though the Revenue should consider whether any needed to be tightened in the light of the marginal rate decision. Unless anyone came up with a better alternative, he proposed to call it the Enterprise Investment Scheme.

SFICs

8. The Chancellor said that it was clear that it would not be possible to do anything about "main-line" SFICs in this Budget, even if he had wanted to. He would, however, like to include the limited extension of the Venture Capital Scheme to intermediaries such as the Institute of Directors Fund, as discussed in Mr Deacon's minute of 9 February.

9. In discussion, it was pointed out that the CBI appeared to be alone in pressing hard for a SFIC scheme in preference to an Aunt Agatha scheme. But their own proposal did not seem to be very well thought through. Moreover, it seemed clear that they were concerned with relatively large firms, and with development rather than start-up finance. It would, however, be important presentationally to try to ensure that the Aunt Agatha scheme was not criticised as being directed towards the wrong objectives. The Institute of

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Directors could be helpful in this respect. They apparently had two schemes on the stocks. The first, which involved them acting as brokers between their members and investment opportunities, would benefit from the Aunt Agatha scheme. The second, which involved a fund as intermediary, would benefit from the extension of Section 37. It was suggested that Mr Middleton should speak to Mr Goldsmith in confidence before the Budget, to ensure that, if both reliefs were included, he reacted to them favourable and swiftly.

10. The Chancellor did not feel that Sir Keith Joseph's proposal for a new form of property bond or unit trust for investment in small workshops was a very strong runner. The proposal did not seem to have been fully worked up, and there was now insufficient time to do so. It might, however, be worth looking at for a subsequent year. Mr Battishill said the proposal had been discussed in FASE the previous day, when it had become clear that it was open to a number of interpretations, each of which raised their own difficulties. The Department of Industry had undertaken to discuss it further with David Young to try to firm it up.

11. FASE had also discussed the letter from the London Chamber of Commerce and Industry asking for fiscal changes which would help local enterprise agencies and trusts. One of these was the extension of Section 37, which had already been agreed (though the LCCI would like it to apply to loan as well as equity finance, which seemed misconceived). The other was to find some way of allowing companies supporting enterprise agencies to deduct the cost from their corporation tax liabilities. This raised a number of difficulties, which the Inland Revenue and Department of Environment were discussing. The Chancellor felt that this was an attractive proposal, which was worth pursuing.

Expenditure Items

12. The Chancellor said his impression was that the small workshop scheme was working well, and that the £5 million

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provided last year had been a welcome stimulus. Help to small business was also provided in a number of other ways, including through COSIRA and the Manpower Services Commission. It was important to ensure that these activities were properly co-ordinated and had sufficient finance. He knew that the Secretary of State for Employment was concerned about possible overlap. He would like a note drawing together current activities in this area, which could be discussed at an early meeting with the Secretaries of State for Employment, Environment and Industry, together with Mr Macgregor. Mr Corlett said that his impression from meetings of Mr Macgregor's task force was that a modest amount of additional expenditure in this field would be well-received if it was included as part of the Enterprise Package.

Loan Guarantee Scheme

13. Mr Dixon reported that the Loan Guarantee Scheme was still being pursued. Some initial difficulties had been overcome, and he was reasonably hopeful of reaching agreement, though there was some difficulty in talking to the banks in current circumstances. The Chancellor reiterated the importance he attached to including this in the Budget.

Investment Income Surcharge

13. The Financial Secretary suggested that, if they were looking for measures which might be effective and relatively cheap, a cut in the Investment Income Surcharge could be attractive. The first-year costs were negligible, though the revenue lost would, of course, be more substantial in later years. He felt that this could be more attractive than some of the possibilities being considered for the capital taxes, although he accepted that it might be politically sensible to do neither. It was pointed out that, on the other hand, there were commitments about the capital taxes. The Chancellor felt, nevertheless, that this was an option which was still worth thinking about, particularly in the light of the WGTS Report.

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Capital Taxes

14. The Chancellor said that the Prime Minister's main reaction to the minute he had sent to her on 29 January was likely to be whether this was the appropriate year for changes in the capital taxes, which might appear to be obtrusive. The Minister of State (C) argued that, if changes were not made this year, 1982 would effectively provide the last opportunity before the Election. The Financial Secretary felt that there was a strong argument for increasing the capital transfer tax thresholds by the same percentage as the income tax personal allowances, but by no more than this.

15. After a brief discussion, the Chancellor decided:

(i) to make the capital gains tax changes suggested in paragraph 3 of his minute to the Prime Minister;

(ii) to increase the capital transfer tax thresholds (including those of the high-rate bands) by the same percentage as the increase in the income tax personal allowances, and to extend to capital transfer tax last year's provisions for indexing the higher income tax rate bands. He appreciated that this was less than many people were hoping for, but it would help to make increases easier in future;

(iii) to make the changes intended to encourage lifetime giving set out in paragraph 5 of the minute to the Prime Minister;

(iv) as already agreed, not to deal with settled property this year, but to publish draft clauses for consultation;

16. The Chief Secretary said that the introduction of capital transfer tax relief for agricultural let land would be well received. The Financial Secretary thought that this would be highly controversial politically, perhaps more so than any of

the other changes in the capital taxes. The Minister of State (L) pointed out that the Scots had now reached agreement on changes in tenure, which might provide a peg on which to hang the change. After a brief discussion, the Chancellor decided to include the relief along the lines originally proposed, and at a rate of 20%.

Capital Allowances

17. The Chancellor said that it had been argued to him that US firms in the high-technology data processing field would be more likely to locate in this country if they were able to claim capital allowances for their buildings. It was pointed out, however, that Ministers had hitherto taken the view that they were going to avoid any piecemeal extension to the scope of capital allowances until the whole area had been looked at as part of the corporation tax review (of which they might, in practice, form the most important part). The Chancellor said that he had to accept this advice.

18. The Minister of State (C) said he was in favour of an increase in the rate of capital allowances for industrial buildings for a limited period in order to accelerate construction. He did not accept the Revenue's objections to using the allowances as a regulator in this way. In discussion, it was argued that, in practice, any increase would become permanent, and so should be presented as such from the beginning. The difficulty was that it would worsen the discrimination against those not at present eligible, and increase the cost of any widening the scope of the relief as the result of the review. The Chief Secretary, while not minimising these difficulties, thought that they were outweighed by the advantages of the change, which, unlike some of the other items in the enterprise package, would be of fairly wide-spread benefit. The Minister of State (L) agreed, particularly in view of the importance of encouraging UK industry to put up efficient buildings. The Financial Secretary thought the issue was finely balanced.. The

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enterprise package was already fairly substantial, and there might be something to be said for leaving this until the following year. If it was included, he thought it should be put firmly in a construction context.

19. The Chancellor said that he would like to keep open the option of an increase to 75%, which was particularly attractive because of the small cost in the first year.

Corporation Tax: Small Companies Rate

20. The Chancellor said that he was not very attracted to the idea of a reduction in the small companies corporation tax rate, even if there was a reduction in the general rate. It could be argued that small companies had had their reduction already. He would, however, like to reduce the marginal rate for companies just above the profit limit as suggested, and to increase the lower profit limit to either £75,000 or £80,000, depending upon how the rest of the package firmed up.

Other Items

21. It was agreed that the two minor VAT changes already agreed, and the extension of relief for interest on lending to industrial co-operatives and partnerships should be included in the package. It was also agreed to announce the fact that consultation on the tax changes associated with the Companies Act legislation on purchase of own shares should be announced, with a view to legislation in 1982.

Mortgage Interest Relief and Stamp Duty

22. The Minister of State (C) said that he thought a backbench revolt was likely if there were no increase in the stamp duty threshold. He felt that an increase of £2,000 would head this off. The Financial Secretary thought that the pressure would come in 1982. The Chancellor said that in terms of encouraging mobility, there was a case for abating stamp duty and withdrawing mortgage interest relief. But this

would clearly not be acceptable politically. He intended, therefore, to leave both the mortgage interest ceiling and the stamp duty threshold at their present levels.

Development Land Tax

23. The Chancellor asked for views on the proposal that development land tax should be suspended as a way of helping the construction industry. DLT was an immensely complicated tax which brought in relatively little revenue.

24. The Minister of State (L) was strongly in favour. In his view, DLT was seriously hindering housing investment and created a major problem for the nationalised industries. The Minister of State (C) disagreed. He suggested that the effect could be to allow very large profits to be made in certain circumstances, which would be highlighted in the press. In his view, a preferable way to help the construction industry was by an increase in the capital allowances for industrial buildings. The Financial Secretary was also opposed. He felt that, after the changes in the last two Budgets, the structure of DLT was now relatively satisfactory and it would be a mistake to re-open controversy about it. Moreover, he doubted whether suspension would, in practice, have any greater effect on bringing forward investment than the uncertainty which already existed about changes which might be made by a future Labour Government. Sir Lawrence Airey suggested that it had not in practice been shown satisfactorily that DLT really was harming the level of housing investment. The Department of Environment's advice was that shortage of land was not at present a constraint, nor did they have any evidence of major nationalised indsutry projects actually being held up by it (it appeared that the problem of the Liverpool Street redevelopment was now virtually solved). If there was to be a change, he would prefer abolition to suspension, because of the staff savings (though suspension would save legislative time, in the event of a future Government wishing to re-impose the tax).

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25. The Chancellor said that, while he saw the difficulties, he still saw some attraction in the proposal and would like to keep the option open for the time being.

Benefits in Kind

26. The Chancellor said that he disliked VAT blocking the more he considered it. And yet there was a growing avoidance problem with the provision of free petrol and he was under considerable pressure to do something about it.

27. In discussion, it was suggested that there were three alternatives. The first was to make a larger increase than had already been decided in the car scales. This would hit those who did not get free petrol as well as those who did. It might, however, be justified in its own right and became politically less unattractive as the rest of the Budget became more restrictive. The second, which was a suggestion of the Minister of State (L), was to introduce a flat-rate charge of, say, £200 on anyone who was given free petrol, however much they received. This might, however, be regarded more as a penalty than as a tax and would probably involve an additional 125 staff. Neither of these proposals was likely to have a very substantial impact on the provision of free petrol, nor would they therefore do much to reduce VAT-avoidance. The third possibility was to make the provision of free petrol a non-deductable expense for corporation tax, which would make a very significant increase in the cost to the company and could therefore be a substantial deterrent.

28. The Chancellor said that he would like these and other possibilities to be looked at again and a further submission made.

C W KELLY
17 February 1981

Distribution:

Those present
Sir A Rawlinson
Mr Evans
Mr Wren-Lewis
Mr Folger
Mr Pickering
Mr Cardona
PS/Customs & Excise

COPY NO. 23 OF 25 COPIES 79

Ch/Ex. Ref. No. B(81)6

16/2/81.

cc: Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr. Burns
Mr. Ryrie
Mr. Middleton
Mr. Battishill
Mr. Bridgeman
Miss Brown
Mr. Burgner
Mr. Evans
Mr. Kemp
Mr. Wicks
Mr. Folger
Mr. Wren-Lewis
Mr. Ridley
Mr. Cropper

MR. UNWIN

BUDGET : SOME OUTSTANDING ISSUES

The Chancellor's study of Budget papers over the weekend, including your minute of 13 February and the Energy Secretary's letter of the same date about energy prices, have prompted him to ask a number of questions which he would like appraised and answered as quickly as possible. The points fall to a number of different groups and you will wish to consider whether they should respond directly or through you.

2. The Chancellor's questions are, in no particular order, as follows:-

(i) If the receipts from the eighth round of oil licences reduce the PSBR to £11 billion, should we then go for a combined industry/enterprise package costing an additional £250 million in the first year?

(ii) Would it be best to present such measures as one package? (He thinks it probably would.)

(iii) Also on presentation, we should take care to move all relevant bits of the speech into the same section, e.g. the increase in the VAT threshold and a cut in the rate of investment income surcharge. On the latter,

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his provisional view is that the rate should be reduced from 15 to 10 per cent. (I understand that you have included this item in the costing of the enterprise/capital taxes package which was attached to your minute of 13 February.)

(iv) He notes that it is becoming clear that there is no room for making any reduction in the national insurance surcharge, since the lion's share of any room for manoeuvre will have to go on three or four of the Howell measures, i.e. £45 million on electricity prices, £70 million on gas prices, £15 million on a boiler substitution scheme and something on heavy fuel oil duty. He asks how much, if any, of such a package could come from the contingency reserve and, if it were to be so financed, whether we could take credit for it in the Budget. He has asked that this package be assessed. On HFO he wonders whether there is <u>any</u> case for <u>any</u> move. (I understand that the Minister of State (C) is considering whether the Frigg contract can be developed or amended so as to "un-Frigg" HFOD.)

(v) Is there any scope for finding substantial additional room for tax cuts by review of the basis of spending programmes, including EFLs, along the lines applied to water authorities? A possibility might be to revise inflation assumptions.

(vi) Does your enterprise package yet include any reduction in corporation tax rates?

(vii) Are we obliged to/should we announce the basis of up-rating of public sector pensions in the Budget or should we hold this over, pending further consideration of Scott?

(viii) The Secretary of State for Employment wishes us to look for something that will get down the numbers on the

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CHANCELLOR OF THE EXCHEQUER

unemployment register: will the proposals in the CPRS paper be suitable?

(ix) What response should we make to the Transport Secretary's "privatisation initiative"?

(x) He notes that no change has been pressed for - more's the pity - to withdraw the exemption of gilts to CTG and stamp duty.

R.I.T.

R.I. TOLKIEN
16 February 1981

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CH/EX. REF. NO. B(81)9
COPY NO. 1 OF 17 COPIES

NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM, HOUSE OF COMMONS ON TUESDAY, 17 FEBRUARY, 1981 AT 6.30 P.M.

Present:

Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Mr. Middleton
Mr. Battishill
Mr. Unwin
Mr. Ridley
Mr. Cropper

BUDGET OVERVIEW

The discussion was focussed on an agenda prepared by Mr. Unwin. The Chancellor asked for summaries of the decisions taken so far to be prepared, on which he could draw in further discussion with the Prime Minister. He particularly wanted notes of the proposed changes in indirect taxes and capital taxes, and a list of the contents of the "enterprise package".

VAT blocking

2. It was noted that a decision was urgently required. The option had been kept open but little further delay was possible on what would be a structural change in the tax. The weight of opinion was against blocking VAT on petrol, although it was suggested that the revenue might prove to be needed if the decision were taken not to proceed with the levy on the banks. The point was also made that blocking VAT on petrol would have a damaging effect on industrial finance, and would in principle call for some offsetting action elsewhere.

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Advancing the payment of VAT on imports

3. It was noted that the Prime Minister was still inclined to favour this course, despite the disadvantages of the impact on industrial finance and the heavy administrative costs. It was agreed that the possibility of making this change should be kept in reserve in the event of further economic difficulties later in the year which required some fiscal response from the Government.

Road fuel duty and VED

4. It was noted that the choice at the margin between raising revenue through the road fuel duty and through VED was finely balanced, and that an immediate decision was not required. It was agreed that a duty differential should not be introduced in favour of derv, and that no change should be made in the heavy fuel oil duty - the duty could not be abolished, and it would be impossible to explain why a residual £2 duty had been retained.

Levy on the banks

5. The Chancellor said the Prime Minister accepted that the Government had to go ahead with the levy. A further meeting would be held later in the week to consider the rate.

North Sea licenses

6. It was noted that the Department of Energy had been reluctant to go ahead with an attempt to secure additional revenue from the next round of licenses. There was inevitably uncertainty about the amounts which could be raised, since the impact of the changes in the tax regime on potential bidders could not be predicted. The Chancellor said he was ready to press the Secretary of State to act vigorously; he thought some allowance for receipts from this source should be made in the Budget arithmetic, but the amount would need to be heavily discounted.

Construction industry package

7. The Chancellor again canvassed the advantages of a suspension of DLT. The Minister of State (L) favoured a suspension for four years, which would carry the issue beyond the date of the next

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election; others suggested a shorter period, with a view to securing a more rapid response in terms of new building activity. It was doubted, however, whether suspension for only 2 years would be long enough, given the time lag in organising new construction activity. It was noted that suspension for as long as 4 years would open the way for deals which would suppress most of the yield of the tax for a generation; and the question was raised whether other concessions - for example on CGT - might not have a higher priority. The Chancellor said that, subject to further work on the complexities of the legislation and the implications of different periods of suspension, he would wish to announce the suspension of DLT and an improvement in Industrial Building Allowances to 75 per cent. He accepted that this would to some extent prejudice the outcome of the forthcoming review of capital allowances, but concluded that greater priority should be given to the pressing needs of the construction industry.

Investment Income Surcharge and corporate tax rate

8. It was noted that a 5 percentage point reduction in the IIS, and a 2 percentage point reduction in corporate tax would cost similar amounts both in the first and in a full year. The Chancellor asked that both these possibilities should be kept open for the time being, and that they should be included in the list of possible changes.

National Insurance Surcharge and employees' National Insurance Contributions

9. The Chancellor concluded that the continuing costs (£700 million in a full year for 1 per cent) of a reduction in the NIS were too great. He agreed that officials should tell Inland Revenue and DHSS that there should be no changes in either the NIS or in employees' national insurance contributions.

Energy prices

10. The Chancellor said he agreed to the changes in gas and electricity prices proposed by the Secretary of State for Energy,

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but he did not wish any action to be taken on the replacement of boilers. He noted that it should be possible for the costs of the changes in gas and electricity prices to be regarded as an appropriate charge on the Contingency Reserve, so that it would not be necessary to score the extra £110 million against the PSBR.

Income Tax

11. The Chancellor reported that the Prime Minister was inclined to look again at the possibility of a change in the basic rate of income tax. Mr. Walters had urged on her the need to secure a lower PSBR, in order to facilitate a larger reduction in interest rates. The Chancellor suggested that there were three possible approaches:-

(i) a substantial increase - say 3p - in the basic rate, accompanied by full revalorisation of allowances;

(ii) 1p on the basic rate, combined with a 10 per cent increase in personal allowances; and

(iii) 1p on the basic rate, with the increase in allowances restricted to 7½ per cent.

The Chancellor recognised that any change in the basic rate would be seen as a repudiation of previous commitments, and criticism would also be likely that the overall package was unnecessarily deflationary. In further discussion it was suggested that the further reduction in the PSBR which would be achieved by changes of the kind indicated would not be sufficient to give complete security against the possible need for an autumn Budget; nor would there be a substantial and certain benefit in terms of lower interest rates. The Financial Secretary and the Minister of State (C) thought an increase in the basic rate would carry very serious political costs; it was noted that the Home and Foreign Secretaries were inclined to argue that some risks should be taken

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with the PSBR in order to avoid the Government having to present an unacceptably gloomy package. The Minister of State (L) pointed out that maintenance of the PSBR as a constant proportion of GDP would imply some £15 billion in 1981-82; thus action to reduce the PSBR to £11-11½ billion already represented a substantial change in the Government's fiscal stance. It was pointed out, however, that an increase in the basic rate balanced by a more generous increase in the personal allowances might improve the balance of the overall package, in that it would then appear to be less heavily weighted against the lower income groups.

Public expenditure

12. The Chancellor reiterated his concern that some measures should if possible be found for reducing the public expenditure programmes, which he could announce in the Budget. With the improving outlook for inflation, he found it hard to accept that a reduction of even £½ billion could not be achieved.

JW

(A.J. WIGGINS)
18 February 1981

Distribution

Those present
Mr. Burns
Mr. Ryrie
Mr. Cardona

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COPY NO. 20 OF 20 COPIES

CH/EX. REF. NO. B(81)12

NOTE OF A MEETING HELD AT NO.11, DOWNING STREET AT 4.10 P.M. ON WEDNESDAY, 18 FEBRUARY, 1981

Present:-

Chancellor of the Exchequer
Secretary of State for Social Services
Mr. R. Radford (DHSS)
Mr. S. Hepple (DHSS)
Mr. P. Kemp

The meeting considered the Secretary of State's proposals for the Budget, as mostly set out in his letter of 16 February to the Chancellor.

2. The Secretary of State said that he had been asked many times recently when, following the report of Scott, the Government were going to take action on public sector pensions. So far as an indexed gilt was concerned, it seemed, from his viewpoint, simply to be pushing the problem on to the next generation. The Chancellor was also concerned that early action be taken on Scott: he was considering the case for introducing a less than 100 per cent uprating limit and/or increasing employee contributions. On indexed gilts, he thought that whilst there were disadvantages, there were probably more than offsetting advantages.

Social Security Uprating 1981

3. The Chancellor said that the Q4 1980 to Q4 1981 price forecast would be 10 per cent, giving a benefits uprating factor of 9 per cent. He proposed that child benefit be increased by 50p, i.e. price protection, and said that income tax thresholds were unlikely to do as well as this. Mr. Jenkin said that, in

the circumstances, he would be happy to defend this increase.

Supplementary Benefit Children's Rates

4. The Chancellor said that the widening gap between CB and Supplementary Benefit Children's Rates (SBCR) was inimical to the Government's policy on work incentives. Though the 1 per cent abatement in the November 1981 uprating would apply to SBCR (but not, of course, to CB), the higher base from which these rates were uprated would mean that the cash lead of SBCR would increase. He would therefore favour some further abatement. The Secretary of State said that the expenditure at stake was minimal, so that the only possible argument was one of incentives. Given 2½ million unemployed and the fact that only one-third of the recipients of SBCR were capable of work, it did not seem very persuasive. Further abatement would fit ill with the Government's commitment to maintain the safety net for the very poor and jeopardise backbenchers' support for 'why work' measures generally. The Chancellor wondered whether a compromise might not be further abatement accompanied by an increase in the one-parent family supplement. The Secretary of State said that this would bear harshly on the disabled and families where neither parent was working. Whilst child benefit only represented a contribution to the costs of bringing up a child, the children's supplement was supposed to provide full compensation. It was agreed that the question of the gap between CB and SBCR should be remitted to the Bailey group or the group on work incentives for further study.

One-parent Benefit

5. It was agreed that this benefit should be increased from £3 to £3.30 per week, i.e. price protection.

Family Income Supplement

6. The Secretary of State said that FIS was one of his Department's most cost-efficient benefits, though its take-up was low. It was agreed that officials should consider further

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whether improvement in the rate could be accommodated within the Department's existing PES allocation.

Mobility Allowance

7. It was agreed that MA should at the least be increased from £14.50 to £16, i.e. price protection. The Secretary of State said that Mr. Stirling of Motability had pressed for the tax exemption of MA, rather than increasing its cash value in real terms. However an increase in the cash benefit would be more widely spread and whilst an increase to £16.50 would cost an extra £4 million in a full year, tax exemption would cost £10 million. It was therefore agreed that the MA should be increased to £16.50 and should remain taxable.

Motobility

8. The Chancellor said that he would be zero-rating, for VAT purposes, car adaptation for disabled drivers and donations for ambulances, wheelchairs and specialised aid for the disabled. He did not feel able to agree to Mr. Stirling's request that motobility be exempted from VAT and car tax, though the measures he was proposing represented a significant gesture. The Secretary of State accepted this package.

Invalidity Benefit

9. The Secretary of State said that making good the 5 per cent reduction in the real value of invalidity benefit from November 1981 would represent a major achievement in the International Year of the Disabled (IYD). Invalidity benefit should not be brought into tax before unemployment and sickness benefit. The Chancellor thought that a decision to defer bringing these benefits into tax strengthened the case for using the Social Security Act to deduct a further 5 per cent from benefits. The Secretary of State said that such a decision would mean that sickness, unemployment and invalidity benefit would have been reduced by 10 per cent in

real terms by November 1981. The full effects of the 5 per cent reduction would only be felt after the final disappearance of the earnings related supplement in January 1982. A further 5 per cent reduction could provoke very considerable criticism of the Government indeed. Moreover, it would lead to increased claims for supplementary benefit, which would mean more staff, at a time when the Department would have to be dealing with the consequences of the lost savings from the ESSP. He would want to refer any such proposal to colleagues. He would however be prepared to leave restoring the 5 per cent on invalidity benefit until April 1982, rather than November 1981. This would avoid an addition to public expenditure in 1981-82 and, if invalidity benefit were to be brought into tax from April 1982, this package would have a negative PSBR effect, since the revenue on taxation would substantially exceed the cost of making good the 5 per cent.

Invalidity Allowance

10. The Secretary of State asked that the 5 per cent be restored on the invalidity allowance at a cost of £1 million in 1981-82 and £4 million in a full year. This would be of presentational benefit in the IYD. The Chancellor agreed to consider this sympathetically.

Long-term Rate of Supplementary Benefit

11. The Secretary of State wanted to improve the rate of long-term supplementary benefit, at a cost of £65 million, though this was not for the 1981 Budget. He envisaged finding about £30 million towards this from additional saving on the ESSP scheme, which would at the same time meet a point about certification about which the doctors felt strongly. It was agreed that this could be examined further in the context of the PES. The DHSS wanted to alleviate the "invalidity" trap at a cost of £15 million. Again, this could be put forward in the context of the PES.

Supplementary Benefit and Redundancy Pay

12. The Chancellor explained his concern that redundant workers were being discouraged from investing their redundancy pay in new or expanding local businesses because of the rule that persons having free assets of more than £2,000 were ineligible for supplementary benefit. The Secretary of State shared the Chancellor's concern but said that his local offices simply did not have the skills necessary to distinguish between genuine and non-genuine cases. Moreover, worthy though the objective might be, the social security system was not an instrument for promoting enterprise and local employment. His Department might be able to help if others, for example, the Department of Industry, were to provide certificates indicating that redundancy pay was being used for some genuine purpose. Even then, there might be problems with other categories calling for exemption from the £2,000 rule. The Secretary of State noted that another problem was that which arose when the unemployed moved to becoming self-employed, thus losing their entitlement to supplementary benefit and jeopardising their ability to sustain their new venture.

R.I.T.

R.I. TOLKIEN

19 February 1981

Circulation:

Those present
Chief Secretry
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr. Ryrie
Mr. Bailey
Mr. Unwin
Mr. Battishill
Mr. C.D.Butler
PS/Inland Revenue

cc: Chief Secretary
Financial Secretary
MST (C)
MST (L)
Sir Douglas Wass
Mr. Ryrie
Mr. Burns
Mr. Middleton
Mr. Battishill
Mr. Unwin
Mr. Griffiths
Mr. Ridley
Mr. Cropper
Mr. Cardona

PS/C & E
Mr. Freedman C & E

BUDGET CONFIDENTIAL

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CHANCELLOR OF THE EXCHEQUER

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

18 February 1981

The Rt. Hon. Patrick Jenkin, MP
Secretary of State for Social Services

Dear Patrick

Thank you for your letter of 12 February about tobacco taxation. You will not expect me to say more at this stage than to assure you that I will give careful consideration to all the points you have raised.

There is however one point I should clarify. I agree with your view that it is likely that the higher tar surcharge will have to be abandoned. You ask me "to mop up the £0.6 million which will accrue to the industry" as a result of their undertaking not to reduce the price of brands relieved of the surcharge. Mopping-up can of course only be achieved in the Budget and I therefore propose to use the same vehicle to repeal the surcharge. I would propose to say in effect that the surcharge has served its purpose and its retention is no longer necessary in the light of the voluntary undertakings by the industry.

I am copying this letter to Keith Joseph, George Younger, Nicholas Edwards and Humphrey Atkins.

Geoffrey

GEOFFREY HOWE

BUDGET CONFIDENTIAL

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CH/EX. REF. NO. B(81)13
COPY NO. 1. OF 20 COPIES

NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM, HOUSE OF COMMONS ON THURSDAY, 19 FEBRUARY, 1981 AT 4.00 P.M.

Present:

Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Sir Douglas Wass
Mr. Ryrie
Mr. Burns
Mr. Middleton
Mr. Battishill
Mr. Britton
Mr. Monck
Mr. Unwin
Mr. Pirie
Mr. Cropper
Mr. P. Lewis - Inland Revenue

TAXATION OF THE BANKS

Coverage of the levy

The Financial Secretary reported that he had concluded the legislation would be hybrid if Giro and the Trustee Savings Banks were not included. He proposed to accept the Inland Revenue recommendations that inter-bank deposits and 40 per cent of transit items should be included in the coverage of the levy; the Bank of England were content with this on technical grounds.

Retrospection

2. The Financial Secretary said he had sought a way of making the levy seem less retrospective. One possibility might be to apply it to non-interest-bearing deposits at a date in 1981, but it was difficult to find representative dates early in the year. Moreover the case for the levy rested on the high profits earned by the banking system in 1979 and 1980. In further discussion it was suggested that an element of retrospection was unavoidable, if the banks were to be prevented from taking action to avoid

payment. It made little difference in principle whether the relevant dates were in the latter part of 1980 or the earlier part of 1981. There was no escaping the fact that the levy would apply to the 1981 profit and loss account. The point was made that it would be desirable to base the levy entirely on the position at some past series of dates when the exact circumstances of particular institutions were known accurately; there could be a risk otherwise - given the technical difficulty of defining a bank - of certain institutions coming within the ambit of the levy more or less by accident.

3. It was agreed that the levy should be applied to relevant deposits in October, November and December 1980. Mr. Pirie was asked to approach the Bank to discover whether any particular problems would arise in relation to particular banking institutions; Treasury Ministers expressed concern about the number of accepting houses which would come within the ambit of the levy.

Rate of the levy

4. The Chancellor noted that the levy might encounter a good deal of political opposition. A majority of the Conservative Finance Committee officers were opposed to it, as were the "Chelsea Five"; and it was subsequently established that the advice of the Whips was on balance against it. On the other hand, it was noted that the banks had for the time being been holding the field in the public debate, with the Government unable to reply in advance of the Budget. Ministers felt that Parliamentary opposition was unlikely to be sustained when the difficulty of raising money from other sources was understood; and it seemed likely to appeal to opinion outside Parliament. It would be very difficult for the Labour Party to vote against it, although they might take the opportunity of criticising it on the inconsistent grounds that it did not punish the banks enough and the banks needed the money to lend to industry. The Chancellor asked that the legislation should take the form of one long clause rather than several short ones, with much of the material relegated to schedules; it would be necessary to take this in Committee on the floor of the House.

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5. The Chancellor noted that the clearing banks' profits during the second half of 1980 would shortly be announced; the indications seemed to be that those from their domestic business would be down, although profits from their international business might keep total profits more or less flat. Overall profits would have fallen away from their best levels, and a further reduction was to be expected in 1981. It was agreed, nevertheless, that the clearing banks should not have any difficulty in raising the £300 million implied by a 2½ per cent rate of levy; Mr. Leigh-Pemberton had already suggested that the necessary funds could be secured through rights issues, which would have the useful incidental effect of reducing the money supply. Although the banks would represent that the levy would have a serious multiplicative impact on their ability to lend, it seemed unlikely that there was much of real substance in this. The £120 million which would come from other banks was, perhaps, a source of more concern; this reinforced the need for adequate information from the Bank of England about its impact on particular institutions.

6. The Chancellor, concluding the discussion, said that a 2½ per cent levy on the deposit base agreed should now be regarded as a firm decision, subject to final clearance with the Prime Minister. He would now reply to Sir Jeremy Morse on the lines suggested.

JW

(A.J. WIGGINS)
20 February 1981

Distribution

Those present
Mr. Ridley

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BUDGET SECRET

COPY NO. 4 OF 5 COPIES
CH/EX. REF. NO. B(81)11

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

19 February 1981

T.P. Lankester, Esq.,
No.10, Downing Street

Dear Tim,

INDIRECT TAX PACKAGE

..... I attach a table which shows the implications in detail of the "twice revalorisation" package the Chancellor mentioned to the Prime Minister.

On the RPI effects, the table reflects the fact that, for each 0.1 per cent on the RPI, petrol yields £150 million, beer £100 million and tobacco £70 million.

The duty changes on beer and wine reflect the need to minimise the risk of infraction proceedings initiated by the European Commission; our objective is to secure their assent to our moving gradually towards a wine/beer duty relativity of 3 : 1 from the present 5 : 1 ratio.

The balance between road fuel duty and VED increases could still be adjusted at the margin (e.g. £15 on VED, and 18p on road fuel duty) - but there would be very little impact on the revenue change, and the RPI change would be the same.

Yours

John

A.J. WIGGINS

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BUDGET

SECRET

PACKAGE D (i)

2% on RPI, no VAT blocking

	Approx. price effects	Duty change	Revenue change 1981-2	Revenue change full year	Impact on industrial costs 1981-2	Impact on industrial costs full year	RPI impact effect
		%	£m	£m	£m	£m	%
Beer	4p/pint	36.8	385	395			0.4
Spirits	60p/bottle	14.5	60*1	60*1			0.1
Table wine	12p/bottle	18.3	30	30			neg
Fortified wine	25p/bottle	33.0	50	50			neg
Tobacco	14p/pkt 20	[29.7*2]	480	490			0.7
Petrol	20p/gallon	38.3	905	905	325	325	0.6
Derv	20p/gallon	38.3	265	265	265	265	nil
VED	£10	16.7	220	220	100	100	0.1
			2395	2415	690	690	2.0*2

*1 Reflects the average of alternative views about the price elasticity of demand

NOTES: *2 Total taxation on cigarettes since 1980 Budget

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CH/EX. REF. NO. B(81)10
COPY NO. 25 OF 25 COPIES

NOTE OF A MEETING HELD AT 11 DOWNING STREET ON THURSDAY, 19 FEBRUARY AT 8.45 A.M.

Present:

Chancellor of the Exchequer
Secretary of State for Employment
Secretary of State for the Environment
Secretary of State for Industry
Mr. MacGregor, PUSS, Department of Industry
Miss A. Mueller, Department of Industry
Mr. E. Whybrew, Department of Employment
Mr. P. Middleton
Mr. C. Corlett
Mr. P. Cropper

The meeting considered measures, to be taken in and after the Budget, to promote enterprise and broadly followed the agenda circulated by Mr. Corlett.

Enterprise Budget measures

2. The Chancellor said that, against the background of a tight Budget, he would be announcing a number of measures to promote enterprise. After confidential consultations with outsiders, he had decided that relief under the "Aunt Agatha" scheme, which would be available on investments by third parties in new businesses, should be given at the investor's marginal rate of income tax. This would make the scheme at least as attractive as other ways of minimising tax liability, though it made it all the most important to limit the scope for abuse. He would introduce the relief as the Enterprise Investment Scheme (EIS). The scheme was generally welcomed, though Mr. MacGregor thought that backbenchers, whilst welcoming relief being given at the marginal rate, could well be disappointed at its being limited to investments in new businesses. Careful presentation would be required if the scheme were to get off on the best footing.

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3. The Chancellor hoped to announce a loan guarantee scheme for small firms in the Budget. Miss Mueller said that officials were still consulting the banks, but she was reasonably confident that agreement would be reached. Under the scheme, the clearing banks would nominate loans, on which the Government would provide an 80 per cent guarantee. A premium would be charged to the banks - and it looked as though this would be about 3 per cent - both to contribute to the costs of the scheme and, since it seemed likely that competition would prevent the banks passing on the premium to lenders, to discourage the banks seeking guarantees on non-additional loans. The purpose of the scheme, which would be launched on a pilot basis, would be to encourage the banks to provide loan capital in cases where they would not otherwise do so, because for example of a lack of collateral. The proposed scheme was generally welcomed. The Secretary of State for Industry noted that backbenchers, including Michael Grylls, should welcome the proposal, since they had been arguing for such a scheme.

4. The Chancellor said that he was still considering the possibility of a relaxation to DLT. Some modest encouragement would be given on capital taxation. He was still considering the case for making general changes to the rate of industrial building allowances. David Young's proposed property bond for investors in small workshops was being considered by the Revenue; whilst the objective was a good one, there were problems of abuse. He had not, however, ruled out action at a later stage of the Finance Bill.

5. The Secretary of State for the Environment was concerned that, helpful though the proposed measures would be, not enough was being done to encourage the person actually starting up a new business. Whilst he recognised that losses in the early years could be recovered through repayment of income tax, the need was often for cash in hand, before losses were incurred, if they were at all. People should be able to claim tax rebates to provide them with cash to invest in their own new business. The Chancellor said that the outsiders on the FASE group had not identified

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the absence of cash in hand as a major constraint. Moreover, whilst the provision allowing past income tax payments to be claimed back against losses contained some inherant element of control, since people would not normally deliberately make losses, the Secretary of State's proposal would be wide open to abuse. He was however prepared to ask the Revenue to examine the proposal again, though it could not be a candidate for the 1981 Finance Bill.

Organisation and Co-ordination

6. The Chancellor noted that different departments were seeking to promote enterprise in a number of separate ways - the Manpower Services Commission's Community Enterprise Programme (CEP), the DOI's Small Firms Advisory Service (SFAS) and the Development Commission Commission's COSIRA, for which the Department of Environment were responsible. He wondered whether there was not some scope for improving the co-ordination and thus effectiveness of this work. If there were, the Budget would form the best possible launching pad for announcing and publicising improvements. The Secretary of State for the Environment said that, in the interests of better co-ordination, he was prepared to allow the Department of Industry to take over the Development Commission and COSIRA provided that the Council's money would not be spent on urban projects and that he be a member of the Ministerial group overseeing the work of a new body composed of the SFAS and COSIRA. Miss Mueller added that the non-rural service required additional money, say initially £1 million per year, if it was to be really effective. The Chancellor said he would ask his officials to consider sympathetically this point and the request that 'COSIRA' money be separately identified. The Secretary of State for Employment was prepared to consider how the CEP, which had a budget of about £2 million, could be fused with the SFAS and COSIRA. The MSC had enough to do elsewhere, and were not particularly suited to carrying out the work involved in the CEP. The Secretary of State for the Environment added that he would be prepared to consider how his Urban Programme could be fitted into any new strucuture. Ministers thought that the new body should probably be called the Small Enterprise Service and that Mr. Vincent, of the Development Commission, would be a strong candidate to be

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its first Chief Executive. It would require careful and close Ministerial oversight. Mr. MacGregor, as Minister for small business, was best placed to take this responsibility. Miss Mueller wondered whether it would be worth seeking to establish machinery in the urban counties to match COSIRA's network of rural committees. Ministers were not attracted by this suggestion, though they agreed that co-ordination between the different elements of the Service's work would be important. The Chancellor said that officials should consider these proposals further, as a matter of urgency. It was agreed that the unified Service should emphasise the role of the local businessman in its work and make full use of bodies such as local Chambers of Commerce.

Presentation

7. The Chancellor said that a clear need had been identified for a kit, which could be used by bodies inside and outside Government, to give details of the reliefs and incentives available for new and expanding businesses. Mr. MacGregor was leading a taskforce which was responsible for putting together and promoting such a kit. The Secretary of State for Employment said that the reliefs and incentives available should be presented so as to bring out the way in which they would affect a would be small businessman. On advertising, the Secretary of State for Industry was concerned lest this Government set a precedent of projecting a political message, which might be taken up under a different Government with quite different motives. It was agreed that this danger could probably be avoided if the new SES were to place the emphasis on the services it could provide, and to advertise on its own account. The Chancellor said he would consider sympathetically the case for making some modest addition to the DOI's advertising budget in order that they might achieve adequate promotion of the SES. Mr. MacGregor, consulting the Paymaster General, would consider further how best to organise Operation Enterprise.

Encouraging unemployed and redundant workers

8. The Secretary of State for Employment said that he had been considering the possibility of making a grant of, say, £35 per week, to unemployed persons wanting to get started in business to enable

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them to keep going during the first year. They would come off the unemployment register and would be liable to tax on earnings in the normal way. If, after a year, the business had not worked, they could return to the register and claim supplementary benefit. This "have a go scheme" would not require any new legislation and should not add to public expenditure. It should encourage movement from the black into the white economy and by paying a separately identified grant, rather than paying unemployment benefit, would avoid the criticism that UB was being used for purposes for which it was not intended. The Chancellor said that he had discussed with the Secretary of State for Social Services a related proposal, namely changing the rule, as it affected redundant workers, whereby people with free assets of more than £2,000 were not eligible for supplementary benefit. At present, this rule acted as a strong disincentive to redundant workers to invest their redundancy pay in new or expanding local businesses. To change the rule in such cases would probably require certification of genuine use. The DHSS clearly did not have the appropriate skills at local level to distinguish between cases. He wondered whether the DOI could undertake such certification. It was agreed that officials, including the DHSS, should consider the Secretary of State's and the Chancellor's ideas further.

Housing measures

9. The Secretary of State for the Environment said that in his letter of 18 February to the Chancellor he had proposed that powers be taken to enable the Government to guarantee to meet the difference between market rents under the assured tenancy scheme, which were free from rent controls, and an adequate rate of return. This would both accelerate new house starts and re-activate the private rented sector in a very cost-effective way. He has also proposed that consideration be given to providing an additional £25 million to enable local authorities to guarantee to buy, in the last resort, up to a quarter of the equity of any house which the builder could not sell. On the basis of an equity-share of 25 per cent by the

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local authority this should encourage 5,000 new starts next year, with widespread benefits. If necessary, he would be prepared to phase the programme so that additional expenditure would not occur until 1982-83. The Chancellor undertook to have these proposals examined, but said that he was reluctant to encourage proposals which could give rise to growing expenditure.

Conclusions

10. The Chancellor, concluding the meeting, invited Ministerial colleagues and officials to follow up, as a matter of urgency, the points in the discussion so that announcements of any changes or improvements could be made in the Budget. In particular:-

(i) officials, with the Department of Industry leading, should consider how the existing SFAS and COSIRA could be fused into a Small Enterprise Service, under the auspices of the DOI, and to consider what other changes might be necessary. Consideration should also be given to how the MSC's Community Enterprise Programme might be fitted in;

(ii) the taskforce under Mr. MacGregor should continue work on the kit for small businessmen and Operation Enterprise; and,

(iii) officials, with the Treasury leading, should consider further the Secretary of State for Employment's "have a go" scheme and the possibility of changing supplementary benefit rules as they affected redundant workers.

R.I.T.

(R.I. TOLKIEN)
19 February 1981

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Distribution

Those present
Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Mr. Ryrie
Mr. Middleton
Mr. Battishill
Mr. Dixon
Mr. Lovell
Mr. Kitcatt

PS/Inland Revenue

COPY NO. 1 OF 30 COPIES
Ch/Ex. Ref. No. B(81)15

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RECORD OF A MEETING HELD IN THE CHANCELLOR'S ROOM IN THE TREASURY, AT 9.45 AM, FRIDAY 20 FEBRUARY 1981

Present:

Chancellor of the Exchequer		
Financial Secretary	Mr Dalton)	
Minister of State (Commons)	Mr Isaac)	Inland
Minister of State (Lords)	Mr Taylor Thompson)	Revenue
Mr Middleton		
Mr Unwin		
Mr Dixon		
Mr Battishill		
Mr Corlett		
Mr Wicks		
Mr Cropper		
Mr Ridley		
Mr Wiggins		
Mr Tolkien		
Mr Pickering		

The meeting took as its agenda Mr Corlett's note of 19 February.

Income Tax

2. After a short discussion, the Chancellor concluded that the options in the Inland Revenue's note of 19 February which assumed an increase in the basic rate were unacceptable, because of their distributional effects, among other reasons. In the circumstances, the personal allowances should be increased by 7½% and the basic rate left unchanged. The Budget Speech should contain arguments justifying this decision, along the lines of those mentioned in the Inland Revenue's note of 19 February.

Benefits in Kind

3. (i) Taxation of season tickets
After a discussion, the Chancellor said that the draft note to the Prime Minister attached to Mr Taylor-Thompson's minute of 19 February should be re-drafted to strengthen the arguments for taxing season tickets, so that he could write later in the day.

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(ii) Taxation of free petrol

After a discussion, the Chancellor said that the Inland Revenue should prepare a submission on the possibility of taxing free petrol by means first of a flat rate increase in the car benefit scales, and second of a supplement to the car benefit scales of between 50 per cent and 100 per cent, so that the supplement and the scale would in future vary together. The extra charge would be payable by all employees who received free petrol but did not reimburse their employers for the full cost of petrol used privately. The submission should also consider the position of employees who use their own cars and obtain free petrol from their employers, and it should attach a draft letter to the Prime Minister.

Income Tax Relief for Investment in the Equity of New Small Companies

4. Discussion centred on the points raised in paragraph 2 of Mr Isaac's minute of 18 February. The Chancellor concluded that:

(i) relief should not be given on more than 30% in total of the company's equity;

(ii) relief should be available only during the first three years of the life of the business;

(iii) the company should have only one class of share capital;

(iv) there should be no special provisions dealing with the "rescue" of a business;

(v) there should be no relief for investment by the proprietor in his own business, or by his close family;

(vi) no individual investor should be able to claim relief for investment in a single company, to the extent that would take his total shareholding over 26%;

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(vii) no individual investor should be able to claim relief in respect of more than £10,000 of investment in any one year, whether invested in one company, or more than one;

(viii) the Inland Revenue should submit to the Minister of State (Commons) on the details of the procedure for agreeing the allocation of claims in cases where more than one investor was seeking relief for investment in a single company, and the total investment for which relief was sought would be over the 30% limit mentioned in (i) above; the procedure was agreed in principle;

(ix) an investor should be able to act as director of the company, but not to accept any payment fee or salary for his services at any time during the "clawback period". (see (x) below);

(x) the relief should be withdrawn if the investor sells his shares, withdraws his capital or the conditions of the scheme are otherwise broken within 5 years of the investment;

(xi) there should be no clearance procedure;

(xii) relief should be given provisionally in suitable cases, but not in any case before it had been established (inter alia) the company had carried on a qualifying trade for not less than 12 months;

(xiii) no relief should be given on an investment in any one company of less that £1,000; but relief should be given on the <u>full</u> amount where the relief exceeded £1,000;

(xiv) The Minister of State (Commons) would consider further, in conjunction with the Inland Revenue, the case where a claimant sells his shares at arm's length market value, or where he receives certain payments from the company - in particular, the possible capital gains tax implications;

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(xv) the question of whether relief should be confined to manufacturing should be considered further, though those trades listed individually in paragraph 3.1 of the annex to Mr Pitt's minute of 17 February should be excluded;

(xvi) he was in favour of introducing the scheme, in the first instance, for a limited experimental period of three years only (though this period might n ed to be considered again in the light of decisions on other Budget measures which might have a limited life;

(xvii) he favoured the Financial Secretary's suggested name for the scheme of "Business Start-ups Scheme".

Corporation Tax

5. Following a short discussion, the Chancellor said that a reduction in the rate of corporation tax should be ruled out; it was too expensive in PSBR terms.

Construction Package

Development Land Tax

6. After a discussion, the Chancellor concluded that further consideration should be given to the options of suspending Development Land Tax and the alternative approach described in the Inland Revenu's note of 13 February, though he had a strong preference for the latter option.

Industrial Building Allowances (IBAs)

7. The Chancellor concluded, after a short discussion, that the option of increasing IBAs to 75% should be considered further, though it would probably be included in the Budget.

Investment Income Surcharge

8. There was general agreement that a reduction in Investment Income Surcharge, however well justified in economic terms, would be very difficult to justify publicly in present circumstances. The Chancellor concluded the option should be dropped.

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Energy

9. After a short discussion, the Chancellor said that Mr Wicks, in conjunction with Mr Battishill, should draft a letter to the Department of Energy to seek their views on:

(i) a possible £200 million package of energy price measures, which would probably have to be financed wholly from the Contingency Reserve;

(ii) for a speedy examination of the Frigg contract by the Attorney General to ascertain whether there was no possibility that a reduction in heavy fuel oil duty need not be followed by UK losses on the contract.

Other

10. The Chancellor agreed that the CTT deemed domicile rules for emigrants and Consortium Relief should be considered later.

C R PICKERING
20 February 1981

cc

Those present - CST
Sir Douglas Wass
Sir Anthony Rawlinson
Mr. Ryrie
Mr. Kelly (o/r)
Mr. Wren-Lewis
Mr. Folger
Mr. Tyler
Sir Douglas Lovelock

From: ALBERT McQUARRIE, M.P.

Mr Wicks

Mr Boardman for customs to deal? Mr Griffiths 1Eb 3/4

25283

HOUSE OF COMMONS
LONDON SWIA OAA

CH/EXCHEQUER
REC. - 1 APR 1981
ACTION Mr Wicks
COPIES TO Mr Cropper
PS/C+E

3/4

26th March, 1981.

Rt. Hon. Sir Geoffrey Howe, Q.C. M.P.,
Chancellor of the Exchequer,
11, Downing Street,
London. SW1.

Dear Sir Geoffrey,

Re: Rural Areas Petrol Prices.

There has been much comment that the Budget increase of 20pence in fuel tax was only bringing prices up, in real terms, to those operating in 1970.

This may well be in cities and urban towns, but in no way can it be said that this is the situation in the rural areas. I have many petrol stations in my constituency where the price of 4 star petrol is 164 pence down to 159 pence. For the purpose of illustrations I wish to make to you on this matter, I have taken the lower rate of 159 pence, even although the number of service stations in my constituency who can sell at that price are minimal.

The cost for 4 star petrol to the rural station operator is 148.7 pence per gallon. This includes an additional 0.36 pence per gallon for being an outer zone. A further small load charge is made of 0.36 pence. On this basis, allowing for the VAT payable on the profit margin, the service operator, if charging 159 pence per gallon, is left with a gross profit margin of 8.5 pence per gallon or a percentage uplift of 5.7%

Price warfare in the City of Aberdeen has reduced the sales at the service stations in the rural areas to an average of 150 gallons a day, which gives a gross profit of approximately £90.00 per week. I am sure you will appreciate that no service station which is open for 11 hours a day, 7 days a week, can operate without at least two of a staff. At the level of gross profit which I indicate, the current operation is obviously a recipe for bankruptcy for many of these rural petrol stations, and unemployment for their staffs.

1. Received in Customs: 6/4/81
2. Action: Mr. McGregor

4/4

66/4.

It is quite obvious that the major petrol companies are providing a subsidy to the city and urban town operators to the detriment of the rural area operators. Given an equivalent subsidy, I am sure many of the rural petrol stations would be quite willing to contribute part of their slender profit margin to equal the city prices and thus retain their customers, and also fulfil the role of service to the rural communities. This could only apply if the oil companies were prepared to give 5 pence per gallon subsidy and the rural operators added, say 2 pence, in an effort to reduce the pump price to that which exists in the cities and urban towns.

If, however, the major oil companies are unwilling to co-operate in giving aid to the rural petrol stations,can the Government not copy these oil companies by either carrying out a retail operation under the aegis of the B.N.O.C., or even consider retail price maintainance, for the sale of petrol. Our Party is dedicated to free healthy competition in private enterprise. It surely ceases to be healthy when the exact same product has wide fluctuations because of subsidies applied to promote and protect vested interests - and especially when this leads to discrimination against the rural petrol station operator and all who live and work in, and travel to work from, the rural communities.

While I fully appreciate and support, the urgent need to get the economy on course, I do feel that this one piece of your Budget will have a dreadul impact on the small businesses and the people in the rural areas. I do hope, therefore, that you can do something about this matter by the time the Finance Bill is brought to the 'House', especially as the oil companies are now imposing a further increase in pump prices, which makes the situation in the rural areas all the more critical.

Yours sincerely,

Dictated by Albert McQuarrie and signed in his
absence to avoid delay.

N Robertson.

(Mrs. Nina Robertson.)
PRIVATE SECRETARY.

CHANCELLOR
MR ONSLOW QUOTED FROM
IN HIS SPEECH
THIS LETTER. THE MST(C)
SUGGESTED THAT YOU SHOULD
HAVE A COPY
CF

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CHANCELLOR OF THE EXCHEQUER

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

A B J Forman Esq

30 March 1981

Dear Mr Forman

The Chancellor of the Exchequer has asked me to thank you, and Mr David King, for your recent telexes and for your letter of 13 March in which you argue the case for duty exemption for fuel used in general aviation piston-engined aircraft (AVGAS). I am replying on his behalf.

The Chancellor and other Treasury Ministers are keenly aware of the importance of the general aviation industry, and, since taking office, have carefully considered the question of the duty on AVGAS. They have concluded, however, that there would be real difficulties about changing the existing duty parity between petrol and AVGAS. The general aviation sector covers a wide range of activities including leisure and sporting flying, and Ministers feel that it would be difficult to make a general exception for aviation at a time when essential business users of petrol and DERV were being more heavily taxed.

1 Apart from arguments of equity, there are genuine problems of administration. At the prices which you quote in your telex the
2 incentive to divert AVGAS to road use is of course minimal. But the fixing of prices for petrol and AVGAS is a matter for the commercial judgment of the oil companies and their retailers: the Government cannot control price levels, and there can be no
Admin certainty that the present wide differential will remain in the
2 future. Official checks and controls to prevent the diversion of AVGAS to road use would be administratively expensive, and Ministers would find it difficult to justify them when they are anxious to keep down the size and cost of the public sector.

A scheme to give relief to particular sections of the industry would be expensive to administer and could be open to abuse. In addition, it would be very difficult to decide which aviation activities were sufficiently "worthy" to justify favourable duty treatment and which were not. Again Ministers concluded that it would be difficult to justify the administrative costs under present circumstances.

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I am sorry that I cannot send a more encouraging reply, but the Chancellor has asked me to assure you that his Budget proposals were made only after the most careful consideration of all the factors, including the impact of the duty increase on the general aviation industry.

Yours sincerely

L E Bunie

Private Secretary

PRIVATE AND CONFIDENTIAL

SECRETARY OF STATE FOR ENERGY

01-211-6402

EXCHEQUER
-6 APR 1981
CST
FST
MST C
MST L
SIR D WASS
MR RYRIE
MR MIDDLETON
MR BATTISHILL
MR UNWIN
MR WICKS
PS/C+E
MR RIDLEY
MR CROPPER
MR CARDONA

The Rt Hon Michael Jopling MP
Government Chief Whip
12 Downing Street
London SW1

6 April 1981

Dear Michael

Thank you for copying your letter of 30 March to Geoffrey Howe to me. I understand that you and he will be discussing this problem on Monday. I do of course appreciate the concern felt by our supporters on this issue, both in the House and in the country, but you may find it helpful if I set out some facts on the situation (including the answers to the detailed questions posed in your letter.)

Firstly, the problem of rural/urban price disparities is not specific to petrol. The village shop, too, is more expensive than the urban supermarket, and for very much the same reasons that the rural garage is more expensive than its urban counterpart: ie because of the need for high retail margins to compensate for a low volume of sales. As a general rule, higher prices in rural areas are the price of convenience - the convenience of purchasing goods locally, rather than driving a considerable distance to take advantage of lower prices at a low-margin/high throughput urban supermarket garage. This is the economics of the market, and it would be unrealistic to expect the Government (or anyone else) to be able to do much about it.

Secondly, the responsibility for determining retail petrol prices lies in the main with the garage operator not with the supplying oil company, and the higher prices in rural areas reflect their margins. The difference in wholesale prices charged to rural and large urban sites is generally small by comparison with the difference in retail prices. Hamish Gray raised this point when he met PIAC on 26 March. The oil companies said that the small load and zonal premia, (to which you refer in your letter) added to their basic wholesale prices for most rural deliveries, do not fully recover the extra costs involved. (The zonal premia, in particular, have not been substantially increased for nearly 30 years). A glance at the figures/ confirms this. Of a post-Budget rural price differential of 8-18p, all but 4.2p is the retailers' mark-up. Further, of

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that 4.2p only 0.8p is accounted for by the "small load premium". (The detailed position is set out in the enclosed illustrative figures for Scotland.)

We will be seeing all the main UK oil companies in order to seek their assurances that their higher wholesale charges are fully justified in relation to the costs and market circumstances involved. But it is clear from the above that there is limited scope for seeking reductions in rural petrol retail prices through reducing oil company delivery charges.

I should welcome the opportunity of being involved in any further discussion of these questions.

I am copying this letter to Geoffrey Howe, and Keith Joseph.

We spoke. Will do what we can, but the scope is limited, I fear

D A R HOWELL

Yours ever

David

ILLUSTRATIVE ANALYSIS OF SCOTTISH RETAIL PETROL PRICE DISPARITIES

	(1) Urban pre-payment self-service site ('Base' case)	PRE-BUDGET (2) Small urban attended site	(pence/gallon inc. VAT) (3) Small rural attended site
I: RETAIL PRICE	134	149	149
Extra price over base case (urban ppss site)	-	15	15
II: EXTRA PRICE CHARGED AT WHOLESALE LEVEL OVER BASE CASE			
(i) Standing rebate	/rebate is perhaps 2p/g7	1	1
(ii) Small load premium	/none7	0.8	0.8
(iii) Zonal premium	/none7	-	0.42
(iv) Selective price support	/support is perhaps 3p/g7	3	3
Total extra price at wholesale level	-	4.8	5.2p/g
III. EXTRA RETAIL MARGIN OVER BASE CASE (URBAN PPSS SITE)	-	10.2p/g	9.8p/g
IV: Extra VAT (included above) over base case	/VAT is 17.5 p/g7	1.9	1.9

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ILLUSTRATIVE ANALYSIS

OF SCOTTISH RETAIL PETROL PRICE DISPARITIES

(pence/gallon, inc. VAT)

POST-BUDGET

	(4) Urban pre-payment self-service site ('Base' case)	(5) Price range in rural constituencies	(6) Price on Scottish islands supplied by the barrel
I: RETAIL PRICE	152	160-170	188
Extra price over base case (urban ppss site)	-	8-18	36
II: EXTRA PRICE CHARGED AT WHOLESALE LEVEL OVER BASE CASE			
(i) Standing rebate	[rebate is perhaps 2p/g]	1	2
(ii) Small load premium	[none]	0.8	21 barrellage surcharge
(iii) Zonal premium	[none]	0.42	0.63
(iv) Selective price support	[support is perhaps 5p/g]	2	5
Total extra price at wholesale level	-	4.2p/g	28.6p/g
III. EXTRA RETAIL MARGIN OVER BASE CASE (URBAN PPSS SITE)	-	3.8-13.8p/g	7.4p/g
IV: Extra VAT (included above) over base case)	[VAT is 19.8 p/g]	1.1 - 2.4	4.7

Flag B

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From: ALBERT McQUARRIE, M.P.

HOUSE OF COMMONS
LONDON SWIA OAA

9th April, 1981.

Rt. Hon. Sir Geoffrey Howe, Q.C., M.P.,
Chancellor of the Exchequer,
11, Downing Street,
London. SW1

Dear Geoffrey,

As you know, the 2nd Reading of the Finance Bill will be debated on Monday, 13th April, 1981.

I regret that the Bill, as published, has made no recognition of the demand to remove the punitive tax on Fuel Duty which you imposed in your Budget Statement on 10th March, 1981, which is having such a devastating effect upon the rural areas and many other industries, such as agriculture, on which we depend to a large extent for the food we eat, and the contribution that industry makes to the export figures for the nation.

To the 20 pence per gallon imposed by the Budget, there has been added since 10th March, a further 4 pence per gallon by the Oil Companies, with the threat that yet another 4 pence will be added within the next two weeks. Such penal rises are totally unacceptable, and the Government and the Oil Companies should take steps to give some relief to those who will suffer severely from them.

As there is no opportunity on Monday, 13th April, 1981, during the 2nd Reading to make any alteration to the Clauses in the Bill, I wish to give advance notice that, if no action is taken during the Government's speeches in the Debate to indicate that the Duty on Fuel will be removed, or reduced, I will table Amendments to the Bill on Tuesday, 14th April, with a view to having the additional Duty on Fuel removed from the Bill. If during the Committee stage, there is no action on this matter, I will seek to address the House at Report Stage with a further Amendment to remove the tax. Should these steps fail, I will not be able to support the Government in the Lobby on this particular Clause in the Bill at 3rd Reading, because of the effect it is having on my constituents.

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continued.

In these circumstances, having made my position clear, I will be supporting the Government at 2nd Reading of the Bill on Monday, 13th April, 1981, as I believe in the Prime Minister's efforts to get Britain back on its feet. I do hope, therefore, that you will make an announcement during the 2nd Reading that you will either reduce, or remove, the duty on fuel which you imposed, and find the money from the sources which I have already conveyed to you, and other areas 'untapped' in your Budget Statement.

Due to the public interest on this particular issue, I am releasing this letter to the Press, to which I trust you will take no objection.

Yours ever,

Albert.

11 70

Re

PS/C/Ex
PS/CST
PS/FST
PS/MST (C)
PS/MST (L)
PS/IR
PS/C&E
Mr Corlett
Mr Griffiths
Mr C. Kelly
Mr Godfrey

NOTICES OF AMENDMENTS

given on

Monday 13th April 1981

COMMITTEE OF THE WHOLE HOUSE

FINANCE BILL

(Clauses 1, 4, 19, 23, 27, 29, 88, 89 and 122 and Schedules 1, 2 and 11)

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 88, page 75, line 24, leave out '1981' and insert '1984'.

IR

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 88, page 75, line 25, leave out subsection (3).

IR

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Schedule 11, page 162, leave out from line 3 to end and insert:—

IR

'Portion of value		Rate of tax
Lower limit	Upper limit	Per cent.
£	£	
0	40,000	NIL
40,000	50,000	15
50,000	60,000	17½
60,000	80,000	20
80,000	100,000	22½
100,000	120,000	27½
120,000	150,000	35
150,000	200,000	42½
200,000	250,000	50
250,000	300,000	55
300,000	500,000	60
500,000	1,000,000	65
1,000,000	2,000,000	70
2,000,000	—	75'

3 K

Finance Bill *continued*

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 4, page 3, line 2, leave out '£0·1382' and insert '£0·115'. CLK

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

CLK

Clause 4, page 3, line 2, at end insert 'in the case of light oil as defined in section 1 of the Hydrocarbon Oil Duties Act 1979 and £0·115 in the case of heavy oil as there defined.'.

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 89, page 76, line 26, leave out subsection (1). IR

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 89, page 76, line 32, leave out 'ten' and insert 'two'. IR

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 89, page 76, line 37, leave out 'ten' and insert 'two'. IR

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 89, page 76, line 42, leave out 'ten' and insert 'two'. IR

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 27, page 15, line 12, leave out subsection (1). IR

Finance Bill *continued*

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 27, page 15, line 17, leave out subsection (2). IR

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

CE

Clause 1, page 1, line 21, leave out "£18·00" and "£0·60" and insert "£15·00 and "£0·70".'.

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 19, page 12, line 6, at end insert:— IR

'(*a*) in respect of so much of an individual's total income as does not exceed £900 at the rate of 25 per cent.'.

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 23, page 13, line 8, leave out subsection (1). IR

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

IR

Clause 23, page 13, line 9, after '1981-82', insert 'except for age allowance'.

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

IR

Clause 23, page 13, line 9, after '1981-82', insert 'except for income limit for age allowance'.

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

IR

Clause 27, page 16, line 10, leave out from first 'the' to 'and' in line 14 and insert 'amount specified in paragraph (*a*) above'.

Finance Bill *continued*

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

JR

Clause 27, page 16, line 15, leave out 'the' and insert 'amount specified in paragraph (*a*) above'.

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

JR

Clause 27, page 17, line 16, leave out from 'section' to end of line 17 and insert 'shall not have effect until the Secretary of State lays before Parliament the draft of an order increasing unemployment benefit by the percentage deducted under section 1 of the Social Security (No. 2) Act 1980'.

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

JWR

Clause 27, page 17, line 16, leave out from 'section' to end of line 17 and insert 'shall not have effect until legislation is laid before Parliament to provide for the taxation of those other benefits subject to a deduction under section 1 of the Social Security (No. 2) Act 1980'.

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

JWR

Clause 29, page 18, line 38, after '1977', insert 'which is taxable by virtue of section 27 above'.

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

JWR

Clause 29, page 18, line 35, leave out paragraph (*a*).

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

JWR

Clause 29, page 18, line 35, leave out 'unemployment benefit or'.

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Finance Bill continued

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 29, page 18, line 35, leave out from 'benefit' to 'in' in line 38. JR

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 29, page 18, line 38, leave out 'including that time' and insert 'covering that same period'. JR

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 29, page 18, line 40, leave out paragraph (*b*). JR

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 29, page 19, line 5, after 'regulation', insert 'which, without prejudice to the generality of section 204 of the Income and Corporation Taxes Act 1970, shall be subject to an affirmative resolution of the House of Commons'. JR

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

Clause 29, page 18, line 40, leave out from 'is' to end of line 4 on page 19 and insert 'in receipt of supplementary allowance reduced by application of section 8 of the said Act of 1976 (trade disputes) and paragraph 10 of Schedule 2 to the Supplementary Benefit (Requirements) Regulations 1980 applies to him.'. JR

Mr David Steel
Mr Richard Wainwright
Mr A. J. Beith
Mr Cyril Smith
Mr David Penhaligon
Mr David Alton

Clause 4, page 3, line 2, leave out from 'for' to end of line and insert 'for a duty of excise at the rate of £0·10 a litre there shall be substituted "a duty of excise at the rate of £0·1095 a litre in the case of light oil and £0·10 a litre in the case of heavy oil".'.

Mr David Steel
Mr Richard Wainwright
Mr A. J. Beith
Mr Cyril Smith
Mr David Penhaligon
Mr David Alton

IR

Clause 19, page 12, line 22, leave out from 'not' to end of line and insert 'apply for the year 1981-82 only as regards the basic rate limit.'.

Mr David Steel
Mr Richard Wainwright
Mr A. J. Beith
Mr Cyril Smith
Mr David Penhaligon
Mr David Alton

IR

Clause 23, page 13, line 8, leave out subsection (1).

Dr David Owen
Mr William Rodgers
Mr John Horam
Mr Christopher Brocklebank-Fowler
Mr Ian Wrigglesworth
Mr John Roper

Clause 4, page 3, line 2, leave out '£0·1382' and insert '£0·1191'. CE

Mr T. H. H. Skeet
Mr Robin Maxwell-Hyslop
Mr Eldon Griffiths

CE

Clause 4, page 3, leave out lines 1 and 2 and insert:—

'4.—(1) In section 6(1) of the Hydrocarbon Oil Duties Act 1971 for "£0·10" there shall be substituted "£0·1191".'.

Mr T. H. H. Skeet
Mr Keith Stainton
Mr Paul Hawkins
Mr Kenneth Lewis
Mr Eldon Griffiths
Mr John Loveridge

CE

Clause 4, page 3, leave out lines 1 and 2 and insert:—

'4.—(1) In section 6(1) of the Hydrocarbon Oil Duties Act 1979 for the words "a duty of excise at the rate of £0·10 a litre" there shall be substituted the words "a duty of excise at the rate of £0·1382 a litre in the case of light oil and £0·1191 a litre in the case of heavy oil".'.

Mr Tom Hooson

CE

Clause 4, page 3, line 2, leave out from 'for' to end of line and insert 'for the words "a duty of excise at the rate of £0·10 a litre" there shall be substituted the words "a duty of excise at the rate of £0·1382 a litre in the case of light oil and £0·1285 a litre in the case of heavy oil".'.

Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Mr Ryrie
Mr. Burns
Mr. Middleton
Mr. Battishill
Mr. Unwin
Mrs. Gilmore
Mr. Griffiths
Mr. Ridley
Mr. Cropper

PS/Chief Whip

73

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

13 April 1981

Eldon Griffiths, Esq., MP
House of Commons

Dear Eldon

Thank you for writing to me on 12 March to make clear the basis of your concern on the Budget proposals on petrol taxation.

I quite understand the strong feelings that this proposal has evoked, and I know that the increase in the duty on petrol will bear heavily on some individuals. I should, however, point out that the proposed increase in petrol duty will do no more than restore the tax burden (duty and VAT together) to its 1970 level in real terms and that, even after the increase, pump prices in this country are broadly comparable with those in the majority of other European Community countries. Moreover, as far as rural motorists are concerned, independent studies suggest that although on average they drive about 10 per cent more miles per annum than their urban counterparts, they can expect to get a higher mileage per gallon owing to less congested conditions.

As I stated in my Budget speech, I regard it as crucially important this year that Government borrowing should be cut. The question is therefore essentially one of resources. It may be helpful if I comment in some detail on the points which you have raised.

On the expenditure side, you express disappointment that public spending is still going up. I should point out that for both 1979-80 and 1980-81 we have achieved a reduction of about 3½ per cent from the plans of the previous Government. As you acknowledge, the recession has been deeper than expected and this has put upward pressure on expenditure. Partly to offset these pressures, I announced on 24 November last year further reductions for 1981-82 of almost £1½ billion, and the plans published on Budget Day show a level of expenditure in that year almost 5 per cent lower than the previous Government planned.

Similarly, our decisions for the future are designed to ensure that the volume of spending falls after 1981-82. The Public Expenditure White Paper shows a planned fall of 4 per cent by 1983-84 and we have made it clear that we shall be looking hard at the possibility of further reductions in those plans.

/You suggested

You suggested a number of specific areas where savings might be found. I am afraid that many of these could not in practice be expected to yield significant savings of the scale which would be required to fund a halving of the petrol increase. A 5 per cent saving in the external financing limits for BSC and BL in 1981-82 would not really help in this context. In the case of BSC, for example, such a saving would amount to about £35 million. Moreover, the £730 million limit fixed for BSC reflects the very minimum we judge necessary to give the Corporation a last chance to become profitable and to cease to be a burden on the taxpayer. Similarly, postponing the Fourth Channel and Breakfast TV would postpone not only the small short term reductions which may be expected in the revenue from the TV levy, but also the increased revenues which may be expected once they become fully operational. Moreover, the size of the sums involved are again relatively modest - the total revenues from the levy on the independent television companies amounting to no more than £40 million.

On public service pay, I think we must remember that we are now two-thirds of the way through the "pay round". Settlement levels for the main public sector groups, such as local authority manuals and teachers, are already below the average even for manufacturing industry; and there must be some doubt in practical terms whether we could continue to allow special treatment for the armed forces and police, and yet force down further settlements for such groups as doctors and nurses by reducing the pay element already provided for in cash limits. On pensions, even if we thought it right to discriminate in the way you suggest, and it were found possible to overcome the practical problems which would be involved, the expenditure savings which would result from tapering the pensions of newly retiring civil servants eligible for more than £10,000 would be miniscule, since only 0.4 per cent of all existing civil servant pensioners receive pensions above that figure.

There would be similar difficulties in obtaining significant additional revnue from the sources you suggest in the tax area. In particular, the scope for obtaining additional revenue from the betting and gaming duties on top of the significant revisions and increases announced last year would be very limited.

I am sorry that this reply has been necessarily lengthy. But I very much hope that in the light of the arguments that have unfolded you will agree that, harsh as the petrol duty increase may seem, I had few alternatives within the context of the Budget as a whole.

GEOFFREY HOWE

PS/Chancellor
PS/CST
PS/FST
PS/MST (C)
PS/MST (L)
PS/IR
PS/C&E
MR Corlett
Mr Griffiths
Mr C Kelly
Mr Godfrey

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S.C.

NOTICES OF AMENDMENTS

given on

Tuesday 14th April 1981

For other Amendments see the following pages of Supplement to Vot
11-15

STANDING COMMITTEE

FINANCE BILL

(Except Clauses 1, 4, 19, 23, 27, 29, 88, 89 and 122 and Schedules 1, 2 and 11)

Relief for spouses' residences

Mr Robin Maxwell-Hyslop

To move the following Clause:—

IR.

'The existing concession whereby capital gains tax is not payable on the capital gain accruing from the sale of a taxpayer's principal residence if the proceeds are expended on the purchase of another principal residence to replace it, shall be extended to the proceeds of a spouse's sale of residence as well, where the Inland Revenue are satisfied that the following conditions are met—

(*a*) Both spouses are assessed and taxed separately for income tax purposes;

(*b*) That the locations of the two spouses' normal places of work are at least thirty miles apart, and it is therefore reasonable for them to live in separate residences while working;

(*c*) That the two spouses, on ceasing to meet the condition (*b*) above, wish to sell their separate residences in order to purchase one residence for their joint occupation;

(*d*) Both such separate residences are sold, and a replacement single residence purchased within a period of one year.'.

D

PS/Chancellor
PS/CST
PS/FST
PS/MST (C)
PS/MST (L)
PS/IR
PS/C&E
MR Corlett
Mr Griffiths
Mr C Kelly
Mr Godfrey

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NOTICES OF AMENDMENTS

given on

Wednesday 15th April 1981

For other Amendment(s), see the following page(s) of Supplement to ...
425-31

COMMITTEE OF THE WHOLE HOUSE

FINANCE BILL
(Clauses 1, 4, 19, 23, 27, 29, 88, 89 and 122 and Schedules 1, 2 and 11)

Mr Albert McQuarrie

Clause **1**, page **1**, line **21**, leave out '" £18·00" and "£0·60" and insert '"£20·50" and "£0·69"'. C&E

Mr Albert McQuarrie

Clause **4**, page **3**, line **2**, leave out '"£0·1382" and insert "£0·1191"'. C&E

Mr Albert McQuarrie

Clause **4**, page **3**, line **2**, leave out 'for "£0·10" there shall be substituted "£0·1382"' and insert '"£0·10" shall remain as defined in this section of the Act'. C&E

Mr Albert McQuarrie

Schedule **1**, page **105**, line **6**, leave out '"£95·20"' and insert "£100·90"'. C&E

Mr Stephen Ross

Clause **4**, page **3**, line **4**, at end add 'except that this section shall not apply to the Isle of Wight.'. C&E

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MR GORDON

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (L)
Minister of State (C)
Sir Douglas Wass
Mr Ryrie
Mr Middleton
Mr Dixon
Mrs Woods
Mr Cardona

15 April 1991

GOVERNMENT STATEMENT ON LEAD IN PETROL

As you know Ministers agreed at E(EA) last Thursday that regulations to reduce the lead content of petrol should be introduced. According to the minutes of the meeting E(EA) agreed that the Secretary of State for the Environment should make an oral statement as soon as possible after the Easter Recess.

2. I understand that at your morning meeting the next day, you expressed concern that an announcement about reducing lead in petrol, which, inter alia, revealed that, petrol prices would consequently rise, might diminish the chances of getting agreement to the proposed excise duty increase on petrol in the Finance Bill. You therefore suggested that a delay in the lead in petrol statement might be desirable.

3. As you are no doubt aware, the decision on lead in petrol was 'leaked' in the Observer on Sunday. Other newspapers have taken up the story since. While the position adopted by Departments at official level (the original leak seems to stem from an official paper) have been seriously misrepresented - particularly the Treasury line - the broad outline of the forthcoming statement has been correctly surmised. It is stated that price rises will result; and their order of magnitude has been correctly put at 2p-4p per gallon though their timing has not been made clear.

4. We approached DOE officials on the possibility of postponing the statement last Friday. They were unwilling to try and persuade Mr King to delay the statement.

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5. However following Sunday's developments we are now inclined to take the view that it would be better to have Mr King's statement made as originally planned (April 28) ie before the vote on the relevant section of the Finance Bill. The statement would make it clear that there will be a rise in petrol prices - the inevitable cost of improving our environment. But that rise will be very modest in size, spread over a number of years and will not even come into effect before 1985.

6. By being open about the costs of moving to lower lead petrol in advance of the debate, we can hope to prevent exaggerated claims about the size and timing of the associated rise in petrol prices as part of the campaign against the excise duty increase. To some extent of course it must be admitted that the simple direction of the effect on petrol prices reinforces the argument; but we can respond that the timing (1985 onwards) of the increase makes it largely irrelevant to the immediate excise duty increase being considered.

7. Accordingly we suggest that there could be disadvantages in postponing the lead in petrol statement. If you are therefore content not to press the possibility of delay we will so inform DOE officials.

Barry H. Potter

BARRY H POTTER
15 April 1981

CONFIDENTIAL

pup c. Mr Gordon Mr Potter 21/4 79

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

16 April 1981

CHANCELLOR OF THE EXCHEQUER

Ian. Useful analysis of the factors, which may well be relevant later – not now.

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir D Wass
Mr Ryrie
Mr Middleton
Mr Battishill
Mr Burgner
Mr Dixon
Mr Griffiths
Mr Ridley
Mr Cropper
Mr Cardona

LEAD-FREE PETROL: POSSIBLE DUTY CONCESSION

1. On 10 April you asked for a note on the possibility of granting a tax concession for lead-free petrol to encourage its wider use.

Position in USA

2. We have been unable to establish fully the position in the USA to which you refer. There is no federal tax concession for lead-free petrol, and, while we have no comprehensive information about the practice in individual States, the US Embassy is not aware of any State which offers a tax concession. We are trying to obtain further information from the Department of Energy. We do know, however, that there is a federal requirement that all vehicles registered for the first time after a certain date should be designed to operate on lead-free petrol.

A duty concession for lead-free petrol

3. There would be no administrative problem about a differential rate of duty for lead-free petrol. The revenue cost would depend

on the size of the duty differential and the extent of the switch to lead-free vehicles.

4. The size of a differential designed to encourage a switch to lead-free petrol would have to take into account a number of factors. Consumers would have to pay more, either because the fuel would cost more per gallon to produce and/or because more fuel would be required for a given mileage in a particular car (see paragraph 5). The cost to the oil companies of marketing lead-free and leaded petrol side by side (in providing separate refining, distribution and retail storage facilities) would also add to retail prices. In addition, lead-free engines, because of the heavy investment cost, would initially cost more to purchase. A duty differential designed to compensate consumers for all these factors, and to provide some additional incentive to move to lead-free petrol, could be expensive.

Difficulties of an early switch to lead-free petrol

5. There are a number of difficulties about an early switch to lead-free petrol. A compulsory switch is prohibited by a 1978 EC Directive which lays down a range (0.40-0.15 grams/litre) within which Member States must prescribe the maximum lead content of petrol. There is an energy penalty in that about 5% more crude oil would be required to produce lead-free petrol. The existing UK vehicle fleet is unsuited to running on lead-free petrol, and there would be a considerable period before suitable lead-free engines could be designed and put into mass production here. In the short term, would-be users of lead-free petrol would have to turn to Japanese or American vehicles. It is our understanding that the lack of suitable European lead-free vehicle models is influential in maintaining the range of limits prescribed in the EC Directive.

Duty differential versus mandatory measures

6. Because the present vehicle population cannot run on lead-free petrol and because cars on average last for over 10 years, the switch to lead-free petrol would have to be a gradual process. A duty differential might be a useful incentive to begin the changeover, but it is doubtful if it should be a long term instrument. As greater numbers of motorists switched to lead-free petrol, there would be complaints that less well-off consumers with their older cars were discriminated against by the higher rate for leaded petrol (which would have to be substantially increased if petrol were to maintain its revenue contribution). Mandatory measures, as for example those operated in the USA, would be a more effective long term instrument; they would also avoid the complaint that those to whom petrol costs are unimportant (eg because they are supplied with free petrol by their employers) are not discourage from practices which are harmful to the nation's children.

Reduction in the lead content of petrol

7. Because of the industrial and energy objections, any move to encourage lead-free petrol may seem an unattractive proposition at present. We understand, however, that plans are under discussion in E(EA) to reduce the prescribed lead content in petrol to the EC minimum of 0.15 grams/litre. This would increase the costs of petrol production; the effective additional cost for consumers, if the octane rating remains unaltered, is estimated to be 3-4p per gallon.

8. It would be administratively possible to apply a lower duty rate to petrol with the minimum lead content: if the differential

were 4p per gallon, the revenue cost would be up to £180 million (if all motorists used the lower leaded petrol). Some motorists might well continue to favour petrol with a higher lead content if it were still available at the same price as petrol with the lower lead content, and a duty differential might therefore take several years to achieve an acceptable reduction in atmospheric pollution. A mandatory measure could have an immediate effect and would put no direct cost on the Exchequer.

AJP

A J PHELPS

Internal Circulation: CPS
Mr Freedman
Mr McGuigan
Mr Howard
Ms Barrett

Clerks
Previous pps pl (with you)

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CHIEF SECRETARY TO THE TREASURY

~~PRINCIPAL~~ PRIVATE SECRETARY

cc Financial Secretary
Minister of State(C)
Minister of State(L)
Sir Douglas Wass
Mr Ryrie
Mr Middleton
Mr Dixon
Mrs Woods
Mr Gordon
Mr B H Potter
~~Mr C~~ardona

GOVERNMENT STATEMENT ON LEAD IN PETROL

The Chief Secretary has seen Mr Potter's minute of 15 April. He is by no means sure that the statement on lead should be made before the Committee Stage Debate on Clause 4 of the Finance Bill (probably on 30 April, or possibly on 5 May), and suggests that Treasury colleagues should discuss the issues.

TM

T F MATHEWS
16 April 1981

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cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir D Wass
Mr Ryrie
Mr Middleton
Mr Dixon
Mrs Woods
Mr Cardona
Mr Gordon

MR POTTER

GOVERNMENT STATEMENT ON LEAD IN PETROL

The Chancellor has seen your minute of 15 April and agrees with your assessment that there might be disadvantages in postponing the lead in petrol statement. He is therefore content not to press the possibility of delay and for you to so inform DOE officials.

PSJ

P S JENKINS
16 April 1981

PETROL AND DERV

Chancellor
SL. 29/6

FOR ANSWER ON THURSDAY 16 APRIL 1981

TREASURY

ANSWERED ON WEDNESDAY 29 APRIL 1981

C - Birmingham, Selly Oak

No. 38W MR ANTHONY BEAUMONT-DARK: To ask Mr Chancellor of the Exchequer, further to his Answer to the honourable Member for Birmingham, Selly Oak on 23rd March, Official Report, columns 232-236, if he will give estimates of the typical post-Budget price per gallon of petrol and derv at March 1981 prices, for the dates given in that Answer.

MR PETER REES

Pursuant to his reply of Thursday 16 April. (C01 221)

The information is as follows:

PETROL PRICES SINCE 1950 AT MARCH 1981 PRICES

Year	Date of Budget, tax or duty change	Post-Budget RPI Jan '74=100	Typical post-Budget price per gallon at current prices (1) p	Typical post-Budget price per gallon at March'81 prices p
1950	18 April *	33.0	15.0	129
1951	10 April *	35.0	17.5	142
1952	11 March *	39.2	21.1	153
1953	14 April	40.6	22.1	155
1954	6 April	41.0	22.3	154
1955	19 April	42.4	22.7	152
1956	17 April	45.5	22.9	143
	4 December *	45.9	30.2	187
1957	9 April *	46.4	25.6	157
1958	15 April	48.5	23.3	136
1959	7 April	48.6	23.5	137
1960	4 April	48.9	23.5	136
1961	17 April	50.3	23.5	133
	26 July *	51.3	24.4	135
1962	9 April	53.1	24.4	131
1963	3 April	54.2	23.8	125
1964	14 April	55.8	23.8	121
	11 November *	56.7	26.5	133
1965	6 April	58.4	25.8	125
1966	3 May	60.9	26.0	121
	21 July *	61.2	27.9	129
1967	11 April	62.3	26.9	123
1968	19 March *	65.1	29.4	128
	22 November *	66.9	31.4	133
1969	15 April *	68.7	32.3	134
1970	14 April	72.5	32.7	128
1971	30 March	79.4	34.5	123
1972	21 March	84.4	35.0	118
1973	6 March	90.4	36.5	115
1974	1 April ++	106.1	55.0	147
	29 July +	109.8	54.0	140
	18 November +	116.9	62.5	152
	18 December **	119.9	72.5	172
1975	15 April	134.5	72.5	153
1976	9/12 April *+	153.5	77.0	142
1977	29 March*	180.3	89.5	141
	8 August*	184.7	78.0	120
1978	11 April	194.6	80.0	117
1979	12/18 June*+	229.1	110.0	136
1980	26 March*	260.8	132.0	144
1981	10 March*	284.0	152.0	152.0

* Duty change

\+ change in VAT rate

++VAT introduced 1.4.74

**abolition of temporary price control

(1) Estimated price of petrol is approximate particularly in the earlier years

DERV PRICES SINCE 1950 AT MARCH 1981 PRICES

Year	Date of Budget, tax or duty change	Post-Budget RPI Jan '74=100	Typical post-Budget price per gallon at current prices (1) p	Typical post-Budget price per gallon at March '81 prices p
1950	18 April*	33.0	13.2	114
1951	10 April*	35.0	15.8	128
1952	11 March*	39.2	19.6	142
1953	14 April	40.6	19.4	136
1954	6 April	41.0	19.9	138
1955	19 April	42.4	20.3	136
1956	17 April	45.5	20.5	128
	4 December*	45.9	27.6	171
1957	9 April*	46.4	23.1	141
1958	15 April	48.5	21.6	126
1959	7 April	48.6	22.2	130
1960	4 April	48.9	22.0	128
1961	17 April	50.4	22.0	124
	26 July*	51.3	23.2	128
1962	9 April	53.1	23.2	124
1963	3 April	54.2	20.9	110
1964	14 April	55.8	20.9	106
	11 November*	56.7	25.7	129
1965	6 April	58.4	25.7	125
1966	3 May	60.9	25.7	120
	21 July*	61.2	27.5	128
1967	11 April	62.3	27.4	125
1968	19 March*	65.1	28.2	123
	22 November*	66.9	31.9	135
1969	15 April*	68.7	32.6	135
1970	14 April	72.5	32.0	125
1971	30 March	79.4	34.0	122
1972	21 March	84.4	34.5	116
1973	6 March	90.4	37.0	116
1974	1 April++	106.1	54.5	146
	29 July+	109.8	53.5	138
	18 December**	119.9	55.0	130
1975	15 April	134.5	54.0	114
1976	9 April*	153.5	67.5	125
1977	29 March*	180.3	83.5	132
1978	11 April	194.6	84.1	123
1979	12/18 June*+	229.1	116.5	144
1980	26 March*	260.8	134.9	147
1981	10 March*	284.0	161.5	161.5

* Duty change

\+ change in VAT rate

++VAT introduced 1.4.74

**Abolition of temporary price control

(1) Estimated price of DERV is approximate particularly in the earlier years

88

pwp

H M Treasury
Parliament Street London SW1P 3AG
Switchboard 01-233 3000
Direct Dialling 01-233 8178

Ms Judith Simpson
PS/Customs and Excise
Kingsbeam House
Mark Lane
London EC3

21 April 1981

MR MAXWELL-HYSLOP, PETROL AND DERV

We spoke about Mr Tolkien's minute of 16 April. I suggest the following contribution on Concorde:

"On Concorde the Government is considering urgently the Conclusions of the Second Report of the Industry and Trade Committee but there is no prospect of immediate savings of the £30 million you mentioned, which is the total forecast net expenditure on Concorde in 1981/82."

(I P WILSON)

Copied to: Mr Hansford
Mr Tolkien

B

SECRET

Pl copy urgently to Mr Ryrie / Mr Wicks 24/4
JW 24/4

89

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

23 April 1981

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir D Wass
Mr Middleton
Mr Battishill
Mr Unwin
Mr Cropper
Mr de Waal

A helpful analysis: however, see my comments. The Chief Whip & Ch ADAL should be briefed about the options etc before we meet with them on Monday. And all will need to see the industrial case for keeping the DERV cut down to 5p (still awaited)

DUTY REDUCTION FOR DERV

1. You asked for a paper on the operational implications of two possible options for duty changes, as follows:-

a. 5p per gallon reduction in the duty (and VAT) on derv; and

b. 10p per gallon reduction in the duty (and VAT) on derv, accompanied by a 1p per pint increase in the duty and VAT on beer.

2. This paper discusses possible operational dates for the changes and possible dates for resolutions and for the announcement of Government intentions. The paper assumes that the first two days of Committee Stage of the Finance Bill will be 30 April and 5 May; and that Clause 4 (oil) will probably be taken on 30 April, followed by Clause 1 (drink) on 5 May, thus allowing you to participate both in the debate on the oil duty and at the inauguration on 5 May of the Business Opportunities Programme. We have not considered at this stage the implications of the possible deferment until later in May of the Committee Stage debates on the revenue duties.

NOTE ON OPERATIONAL IMPLICATIONS OF OPTIONS FOR DUTY CHANGES

Internal circulation:

CPS
Mr Phelps (OR)
Solicitor
Mr Howard
Mr Packman
Mr McGuigan (OR)

SECRET

90

SECRET

Operational Date for 5p Reduction

3. We assume that in practice there are only two likely dates for a 5p reduction in the derv duty - (a) 30 April/early May or (b) early August after Royal Assent.

4. The earlier date would increase from £40 million to £60 million the revenue loss in 1981-82 and hence the effect on the PSBR. On the other hand, it would benefit businesses earlier and could thus be more attractive to Government backbenchers than a duty reduction deferred until August.

5. A reduction of 5p per gallon for derv announced in April or May but operative only from early August could disturb the distribution of derv in the period immediately before the date of the duty reduction. Garages would obviously seek to take deliveries immediately after the change rather than earlier; and this could lead to some shortages. This factor could well lead to pressure for the introduction in the Finance Bill of a duty relief scheme* for stocks of derv in garages etc at the time of the duty reduction - on the lines of that introduced for petrol in August 1977 by section 4(6) of the Finance Act 1977. However, we would advise that pressure for such a scheme should be strongly resisted. Many garages charged higher prices on existing stocks from Budget night and they should not be further benefitted by repayment of duty on stocks held when the rate was reduced. In 1977, the logical arguments for duty relief were much stronger because price control provisions then in force had required garages not to increase the prices of the stocks held in their tanks at the time of the Budget announcement. Our view is that a 5p per gallon reduction for derv in August should not lead to serious disruption in distribution even in the absence of a duty relief scheme - though there might well be well-publicised isolated shortages.

* costing up to £3 million

SECRET

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6. The arguments for an earlier or later operational date for a 5p reduction on derv are thus well balanced. The later date would reduce the effect on the PSBR and would thus be preferable (despite the possibility of subsequent controversy on a retail stocks scheme) unless it is considered desirable to enhance the attractiveness of the duty reduction by immediate implementation.

Operational Date for 10p Reduction/1p Increase

7. We would recommend that any reduction in the duty on derv which is counterbalanced by an increased duty on beer should have - effectively - a single operative date. The only objection to this is that, with a single operative date a 1p increase on beer is not quite enough to pay for a 10p reduction in derv. With a 30 April/early May change, 10p off derv costs £120 million whereas 1p on beer raises only an extra £80 million; with an August change the figures would be £85 million and £55 million. By analogy with a 5p cut in derv you will probably feel that a £30/£40 million shortfall is tolerable. The alternative, of increasing beer from early May but postponing the derv reduction until August would be very difficult to present to the House (quite apart from the practical problem referred to in the next paragraph).

8. Despite the smaller effect on the PSBR, and the other possible advantages of deferment, we must recommend against delaying until August a 10p reduction in the duty on derv announced in April or May. A duty relief scheme for retail stocks could not be justified for the reasons set out in paragraph 6 above. However, in the absence of a retail stocks relief scheme there would be a real danger that some garages would let their derv tanks run dry before a 10p per gallon reduction was due to come into force, rather than accept a delivery which they might have to sell subsequently at a loss, their margin being below 10p per gallon. Some lorries would then find it difficult to obtain fuel to complete their journies.

But what Aug 1, with a duty relief scheme, for (say) £4m cheaper than May 1 without? Still unjustifiable?

92

9. The brewers ought not to be especially inconvenienced by a duty increase which is operative without delay (though obviously they would favour long deferment). Duty on UK beer is charged on the "worts" immediately before fermentation commences and brewers would thus have a margin of time in which to announce consequential changes in retail prices.

10. Accordingly, we recommend that a 10p reduction/1p increase should be made operative without delay.

Parliamentary Procedures

11. A resolution would be essential for any increase in the beer duty. A separate resolution would be desirable for any reduction in the derv duty which is to be operative before Royal Assent. Legally, no duty reduction could be effective before Royal Assent in the absence of a new resolution; but the Department could be authorised instead to waive extra-statutorily the collection of the amount of the duty reduction between the operative date and Royal Assent (rather than adopt the theoretical procedure under which we would collect that amount and repay it to the oil companies after Royal Assent, in accordance with the provisions of the Provisonal Collection of Taxes Act 1968). No resolution would be needed for a reduction in the derv duty operative after Royal Assent.

12. A resolution would cease to be effective if its provisions were not the subject of an amendment to the Finance Bill passed within the next 25 sitting days. To meet this 25 sitting days deadline it would seem necessary for any resolution to be passed before the relevant clause is debated at Committee Stage. Subject to the views of the Whips, it would seem that Parliamentary business might be re-organised so as to allow a resolution to be moved and debated immediately before a Committee Stage debate was due to take place on the Floor of the House. We understand that each resolution might be the subject of a $1\frac{1}{2}$ hour debate.

13. It would be essential that a Committee Stage amendment reducing the duty on derv should provide legal cover for the charge of the full Budget increase from 10 March up to the operative date of the reduction. Otherwise the oil companies would be entitled after Royal Assent to claim repayment of the excess of duty - which they would be unable to pass on to many of the road hauliers who had actually borne the burden of that duty.

Announcement of Government Intentions

14. It would of course be possible for the Government to defer until the end of a Committee Stage debate its acceptance of a backbench amendment which had been drafted to provide for a reduction in the duty on derv of an appropriate amount, from a suitable operative date and with legal cover for the charge for the full Budget increase from 10 March to that operative date (on the lines discussed in the previous paragraph). However, this would not be practicable if a resolution is required. (Moreover, no suitable amendment has yet been put down.)

But I hope stable amdts for all options discussed are in draft?

15. In practice, Government acceptance of a backbench amendment would seem to be an option available only for a 5p reduction for derv - and one operative after Royal Assent unless an extra-statutory concession is to be authorised (as discussed in paragraph 11 above). If a backbench amendment for a 10p reduction were to be accepted on 30 April it would conceivably be possible to move a resolution for a compensating beer duty increase on 5 May before the debate on Clause 1 (drink); but it must be borne in mind that 4 May will be a Bank Holiday and that the timetable would be very tight. Moreover, we have recommended above that a 10p reduction/1p increase should be operative without delay and this implies that the oil duty change ought also to be the subject of a resolution - but one passed before the Committee Stage debate on the oil duties. It would seem excessively untidy to have a resolution for the beer duty

This strikes me as much the most convenient, if we have to go down this road: is "untidiness" the only objection? That wd. not seem to be overwhelming

with an extra-statutory concession for the duty on derv; and we cannot recommend a timetable based on acceptance of a backbench amendment which would produce this result.

Again! Sufficient reasons wd. like the option of avoiding any prior announcemt.

16. In the circumstances, we recommend that a decision to adopt the 10p reduction/1p increase option should be the subject of a prior Government announcement. We envisage that this might be made on Wednesday 29 April, thus allowing re-organisation of the business of the House on 30 April to deal with any resolutions.* The same timetable should of course be available for the 5p reduction option if a prior announcement should be preferred to Government acceptance of a suitable backbench amendment.

Detailed Implementation

17. If a prior announcement were to be made on Wednesday 29 April, the changes could be operative from 30 April - at 6.00pm for any derv duty decrease and from midnight for any beer duty increase. Customs would require notification by the morning of 28 April of the details of the changes but the exercise could of course be aborted. If essential, Customs could prepare for two alternative schemes provided that these had been precisely identified by the morning of 28 April and the final selection notified by 9.30am on 29 April. A serious upsurge of industrial action might make it difficult to implement the duty changes smoothly but it is believed that major problems should be avoided in practice.

18. If it were to be decided to operate the derv duty reduction from 6.00pm on 30 April, it could be the subject of adverse comment if the House were to fail to approve the appropriate resolution until after that time (even by only a brief period). The Whips would no doubt bear in mind the need to avoid this happening. We understand that the subsequent legality of the

* It would be irrelevant whether the debate on the resolutions was followed by the Committee Stage debate on Clause 1 (drink) or Clause 4 (oil)

95

resolution would be unaffected by delayed approval; and we would not expect any practical problems to arise in this context.

19. Government acceptance of a backbench amendment for a 5p reduction for derv might well not take place until late in the evening of 30 April. In these circumstances, we would recommend that the operative date for the derv duty reduction be no earlier than 6.00pm on 1 May (and we would envisage that there would be no change in these circumstances in the beer duty).

20. There remains the operative date for a possible derv duty reduction after Royal Assent. In 1977 the petrol duty was reduced from 6.00pm on the Monday after the latest possible date for Royal Assent. Following this precedent, we would suggest 6.00pm on 10 August for a "post Royal Assent" option.

This might – if we go this far – look like sharp practice: Aug! ... seems to be the date on people's lips

Revenue Effects

21. The revenue implications of the various duty changes discussed in this paper are summarised in the annexed table.

Treasury Views

22. This note has been agreed in outline with FP.

Summary

23. A 5p reduction for derv could:-

- a. operate from 30 April/early May or from 10 August; and
- b. be introduced either by a Government initiative or by acceptance of a suitable backbench amendment.

We recommend that a 10p reduction for derv accompanied by a 1p increase for beer should:-

- a. operate from 30 April (6.00pm for derv, midnight for beer;
- b. be introduced by resolutions and associated Government amendments to the Finance Bill; and
- c. be the subject of an announcement on 29 April.

96

It would be helpful if a final decision were to be reached by the morning of 28 April; but we could prepare for two alternative schemes and would then need final selection by 9.30am on 29 April.

CF

C FREEDMAN

DUTY CHANGES 1981/82 POST BUDGET

	VAT inclusive duty change (pence)	1st Year revenue implemented from: 1 May (£m)	1st Year revenue implemented from: 1Ø August (£m)	Full year revenue (£m)
Derv (per gallon)	- 5p	- 60	-40	- 65
	-10p	$\boxed{-120}$	$\boxed{-85}$	-130
		105		
Beer (per pint)	+ 1p 703.4h	+ 80 1½	$\boxed{+55}$	+95
			+ 30 on ...	

APRIL 1981

PS/Chancellor
PS/CST
PS/FST
PS/MST (C)
PS/MST (L)
PS/IR
PS/C&E
MR Corlett
Mr Griffiths
Mr C Kelly
Mr Godfrey

98

S.C.

NOTICES OF AMENDMENTS

given on

Monday 27th April 1981

For other Amendment(s), see the following page(s) of Supplement to Votes:
11-21

STANDING COMMITTEE

FINANCE BILL

(Except Clauses 1, 4, 19, 23, 27, 29, 88, 89 and 122 and Schedules 1, 2 and 11)

Mr Leon Brittan

To move, That the order in which proceedings in Standing Committee on the Finance Bill are to be taken shall be Clauses 2 and 3, Clauses 5 to 7, Schedule 3, Clause 8, Schedule 4, Clause 9, Schedule 5, Clause 10, Schedules 6 and 7, Clause 11, Schedule 8, Clauses 12 to 18, Clauses 20 to 22, Clauses 24 to 26, Clause 28, Clauses 30 to 35, Schedules 9 and 10, Clauses 36 to 87, Clauses 90 to 92, Schedule 12, Clauses 93 to 117, Schedule 13, Clauses 118 to 121, Schedule 14, Clause 123, Schedule 15, Clauses 124 to 126, new Clauses, new Schedules, Schedule 16.

IR

Mr Robert Hicks

Clause **69**, page **60**, line **38**, at end insert 'and for "one-fifth" in paragraph 1 of Schedule 6 (Capital allowances: hotels) to the Finance Act 1978 there shall be substituted "one-half".'.

G

CONFIDENTIAL

27/4/81.

4

99

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir D Wass
Mr Middleton
Mr Unwin
Mr Hood
Mr Cropper
PS/C&E

1. MR BATTISHILL

2. CHANCELLOR OF THE EXCHEQUER

DUTY REDUCTION FOR DERV

You may like to see the attached note on the effects of duty changes on the operating costs of petrol and diesel cars which the Department of Industry have prepared as background for this afternoon's Ministerial meeting.

NOTE ON EFFECTS OF DUTY CHANGE ON OPERATING COSTS

The note indicates that diesel engined cars cost some £500-800 more than the petrol engined equivalents but are assumed to be about a third more efficient in their use of fuel. On this basis, the table shows that the duty increases announced in the Budget bear less heavily on the motorist using a diesel car.

In considering whether to switch from petrol to diesel vehicles the motorist (or fleet operator) will be influenced by whether he can expect to recover the higher initial capital cost through lower fuel costs during his period of ownership. The incentive is greater the higher the mileage.

The assumption normally adopted by the SMMT is that potential purchasers will aim to break even within a three-year period. On this assumption, and using the Industry figures, Mr Hood of DEU has calculated the effects of various duty changes on the break even mileage. This is shown in the attached table.

The table suggests that a 5p derv reduction would bring the break even mileage down by about 20% compared with before the Budget and a 10p reduction would reduce the break even mileage by almost 30%.

HG

H M GRIFFITHS
27 April 1981

We have done our best this morning to draw out the main conclusion from the DOI figures.

In a word, they suggest that, compared with the pre-Budget situation, 10p off derv would reduce the break-even mileage between a diesel and petrol driven car by 5,300-8,600 miles per annum (depending on the capital cost of the car); and by 3,300-5,300 miles per annum compared with the post-Budget situation.

At 5p off, the break-even mileage comes down by 1,800-3,000 compared with the post-Budget situation.

DOI will no doubt say that the larger figures would be significant in relation to fleet purchases for business use, where average mileages are concentrated in the range 20,000 miles and upwards.

AB

A M W BATTISHILL
27 April 1981

ANNEX

REDUCTION IN PROPOSED DERV DUTY INCREASE

EFFECT ON MOTORISTS' COSTS

1. Change in Fuel Costs

£ p.a.

	Duty increased by	20p	15p	10p
Diesel-engined car (40 mpg)	Average motorist (10,000 miles pa)	50	37.50	25
	Business motorist (40,000 miles pa)	200	150	100
Petrol-engined car (30 mpg)	Average motorist (10,000 miles pa)	66	-	-
	Business motorist (40,000 miles pa)	264	-	-

2. Servicing Costs

Approximately the same: diesel engine servicing more expensive, but required less frequently.

3. Capital Costs

Diesel engined derivatives at present some £500-800 more expensive than petrol-engined.

Vehicle Division
24 April 1981

CONFIDENTIAL

	Capital cost differential £500				Capital cost differential £800			
	Pre-Budget	Post-Budget	Post-Budget derv - 5p	Post-Budget derv - 10p	Pre-Budget	Post-Budget	Post-Budget derv - 5p	Post-Budget derv - 10p
Derv price, £/gallon	1.43	1.62	1.57	1.52	1.43	1.62	1.57	1.52
Petrol price, £/gallon	1.34	1.515	1.515	1.515	1.34	1.515	1.515	1.515
Absolute differential for every 120 miles	£1.07	£1.20	£1.35	£1.50	£1.07	£1.20	£1.35	£1.50
Break-even mileage, pay back over 3 years	18692	16667	14815	13333	29907	26667	23704	21333

102

103

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (L)
Mr Battishill
Mr Griffiths
Mr Cropper
Mr Freedman (Customs)
PS/Customs

2

CLAUSE 4: AVGAS

The Minister of State (C) received a telephone call from Cranley Onslow MP about the amendment he had tabled to Clause 4 of the Finance Bill about the duty on aviation gasoline. He was particularly concerned about the effect that the increase in the duty would have on the fuel costs of flying schools. He said that he would not press his amendment to a division, but he would appreciate something sympathetic being said about it. The Minister undertook to draw this to the Chancellor's attention.

R WARDEN
Private Secretary
28 April, 1981

AVGAS

104

E.16

CHANCELLOR

cc Chief Secretary
Financial Secretary
Minister of State (C)
Mr Cropper

BACKBENCH AGRICULTURE COMMITTEE: THE PETROL ISSUE

I have just been told that the Backbench Committee Chairman Peter Mills, his fellow Committee officers and the 12 members who attended this evening's meeting were unanimous in their view that they should oppose the Government's proposals on Thursday. Their general desire is to see action on DERV. Mr McQuarie is determined to go further on petrol too, and it appears that Maxwell-Hyslop, Esmond Bulmer and one or two Scots might go with him too. Doubtless Robert Boscawen will be reporting this to the Whips and others in due course.

AR

ADAM RIDLEY
28 April 1981

BACKBENCH AGRICULTURE COMMITTEE

pa

105

Letter annotated as requested CF

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

28 April 1981

Miss Jane Gutteridge
Private Secretary
Parliamentary Under Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

Dear Jane,

In your letter of 15 April you asked for briefing material on the additional revenue which might have been raised by increasing the rates of betting and gaming duties.

If Mr MacGregor is again tackled on this subject we would suggest that, as far as possible, he should reply in general terms. He could for example point out, as the Chancellor already has, that the total revenue from all gambling duties is only about £½ billion so that any reasonable increase would fail to raise anything like the amount of extra revenue needed to compensate for a corresponding reduction in the duties on hydrocarbon oil. In any case the major gambling duties are already close to the point of diminishing returns - an increase in rates could well drive betting underground and prove counter-productive. Any detailed questions Mr MacGregor will no doubt refer to Treasury Ministers but he may find it useful to have the following background information to the individual duties.

Approximate Estimate for 1981-82 (£million)

275

General betting duty accounts for about 55% of total revenue from gambling duties. The rates are expressed as a percentage of stakes so that they automatically reflect variations in turnover, e g because of changes in money values. Most betting is conducted off-course for which the current rate is 7½%. This rate may appear relatively low but, bearing in mind that some 80% of stakes are returned as winnings, as a tax on expenditure the true rate is approaching 40%. Any additional receipts from a higher rate of general betting duty could well be outweighed by revenue lost by driving betting underground. The Royal Commission on Gambling certainly took this view, arguing that the present rate was already dangerously near the point at which illegal bookmaking would flourish and warning that over-taxation could lead to serious social evils as well as loss of revenue.

/Pool betting

CHANCELLOR OF THE EXCHEQUER

E

170 → Pool betting duty is the next largest revenue earner among the gambling duties, producing over 30% of the total. This duty is already levied at a rate of 40% (which the Royal Commission regarded as unjustifiably high) and this means that less than 30% of stakes can be returned as prizes. Any increase in the rate would affect the pools promoters' ability to pay out the very large dividends which are the essential incentive for punters.

34 → Bingo duty is the most productive of the gaming duties but these produce much less revenue than the betting duties. Receipts from bingo duty in 1981/82 are estimated at only £34 million, and this after a 50% increase introduced last Autumn when the rate was raised from 5% to 7½%. It would be difficult to justify a further increase so soon after the last, particularly at a time when licensed bingo clubs have become less profitable and often face strong competition from registered clubs.

18 Gaming machine licence duty was also substantially changed in the 1980 Budget with effect from last October. Many of the rates, which are expressed as fixed sums according to the type of machine and the cost per play, were adjusted - in particular the rate for 10p jackpot machines in clubs was increased from £100 to £300 for a single machine or from £300 to £600 for two machines. There have been many suggestions that large sums could be raised by a substantial increase in rates but the potential extra revenue has been much exaggerated and the fact that the net takings of all machines are already subject to VAT at 15% has generally been overlooked. (Similarly, suggestions that gaming machine licence duty should be extended to cover video amusement machines ignore the fact that these are already subject to VAT on gross takings and thus will in many cases contribute more revenue than corresponding gaming machines.)

I hope that this will give Mr MacGregor the information he needs.

EXTEND AVAILABILITY - + THUS REVENUE BASE - TO PUBS AS WELL AS CLUBS: RAISE IMPORTANT SOCIAL Qn

Yours sincerely,

Richard Tolkien

R I TOLKIEN

← Casinos OMITTED

Difficult to obtain accurate figure at present

Suggest Now £12 million pa

[Apologies Earlier note for Sir W Clark's speech suggested total of £25m for machines & casinos. Now I think £30m may be nearer)

CF

107

CHANCELLOR OF THE EXCHEQUER

<u>PPS</u>

cc PS/CST
PS/FST
PS/MST(C)

Regret the final version of this provisional list did not become available until 2100, by which time the rest of your merry men, being sensible fellows, had gone home!

[signature]

29/4

COMMITTEE OF THE WHOLE HOUSE

FINANCE BILL

PROVISIONAL SELECTION OF AMENDMENTS

CLAUSE 4 ONLY

49 + 2 + 48 + 1 + 3 + 5 + 7 + 47 + 42 + 9 + 46 + 45

BERNARD WEATHERILL
Chairman of Ways and Means

29th April 1981

FINANCE BILL

(Clauses 1, 4, 19, 23, 27, 29, 88, 89 and 122 and Schedules 1, 2 and 11)

Notices of Amendments: 28th April 1981

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

49

★ Clause 4, page 3, leave out lines 1 and 2 and insert—

4.—(1) In section 6(1) of the Hydrocarbon Oil Duties Act 1979 for £0·10 there shall be substituted "£0·115".'.

Mr T. H. H. Skeet
Mr Robin Maxwell-Hyslop
Mr Eldon Griffiths
Mr Peter Temple-Morris
Sir Frederic Bennett
Mr Albert McQuarrie
Mr Hugh Dykes
Mr Dennis Walters
Mr Barry Henderson
Mr Michael Brotherton

2

Clause 4, page 3, leave out lines 1 and 2 and insert:—

'4.—(1) In section 6(1) of the Hydrocarbon Oil Duties Act 1979 for "£0·10" there shall be substituted "£0·1191".'.

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

48

★ Clause 4, page 3, leave out lines 1 and 2 and insert—

'4—(1) In section 6(1) of the Hydrocarbon Oil Duties Act 1979 leave out 'a duty of excise at the rate of £0·10 a litre" and insert "£0·1382 a litre in the case of light oil and £0·115 a litre in the case of heavy oil".'.

Mr T. H. H. Skeet
Mr Keith Stainton
Mr Paul Hawkins
Mr Kenneth Lewis
Mr Eldon Griffiths
Mr John Loveridge
Mr Hugh Dykes
Sir Frederic Bennett
Mr Peter Mills
Sir William Clark
Mr Colin Shepherd
Mr D. Walters
Mr Paul Dean
Mr Michael Brotherton
Mrs Elaine Kellett Bowmar
Mr Stephen Hastings

1

Clause 4, page 3, leave out lines 1 and 2 and insert:—

'4.—(1) In section 6(1) of the Hydrocarbon Oil Duties Act 1979 for the words "a duty of excise at the rate of £0·10 a litre" there shall be substituted the words "a duty of excise at the rate of £0·1382 a litre in the case of light oil and £0·1191 a litre in the case of heavy oil".'.

Mr Tom Hooson

3

Clause 4, page 3, line 2, leave out from 'for' to end of line and insert 'for the words "a duty of excise at the rate of £0·10 a litre" there shall be substituted the words "a duty of excise at the rate of £0·1382 a litre in the case of light oil and £0·1285 a litre in the case of heavy oil".'.

Mr David Steel
Mr Richard Wainwright
Mr A. J. Beith
Mr Cyril Smith
Mr David Penhaligon
Mr David Alton

5

Clause 4, page 3, line 2, leave out from '1979' to end of line and insert 'for "a duty of excise at the rate of £0·10 a litre" there shall be substituted "a duty of excise at the rate of £0·1095 a litre in the case of light oil and £0·10 a litre in the case of heavy oil".'.

Finance Bill *continued*

Dr David Owen
Mr William Rodgers
Mr John Horam
Mr Christopher Brocklebank-Fowler
Mr Ian Wrigglesworth
Mr John Roper

7

Clause 4, page 3, line 2, leave out '"£0·1382" and insert "£0·1191"'.

Mr Barry Henderson

47

★ Clause 4, page 3, line 2, leave out '£0·1382' and insert £0·1285'.

Mr Cranley Onslow
Mr Michael Colvin
Mr Robert Atkins
Mr Bill Walker
Mr Nicholas Scott
Mr Dudley Smith

Mr Nicholas Winterton

42

Clause 4, page 3, line 2, at end insert 'save that in the case of aviation gasoline there shall be substituted £0·0077 per litre'.

Mr Peter Shore
Mr Robert Sheldon
Mr Robin F. Cook
Mr Jack Straw

9

Clause 4, page 3, line 2, at end insert 'except in the case of lead-free light oil when the duty shall be at the rate of £0·0691.'.

Mr David Steel
Mr Richard Wainwright
Mr A. J. Beith
Mr Cryil Smith
Mr David Penhaligon
Mr David Alton

46

★ Clause 4, page 3, line 3, leave out subsection (2) and insert—

'(2) This section shall be deemed to have come into force at six o'clock in the evening on 10th March 1981, but as respects the period beginning at six o'clock in the evening on 10th March 1981 and ending at six o'clock in the evening of 5th May 1981 the rate of duty of excise charged by section 6(1) of the said Act of 1979 shall, notwithstanding subsection (1) above, be £0·1382 a litre in the case of light oil, and £0·1382 a litre in the case of heavy oil.'.

Dr David Owen
Mr William Rodgers
Mr John Horam
Mr Christopher Brocklebank-Fowler
Mr Ian Wrigglesworth
Mr John Roper

45

★ Clause 4, page 3, line 4, leave out '10th March 1981' and insert '5th May 1981; but as respects the period beginning at 6 o'clock in the evening of 10th March 1981 and ending at 6 o'clock in the evening of 5th May 1981, the rate of the duty of excise charged by section 6(1) of the said Act of 1979 shall, notwithstanding subsection (1) above, be £0·1382 a gallon'.

COMMITTEE OF THE WHOLE HOUSE

FINANCE BILL

PROVISIONAL SELECTION OF AMENDMENTS

CLAUSE 4 ONLY

49 + 2 + 48 + 1 + 3 + 5 + 7 + 47 + 42 + 9 + 46 + 45

49	LABOUR	12p off Petrol and Derv
2	SKEET	10p off Petrol and Derv
48	LABOUR	12p off Derv only
1	SKEET	10p off Derv only
3	HOOSON	5p off Derv only
5 [46]	LIBERAL	15p off Petrol, 20p off Derv [from 5 May]
7 [45]	S.D.P.	10p off Petrol and Derv [from 5 May]
47	HENDERSON	5p off Petrol and Derv
42	ONSLOW	Reduced duty on aviation gasoline
9	LABOUR	Reduced duty on lead-free petrol
46	LIBERAL	[See 5 above]
47	S.D.P.	[See 7 above]

CLAUSE STAND PART

BERNARD WEATHERILL
Chairman of Ways and Means

29th April 1981

29/4. PS/C/EX

CUSTOMS AND EXCISE

FINANCE BILL 1981
Clause 4

INCREASE OF DUTY ON HYDROCARBON OIL ETC

EFFECT OF THE CLAUSE

1. The clause increases the rate of excise duty on certain hydrocarbon oil with effect from 6.00pm on 10 March. The oils affected are those bearing the full rate of duty (mainly petrol and DERV).

2. The effective (rebated) rates of duty on heavy oil not used as road fuel, on light oil used as furnace fuel by approved persons, and on kerosene (including aviation kerosene) remain unchanged.

THE CLAUSE IN DETAIL

3. Subsection (1) increases the rate of duty on hydrocarbon oils from 10p a litre (charged under section 6(1) of the Hydrocarbon Oil Duties Act 1979, as amended by the Finance Act 1980) to 13.82p a litre.

4. Under section 7 of the Hydrocarbon Oil Duties Act 1979 the duty on petrol substitutes and power methylated spirits is also increased from 10p a litre to 13.82p a litre.

5. Under section 8 of the Hydrocarbon Oil Duties Act 1979 and the Excise Duties (Gas as Road Fuel) Order 1972 made thereunder the duty on road fuel gas is increased (by half the full amount) from 5p a litre to 6.91p a litre.

6. Subsection (2) makes the new rates of duty (including consequential changes) effective at 6pm on 10 March 1981.

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PART II: FOR MINISTERS' PERSONAL USE ONLY

Contents

PURPOSE OF THE CLAUSE

7. The principal objective is to raise revenue and so keep the PSBR in 1981/82 to the level of £10½ billion. The increase will also help to emphasise the continuing commitment to energy saving.

EFFECT ON REVENUE

8. The increase in revenue in 1981/82 and in a full year is estimated to be £1,180 million, of which petrol will yield £910 million and DERV £270 million.

DISABLED MOTORISTS

13. Mobility allowance is to be increased from £14.50 a week to £16.50, a real increase of 50p. Since the present Government took office the allowance has been increased by 65%. The £2.00 increase does not become effective until next November, but in the meantime there is no practical way of giving additional duty relief to the disabled.

EFFECT ON BUSINESS COSTS

14. It is estimated that virtually all DERV duty and slightly more than one-third of petrol duty is paid by industrial and commercial users. Most business users can deduct VAT on their road fuel purchases and the effective duty increase for them is reduced to about 17.4p a gallon. The DERV increase represents an increase of just under 2½% on total road freight transport costs, but such costs are widely spread throughout industry and commerce.

FARMING

15. Farm machinery such as tractors are allowed to use rebated gas oil (duty 3½p per gallon) for fuel provided they are operating within the scope of an agricultural machine licence (eg operating on private land or towing agricultural commodities within a 15 mile radius). Rebated oil duty has not been increased in the Budget and its real level has therefore fallen. Farmers should be affected by the oil duty increase only in respect of the road transport aspects of their businesses.

LOWER DUTY ON DERV

16. The revenue yield from DERV makes a valuable contribution to the overall yield from the motoring taxes. The UK motor industry welcomed the restoration of parity in the last Budget and asked, in their pre-Budget representations, that it should be retained. [IF PRESSED ONLY: A differential in favour of DERV could introduce a distortion into the passenger car market that only foreign manufacturers would be able to exploit at this time.]

LOWER DUTY ON FUEL OIL

17. The Chancellor explained in the Budget speech that to reduce the duty on fuel oil would put up the cost of gas purchased by the British Gas Council, and thus the UK's gas import bill. The decision not to increase the rate of duty

on fuel oil (and other rebated oil) means an effective reduction in the real burden of duty. Other measures to reduce industrial energy prices were announced in the Budget speech eg in respect of gas and electricity prices.

AVIATION GASOLINE

18. Avgas is used in petrol-engined aircraft. Other aircraft are jet or turbo-prop and pay only 3½p a gallon on their fuel. Like petrol and other light oils used off the roads eg in forestry, Avgas has traditionally been subject to the full rate of duty. A lower rate of duty for a sector which includes sporting and leisure flying could be difficult to defend at a time when the duty has been increased for essential petrol and DERV users. A lower rate of duty would involve extra administration costs if Avgas was not to be diverted to more heavily dutiable uses on the roads. While it is true that at present the relative prices of petrol and Avgas make such diversion unlikely, there can be no guarantee that the present wide price differential will persist in the future.

EC COMPARISONS

19. The new duties on petrol mean that UK petrol prices and tax burdens are broadly comparable with those in France, Belgium and Denmark. Prices are substantially higher in Italy, although they are lower in Germany and the Netherlands. Although DERV prices in the UK tend to be higher (DERV has traditionally been much cheaper on the Continent) several EC countries with low DERV duties also have rates of VED on diesel-engined vehicles higher than those on petrol-engined vehicles.

PUBLIC TRANSPORT

20. The new duty rates should make no difference to stage carriage bus services. The bus fuel grant, paid by the Department of Transport to compensate stage carriage operators for duty paid on their fuel, will remain at 100%. On the railways, diesel locomotives and diesel rail cars use gas oil which remains dutied at 3½p a gallon, the real level of this duty being allowed to fall.

ALTERNATIVE METHODS OF RAISING REVENUE

21. It has been suggested that the Chancellor should have raised the revenue he requires without increasing the tax on petrol by 20p a gallon. However, there are no easy alternative ways of raising the amounts of revenue of this order. The Chancellor, in a speech at Oxted on 10 April

pointed out that the Budget increases on tobacco products raised £500 million, those on alcoholic drinks about another £500 million and those on VED about £225 million. In total they raised just over £1,200 million, almost the same as the increases on petrol and DERV. Other suggestions have included higher taxes on betting and gaming; but the total revenue from that source is only £500 million. A tax on overseas holidays would not work and would amount to double taxation. Two other popular suggestions, a tax on Space Invader games and £5 dog licences would produce only £5 million and £14 million or so respectively.

INTERNATIONAL COMPARISONS ETC

22. [To ensure that the latest available figures are used, it is proposed to submit tables of comparisons as near as practicable to the date of the Committee Stage debate on the clause.]

April 1981

AMENDMENT 1

CUSTOMS AND EXCISE

FINANCE BILL 1981
COMMITTEE

Clause 4

Amendment	Page	Line
1	3	1-2

Mr T H H Skeet (Bedford - Con)
Mr Keith Stainton (Sudbury & Woodbridge - Con)
Mr Paul Hawkins (Norfolk, SW - Con)
Mr Kenneth Lewis (Rutland & Stamford - Con)
Mr Eldon Griffiths (Bury St Edmunds - Con)
Mr John Loveridge (Havering, Upminster - Con)

Clause 4, page 3, leave out lines 1 and 2 and insert:-

'4. -(1) In section 6(1) of the Hydrocarbon Oil Duties Act 1979 for the words "a duty of excise at the rate of £0.10 a litre" there shall be substituted the words "a duty of excise at the rate of £0.1382 a litre in the case of light oil and £0.1191 a litre in the case of heavy oil".'.

EXPLANATION

Resist

1. The amendment would halve the duty increase proposed for derv, involving a (VAT-inclusive) price increase of 10p per gallon rather than the 20p proposed by the Chancellor. For businesses, who can deduct VAT, this would represent an increase of 8.7p instead of 17.4p.

2. The revenue cost would be £135 million in a full year.

3. Without a new Resolution, the amendment cannot over-ride the Budget Resolution until Royal Assent. In strict law, even if the amendment were to be carried, the higher rate of duty should continue to be collected until Royal Assent. Duty which has been paid since Budget Day at the rate proposed in the Budget would have to be repaid to the oil companies after Royal Assent to the extent that the amount of the duty exceeded the rate determined by this amendment if it were to be carried. There would be no way of ensuring that this repayment was

passed on to the consumers who had in fact borne the higher rate of duty in the intervening period; this would represent "windfall" profits to the oil companies.

POINTS FOR USE IN DEBATE

Revenue

4. It is crucially important this year to cut public borrowing, and to do this revenue must be raised. Substantial increases have been proposed in all the major revenue duties, and it is fair that users of derv should also bear their share of the increased taxation burden. The onus is on those who propose lower rates of duty to suggest how the revenue might be made up from elsewhere. To raise £135 million we would have to add 1½p to the price of a pint of beer or 4½p to a packet of cigarettes.

Inflation

5. We recognise that in the short term the derv duty increase may add to the RPI. (The impact effect is nil, but there will be an indirect effect as the increase in business costs feeds through into prices.) But, as part of the overall Budget strategy of keeping down public borrowing, the duty increase is helping to lay the foundation for a long term reduction in inflation and, in due course, a reversal of the upward trend in the burden of taxation.

Real burden of duty

6. The duty on derv, even after the Budget increase, is still in real terms 25% lower than in 1970.

EC comparisons

7. The duty on derv is higher in the UK than in other EC Member States, but several other countries compensate for low rates of derv duty by higher VED on diesel vehicles. UK vehicles operating on the Continent will of course pay Continental prices for fuel they take on, and Continental vehicles in this country will pay UK prices.

CUSTOMS AND EXCISE

Energy conservation

8. Business as well as private users should be encouraged to economise in their use of fuel. The immediate impact on consumption may be small, but over the longer term, as users invest in more fuel-efficient vehicles or otherwise change their mode of operation, the effect should be significant.

Business costs

9. Virtually all of the derv duty is borne by businesses. The Budget increase in derv duty will add about 2½% to road transport costs, but the effects will be thinly spread over a wide range of commercial and industrial activities.

Lower rate of duty on derv than on petrol

10. Traditionally petrol and derv have been dutied at the same rate. We recognise the advantages to energy conservation of encouraging the use of derv: indeed, the present Chancellor only last year removed the 5p additional duty which had applied to derv since the Labour and Liberal parties failed to join us in our opposition to the Budget increase in 1977.

May 1981

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CUSTOMS AND EXCISE

FINANCE BILL 1981
COMMITTEE

Clause 4

2+7

Amendment	Page	Line
7	3	2
2	3	1-2

Dr David Owen	(Plymouth Devonport - Soc Dem)
Mr William Rodgers	(Teesside Stockton - Soc Dem)
Mr John Horam	(Gateshead, W - Soc Dem)
Mr Christopher Brocklebank-Fowler	(Norfolk, NW - Soc Dem)
Mr Ian Wrigglesworth	(Teesside Thornaby - Soc Dem)
Mr John Roper	(Farnworth - Soc Dem)

Clause 4, page 3, line 2, leave out '£0.1382' and insert '£0.1191'.

Mr T H H Skeet	(Bedford - Con)
Mr Robin Maxwell-Hyslop	(Tiverton - Con)
Mr Eldon Griffiths	(Bury St Edmunds - Con)

Clause 4, page 3, leave out lines 1 and 2 and insert:-

'4. -(1) In section 6(1) of the Hydrocarbon Oil Duties Act 1971 for "£0.10" there shall be substituted "£0.1191".'.

CUSTOMS AND EXCISE

EXPLANATION

Resist

1. The amendments would halve the duty increases proposed for petrol and derv, involving a (VAT-inclusive) price increase of 10p per gallon instead of the 20p proposed by the Chancellor.

2. The revenue cost would be £590 million in a full year.

3. Without a new Resolution, the amendment cannot over-ride the Budget Resolution until Royal Assent. In strict law, even if the amendment were to be carried, the higher rate of duty should continue to be collected until Royal Assent. Duty which has been paid since Budget Day at the rate proposed in the Budget would have to be repaid to the oil companies after Royal Assent to the extent that the amount of the duty exceeded the rate determined by this amendment if it were to be carried. There would be no way of ensuring that this repayment was passed on to the consumers who had in fact borne the higher rate of duty in the intervening period; this would represent "windfall" profits to the oil companies.

POINTS FOR USE IN DEBATE

<u>Revenue</u>

4. It is crucially important this year that public borrowing should be cut. To do this, revenue must be raised, and substantial increases have been proposed in all the major revenue duties. The percentage increase proposed for petrol and derv is broadly similar to that for tobacco and alcoholic drinks (the increase in vehicle excise duty was rather lower). Those who propose lower increases in the road fuel duties have an obligation to suggest from what other source the same revenue may be found. Gambling duties do not have the necessary revenue potential - still less do Space Invaders or dog licences. My hon Friends at least cannot be suggesting that we should increase income tax. Perhaps those who have suggested this amendment would prefer the increase of just under 1% in the standard rate of VAT that would be necessary. Or would it be better to add 4p to the price of a pint of beer and 7p to a packet of cigarettes?

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CUSTOMS AND EXCISE

Inflation

5. We recognise that in the short term the road fuel duty increases will have the effect of increasing the RPI. (The impact effect is 0.6% and there will be further indirect effects as the increase in business costs feeds through into prices.) But, as part of the overall Budget strategy of keeping down public borrowing, the duty increases are helping to lay the foundations for a long term reduction in inflation and, in due course, a reversal of the upward trend in the burden of taxation.

Real burden of duties

6. It is true that the Budget duty increase is more than is necessary to compensate for inflation over the last year. But the tax burden (duty and VAT together) on petrol is still, even after the Budget increase, at the same level in real terms as it was in 1970, and the real duty on derv is 25% lower than in 1970.

EC comparisons

7. Even after the Budget increase, pump prices of petrol in this country are broadly comparable with those in the majority of other EC countries. The UK duty on derv is higher than in other Member States, but several other countries compensate for low rates of derv duty by higher VED on diesel vehicles.

Energy conservation

8. The increase in duty will encourage users, business as well as private, to economise in their use of road fuel. The immediate impact on consumption may be small, but over the longer term, as users invest in more fuel-efficient vehicles or otherwise change their driving habits, the effect should be significant.

Business costs

9. All the derv duty, and about one-third of the petrol duty, is paid by business users. Most business users are able to deduct VAT and for them the effective price increase under the Budget proposal is 17.4p per gallon. The duty increase will be thinly spread over a wide range of industrial and commercial activities.

CUSTOMS AND EXCISE

Rural motorists

10. Rural motorists on average cover about 10% more miles than their urban counterparts, but they are normally able to get a higher mileage per gallon because of the less congested motoring conditions. Any scheme of duty rebates or subsidies to compensate for higher rural petrol prices would pose serious difficulties, both of equity and administration.

Disabled motorists

11. Certain allowances and reliefs are already available to help disabled motorists with their transport costs, most notably, mobility allowance, which carries with it exemption from VED. Mobility allowance is to be increased from £14.50 to £16.50 next November: since the present Government took office it has been increased by 65%. I am afraid that any scheme to provide petrol duty relief for disabled car users who are not in receipt of a statutory allowance would be complicated and expensive to administer and could be easily abused by the able-bodied.

May 1981

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CUSTOMS AND EXCISE

FINANCE BILL 1981
COMMITTEE

Clause 4

Amendment	Page	Line
3	3	2

Mr Tom Hooson (Brecon & Radnor - Con)

Clause 4, page 3, line 2, leave out from 'for' to end of line and insert 'for the words "a duty of excise at the rate of £0.10 a litre" there shall be substituted the words "a duty of excise at the rate of £0.1382 a litre in the case of light oil and £0.1285 a litre in the case of heavy oil".'.

EXPLANATION

Resist

1. The amendment would reduce the duty increase proposed for derv, involving a (VAT-inclusive) price increase of about 15p per gallon rather than the 20p proposed by the Chancellor. For businesses, who can deduct VAT, this represents an increase of about 13.0p rather than 17.4p.

2. The amendment would cost £70 million in a full year.

3. Without a new Resolution, the amendment cannot over-ride the Budget Resolution until Royal Assent. In strict law, even if the amendment were to be carried, the higher rate of duty should continue to be collected until Royal Assent. Duty which has been paid since Budget Day at the rate proposed in the Budget would have to be repaid to the oil companies after Royal Assent to the extent that the amount of the duty exceeded the rate determined by this amendment if it were to be carried. There would be no way of ensuring that this repayment was passed on to the consumers who had in fact borne the higher rate of duty in the intervening period; this would represent "windfall" profits to the oil companies.

CUSTOMS AND EXCISE

POINTS FOR USE IN DEBATE

Revenue

4. It is crucially important this year to cut public borrowing, and to do this revenue must be raised. Substantial increases have been proposed in all the major revenue duties, and it is fair that users of derv should also bear their share of the increased taxation burden.

/Cont'd/

CUSTOMS AND EXCISE

Inflation

5. We recognise that in the short term the derv duty increase may add to the RPI. (The impact effect is nil, but there will be an indirect effect as the increase in business costs feeds through into prices.) But, as part of the overall Budget strategy of keeping down public borrowing, the duty increase is helping to lay the foundation for a long term reduction in inflation and, in due course, a reversal of the upward trend in the burden of taxation.

Real burden of duty

6. The duty on derv, even after the Budget increase, is still in real terms 25% lower than in 1970.

EC comparisons

7. The duty on derv is higher in the UK than in other EC Member States, but several other countries compensate for low rates of derv duty by higher VED on diesel vehicles. UK vehicles operating on the Continent will of course pay Continental prices for fuel they take on, and Continental vehicles in this country will pay UK prices.

Energy conservation

8. Business as well as private users should be encouraged to economise in their use of fuel. The immediate impact on consumption may be small, but over the longer term, as users invest in more fuel-efficient vehicles or otherwise change their mode of operation, the effect should be significant.

Business costs

9. Virtually all of the derv duty is borne by businesses. The Budget increase in derv duty will add about 2½% to road transport costs, but the effects will be thinly spread over a wide range of commercial and industrial activities.

Lower rate of duty on derv than on petrol

10. Traditionally petrol and derv have been dutied at the same rate. We recognise the advantages to energy conservation of encouraging the use of derv: indeed, the present Chancellor only last year removed the 5p additional duty which had applied to derv since the Labour and Liberal parties failed to join us in our opposition to the Budget increase in 1977.

May 1981

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CUSTOMS AND EXCISE

FINANCE BILL 1981
COMMITTEE

Clause 4

Amendment	Page	Line
4	3	2

4

Mr Albert McQuarrie (Aberdeenshire, E - Con)

Clause 4, page 3, line 2, leave out 'for "£0.10" there shall be substituted "£0.1382"' and insert '"£0.10" shall remain as defined in this section of the Act'.

EXPLANATION

Resist

1. The intention behind this amendment is presumably to delete the Budget duty increases on petrol and derv.

2. The cost of the amendment would be £1,180 million in a full year.

3. Without a new Resolution, the amendment cannot over-ride the Budget Resolution until Royal Assent. In strict law, even if the amendment were to be carried, the higher rate of duty should continue to be collected until Royal Assent. Duty which has been paid since Budget Day at the rate proposed in the Budget would have to be repaid to the oil companies after Royal Assent to the extent that the amount of the duty exceeded the rate determined by this amendment if it were to be carried. There would be no way of ensuring that this repayment was passed on to the consumers who had in fact borne the higher rate of duty in the intervening period; this would represent "windfall" profits to the oil companies.

POINTS FOR USE IN DEBATE

Revenue

4. It is crucially important this year that public borrowing should be cut. To do this, revenue must be raised, and substantial increases have been

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proposed in all the major revenue duties. The percentage increase proposed for petrol and derv is broadly similar to that for tobacco and alcoholic drinks (the increase in vehicle excise duty was rather lower). The onus is on those who oppose the increases to suggest from what other source the revenue might be raised. Gambling duties do not have the necessary revenue potential - still less do Space Invaders or dog licences. Even if the Budget duty increases on beer and cigarettes were doubled, this would raise only about one-half to two-thirds of the revenue required. Other alternatives include a 2½% increase in the standard rate of VAT, or a 1½% increase in the basic rate of income tax or National Insurance Surcharge.

[Cont'd]

CUSTOMS AND EXCISE

Inflation

5. We recognise that in the short term the road fuel duty increases will have the effect of increasing the RPI. (The impact effect is 0.6% and there will be further indirect effects as the increase in business costs feeds through into prices.) But, as part of the overall Budget strategy of keeping down public borrowing, the duty increases are helping to lay the foundations for a long term reduction in inflation and, in due course, a reversal of the upward trend in the burden of taxation.

Real burden of duties

6. It is true that the Budget duty increase is more than is necessary to compensate for inflation over the last year. But the tax burden (duty and VAT together) on petrol is still, even after the Budget increase, at the same level in real terms as it was in 1970, and the real duty on derv is 25% lower than in 1970.

EC comparisons

7. Even after the Budget increase, pump prices of petrol in this country are broadly comparable with those in the majority of other EC countries. The UK duty on derv is higher than in other Member States, but several other countries compensate for low rates of derv duty by higher VED on diesel vehicles.

Energy conservation

8. The increase in duty will encourage users, business as well as private, to economise in their use of road fuel. The immediate impact on consumption may be small, but over the longer term, as users invest in more fuel-efficient vehicles or otherwise change their driving habits, the effect should be significant.

Business costs

9. All the derv duty, and about one-third of the petrol duty, is paid by business users. Most business users are able to deduct VAT and for them the effective price increase under the Budget proposal is 17.4p per gallon. The duty increase will be thinly spread over a wide range of industrial and commercial activities.

CUSTOMS AND EXCISE

Rural motorists

10. Rural motorists on average cover about 10% more miles than their urban counterparts, but they are normally able to get a higher mileage per gallon because of the less congested motoring conditions. Any scheme of duty rebates or subsidies to compensate for higher rural petrol prices would pose serious difficulties, both of equity and administration.

Disabled motorists

11. Certain allowances and reliefs are already available to help disabled motorists with their transport costs, most notably, mobility allowance, which carries with it exemption from VED. Mobility allowance is to be increased from £14.50 to £16.50 next November: since the present Government took office it has been increased by 65%. I am afraid that any scheme to provide petrol duty relief for disabled car users who are not in receipt of a statutory allowance would be complicated and expensive to administer and could be easily abused by the able-bodied.

May 1981

CUSTOMS AND EXCISE

FINANCE BILL 1981
COMMITTEE

Clause 4

Amendment	Page	Line
5	3	2

5

Mr David Steel (Roxburgh, Selkirk & Peebles - Lib)
Mr Richard Wainwright (Colne Valley - Lib)
Mr A J Beith (Berwick-upon-Tweed - Lib)
Mr Cyril Smith (Rochdale - Lib)
Mr David Penhaligon (Truro - Lib)
Mr David Alton (Edge Hill - Lib)

Clause 4, page 3, line 2, leave out from 'for' to end of line and insert 'for a duty of excise at the rate of £0.10 a litre there shall be substituted "a duty of excise at the rate of £0.1095 a litre in the case of light oil and £0.10 a litre in the case of heavy oil".'.

EXPLANATION

Resist

1. The amendment would raise the petrol duty by one-quarter of the amount proposed by the Chancellor, making the (VAT-inclusive) price increase 5p per gallon instead of 20p, and would leave the pre-Budget rate of duty on derv unchanged.

2. The amendment would cost £950 million in a full year.

3. Without a new Resolution, the amendment cannot over-ride the Budget Resolution until Royal Assent. In strict law, even if the amendment were to be carried, the higher rate of duty should continue to be collected until Royal Assent. Duty which has been paid since Budget Day at the rate proposed in the Budget would have to be repaid to the oil companies after Royal Assent to the extent that the amount of the duty exceeded the rate determined by this amendment if it were to be carried. There would be no way of ensuring that this repayment was passed on to the consumers who had in fact borne the higher rate of duty in the intervening period; this would represent "windfall" profits to the oil companies.

CUSTOMS AND EXCISE

POINTS FOR USE IN DEBATE

Revenue

4. It is crucially important this year that public borrowing should be cut. To do this, revenue must be raised, and substantial increases have been proposed in all the major revenue duties. The percentage increase proposed for petrol and derv is broadly similar to that for tobacco and alcoholic drinks (the increase in vehicle excise duty was rather lower). Those who propose lower increases in the road fuel duties have an obligation to suggest from what other source the same revenue may be found. Gambling duties do not have the necessary revenue potential - still less do Space Invaders or dog licences. Even hon Members opposite would surely hesitate to propose an increase of something over 1% in income tax, or a further $1\frac{1}{2}$% rise in VAT. It is doubtful if even doubling the Budget increases on beer and cigarettes could raise the revenue required.

Inflation

5. We recognise that in the short term the road fuel duty increases will have the effect of increasing the RPI. (The impact effect is 0.6% and there will be further indirect effects as the increase in business costs feeds through into prices.) But, as part of the overall Budget strategy of keeping down public borrowing, the duty increases are helping to lay the foundations for a long term reduction in inflation and, in due course, a reversal of the upward trend in the burden of taxation.

Real burden of duties

6. It is true that the Budget duty increase is more than is necessary to compensate for inflation over the last year. But the tax burden (duty and VAT together) on petrol is still, even after the Budget increase, at the same level in real terms as it was in 1970, and the real duty on derv is 25% lower than in 1970.

EC comparisons

7. Even after the Budget increase, pump prices of petrol in this country are broadly comparable with those in the majority of other EC countries. The UK duty on derv is higher than in other Member States, but several other countries compensate for low rates of derv duty by higher VED on diesel vehicles.

CUSTOMS AND EXCISE

Energy conservation

8. The increase in duty will encourage users, business as well as private, to economise in their use of road fuel. The immediate impact on consumption may be small, but over the longer term, as users invest in more fuel-efficient vehicles or otherwise change their driving habits, the effect should be significant.

Business costs

9. All the derv duty, and about one-third of the petrol duty, is paid by business users. Most business users are able to deduct VAT and for them the effective price increase under the Budget proposal is 17.4p per gallon. The duty increase will be thinly spread over a wide range of industrial and commercial activities.

Rural motorists

10. Rural motorists on average cover about 10% more miles than their urban counterparts, but they are normally able to get a higher mileage per gallon because of the less congested motoring conditions. Any scheme of duty rebates or subsidies to compensate for higher rural petrol prices would pose serious difficulties, both of equity and administration.

Disabled motorists

11. Certain allowances and reliefs are already available to help disabled motorists with their transport costs, most notably, mobility allowance, which carries with it exemption from VED. Mobility allowance is to be increased from £14.50 to £16.50 next November: since the present Government took office it has been increased by 65%. I am afraid that any scheme to provide petrol duty relief for disabled car users who are not in receipt of a statutory allowance would be complicated and expensive to administer and could be easily abused by the able-bodied.

May 1981

CUSTOMS AND EXCISE

FINANCE BILL 1981
COMMITTEE

Clause 4

Amendment	Page	Line
6	3	2

Mr Peter Shore (Stepney & Poplar, - Lab)
Mr Robert Sheldon (Ashton-under-Lyne, - Lab)
Mr Robin F Cook (Edinburgh Central, - Lab)
Mr Jack Straw (Blackburn, - Lab)

6

Clause 4, page 3, line 2, leave out '£0.1382' and insert '£0.115'.

EXPLANATION

Resist

1. The amendment would reduce the Budget increase in petrol and derv duty by more than one-half, involving a VAT-inclusive price increase of 7.8p per gallon, rather than the 20p proposed by the Chancellor. The 15% duty increase proposed in the amendment seems to be designed to restore the duty to the same real level as at the time of the last Budget.

2. The revenue cost would be about £700 million in a full year, including consequential VAT.

3. Without a new Resolution, the amendment cannot over-ride the Budget Resolution until Royal Assent. In strict law, even if the amendment were to be carried the higher rate of duty should continue to be collected until that date, and the duty collected in excess of the amended rates since Budget Day should then be repaid to the oil companies. There would be no way of ensuring that this repayment was passed on to the consumers who had in fact borne the higher rate of duty in the intervening period.

POINTS FOR USE IN DEBATE

<u>Revenue</u>

4. A prime objective of the Budget strategy is to cut public borrowing. To do this, revenue must be

raised, and substantial increases have been proposed in all the major revenue duties. The percentage increase proposed for petrol and derv is broadly similar to that for tobacco and alcoholic drinks (the increase in vehicle excise duty was rather lower). Those who propose lower increases in the road fuel duties have an obligation to suggest from what other source the same revenue may be found. Gambling duties do not have the necessary revenue potential - still less do Space Invaders to dog licences. Even hon Members opposite would surely hesitate to propose an increase of just under 1% in income tax or National Insurance Surcharge, or a further 1% rise in VAT. To raise the revenue required it would be necessary to double the Budget increases on beer and cigarettes.

Inflation

5. We recognise that in the short term the road fuel duty increases will have the effect of increasing the RPI. (The impact effect is 0.6% and there will be further indirect effects as the increase in business costs feeds through into prices.) But, as part of the overall Budget strategy of keeping down public borrowing, the duty increases are helping to lay the foundations for a long term reduction in inflation and, in due course, a reversal of the upward trend in the burden of taxation.

Real burden of duties

6. It is true that the Budget duty increase is more than is necessary to compensate for inflation over the last year. But the tax burden (duty and VAT together) on petrol is still, even after the Budget increase, at the same level in real terms as it was in 1970, and the real duty on derv is 25% lower than in 1970.

EC comparisons

7. Even after the Budget increase, pump prices of petrol in this country are broadly comparable with those in the majority of other EC countries. The UK duty on derv is higher than in other Member States, but several other countries compensate for low rates of derv duty by higher VED on diesel vehicles.

Energy conservation

8. The increase in duty will encourage users, business as well as private, to economise in their use of road fuel. The immediate impact on

consumption may be small, but over the longer term, as users invest in more fuel-efficient vehicles or otherwise change their driving habits, the effect should be significant.

Business costs

9. All the derv duty, and about one-third of the petrol duty, is paid by business users. Most business users are able to deduct VAT and for them the effective price increase under the Budget proposal is 17.4p per gallon. The duty increase will be thinly spread over a wide range of industrial and commercial activities.

Rural motorists

10. Rural motorists on average cover about 10% more miles than their urban counterparts, but they are normally able to get a higher mileage per gallon because of the less congested motoring conditions. Any scheme of duty rebates or subsidies to compensate for higher rural petrol prices would pose serious difficulties, both of equity and administration.

Disabled motorists

11. Certain allowances and reliefs are already available to help disabled motorists with their transport costs, most notably, mobility allowance, which carries with it exemption from VED. Mobility allowance is to be increased from £14.50 to £16.50 next November: since the present Government took office it has been increased by 65%. I am afraid that any scheme to provide petrol duty relief for disabled car users who are not in receipt of a statutory allowance would be complicated and expensive to administer and could be easily abused by the able-bodied.

May 1981

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CUSTOMS AND EXCISE

FINANCE BILL 1981
COMMITTEE

Clause 4

Amendment	Page	Line
8	3	2

Mr Peter Shore (Stepney & Poplar, - Lab)
Mr Robert Sheldon (Ashton-under-Lyne, - Lab)
Mr Robin F Cook (Edinburgh Central, - Lab)
Mr Jack Straw (Blackburn, - Lab)

8

Clause 4, page 3, line 2, at end insert 'in the case of light oil as defined in section 1 of the Hydrocarbon Oil Duties Act 1979 and £0.115 in the case of heavy oil as there defined.'.

EXPLANATION

Resist

1. The amendment would reduce the increase in derv duty proposed in the Budget, making the (VAT-inclusive) price increase 7.8p per gallon instead of the 20p proposed by the Chancellor. For derv (used almost entirely by businesses), the VAT-exclusive figures are more appropriate; and these are Budget increase 17.4p per gallon and 6.8p under the amendment. The increase proposed in the amendment is equivalent to 15% of the pre-Budget rate of duty and is presumably designed to restore the duty to the same real level as at the time of the Budget last year.

2. The cost of the amendment would be £160 million in a full year.

3. Without a new Resolution, the amendment cannot over-ride the Budget Resolution until Royal Assent. In strict law, even if the amendment were to be carried, the higher rate of duty should continue to be collected until Royal Assent. Duty which has been paid since Budget Day at the rate proposed in the Budget would have to be repaid to the oil companies after Royal Assent to the extent that the amount of the duty exceeded the rate determined by this amendment if it were to be carried. There would be no way of ensuring that this repayment was passed on to the consumers who had in fact borne

the higher rate of duty in the intervening period; this would represent "windfall" profits to the oil companies.

POINTS FOR USE IN DEBATE

Revenue

4. It is crucially important this year to cut public borrowing, and to do this revenue must be raised. Substantial increases have been proposed in all the major revenue duties, and it is fair that users of derv should also bear their share of the increased taxation burden. Those who propose lower rates of duty should suggest how the revenue might be made up from elsewhere. To raise £160 million we would have to add 2p to the price of a pint of beer or 5p to a packet of cigarettes.

Inflation

5. We recognise that in the short term the derv duty increase may add to the RPI. (The impact effect is nil, but there will be an indirect effect as the increase in business costs feeds through into prices.) But, as part of the overall Budget strategy of keeping down public borrowing, the duty increase is helping to lay the foundation for a long term reduction in inflation and, in due course, a reversal of the upward trend in the burden of taxation.

Real burden of duty

6. The duty on derv, even after the Budget increase, is still in real terms 25% lower than in 1970.

EC comparisons

7. The duty on derv is higher in the UK than in other EC Member States, but several other countries compensate for low rates of derv duty by higher VED on diesel vehicles. UK vehicles operating on the Continent will of course pay Continental prices for fuel they take on, and Continental vehicles in this country will pay UK prices.

Energy conservation

8. Business as well as private users should be encouraged to economise in their use of fuel. The immediate impact on consumption may be small, but over the longer term, as users invest in more

fuel-efficient vehicles or otherwise change their mode of operation, the effect should be significant.

Business costs

9. Virtually all of the derv duty is borne by businesses. The Budget increase in derv duty will add about 2½% to road transport costs, but the effects will be thinly spread over a wide range of commercial and industrial activities.

Lower rate of duty on derv than on petrol

10. Traditionally petrol and derv have been dutied at the same rate. We recognise the advantages to energy conservation of encouraging the use of derv: indeed, the present Chancellor only last year removed the 5p additional duty which had applied to derv since the Labour and Liberal parties failed to join us in our opposition to the Budget increase in 1977.

May 1981

1400

CUSTOMS AND EXCISE

FINANCE BILL 1981
COMMITTEE

Clause 4

Amendment	Page	Line
9	3	2

Mr Peter Shore (Stepney & Poplar - Lab)
Mr Robert Sheldon (Ashton-under-Lyne - Lab)
Mr Robin F Cook (Edinburgh Central - Lab)
Mr Jack Straw (Blackburn - Lab)

Clause 4, page 3, line 2, at end insert 'except in the case of lead-free light oil when the duty shall be at the rate of £0.0691.'. 9

EXPLANATION

Resist

1. The amendment would halve the (post Budget) rate of duty for lead-free petrol.

2. Since lead-free petrol is not sold in this country, the immediate cost of the amendment would be negligible. But a duty differential which encouraged a switch to lead-free petrol, could of course be costly in the long term.

3. An amendment to halve the rate of duty on lead-free hydrocarbon oils was debated in the Finance Bill Standing Committee on 22 May last year. It was withdrawn after the debate by its sponsors, when they realised that it would have the effect of halving the derv duty.

POINTS FOR USE IN DEBATE

4. Government policy on lead-free petrol. There are a number of difficulties about an early switch to lead-free petrol. A compulsory switch is prohibited by a 1978 EC Directive which lays down a range (0.40-0.15 grams/litres) within which Member States must prescribe the maximum lead content of petrol. There is an energy penalty in that about 5% more crude oil would be required to produce lead-free petrol. The existing UK vehicle fleet is unsuited to

CUSTOMS AND EXCISE

to running on lead-free petrol, and there would be a considerable period before suitable lead-free engines could be designed and put into mass production here. In the short term, would-be users of lead-free petrol would have to turn to Japanese or American vehicles. It would be premature at this stage to take steps to encourage a move to lead-free petrol. A duty incentive is an interesting possibility, and we shall keep it in mind.

April 1981

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CUSTOMS AND EXCISE

FINANCE BILL 1981
COMMITTEE

Clause 4

Amendment	Page	Line
10	3	4

Mr Stephen Ross (Isle of Wight - Lib)

Clause 4, page 3, line 4, at end add 'except that this section shall not apply to the Isle of Wight.'.

10

EXPLANATION

Resist

1. Mr Ross' intention is presumably to exempt road fuel consumed in the Isle of Wight from the Budget duty increase. Since, however, oil duty becomes chargeable at the place where oil is imported or delivered for home use from bonded premises, it is doubtful whether his amendment achieves that effect.

2. No statistics are available on the amount of road fuel consumed in the Isle of Wight. But the Island would account for a very small proportion of the total £1,180 million expected from the Budget duty increase.

POINTS FOR USE IN DEBATE

Rural motorists

3. All motorists must bear their share of the additional duty burden. I understand the concern of hon Members with rural constituencies, but I must ask them to remember that the typical price of petrol is only 15% higher than it was a year ago - broadly in line with inflation. Moreover, although rural motorists tend to have a greater mileage than urban ones, the less congested conditions under which they drive are likely to increase their mileage per gallon. They will not necessarily be harder hit than other motorists by the duty increases.

1E3

CUSTOMS AND EXCISE

Regional variations in the duty to help rural areas

4. Because the duty is paid by the oil companies when the oil is released from bond, there is no practicable way in which a regional variation could be introduced without providing opportunities for widespread abuse (through delivery from low- to high-duty areas after the tax point). Also it would be unfair to garages just the "wrong" side of a dividing line between low- and high-duty areas.

Real burden of duties

5. It is true that the Budget duty increase is more than is necessary to compensate for inflation over the last year. But the tax burden (duty and VAT together) on petrol is still, even after the Budget increase, at the same level in real terms as it was in 1970, and the real duty on derv is 25% lower than in 1970.

EC comparisons

6. Even after the Budget increase, pump prices of petrol in this country are broadly comparable with those in the majority of other EC countries. The UK duty on derv is higher than in other Member States, but several other countries compensate for low rates of derv duty by higher VED on diesel vehicles.

Energy conservation

7. The increase in duty will encourage users, business as well as private, to economise in their use of road fuel. The immediate impact on consumption may be small, but over the longer term, as users invest in more fuel-efficient vehicles or otherwise change their driving habits, the effect should be significant.

May 1981

SECRET

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

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (Commons)
Minister of State (Lords)
Sir D Wass
Mr Ryrie
Mr Middleton
Mr Battishill
Mr Kemp
Mr Griffiths
Mr Cropper

29 April 1981

DERV DUTY REDUCTION

I attach the speaking notes for tomorrow afternoon which you requested at your meeting yesterday, together with notes on supplementaries.

Now cleared dll

We are in the process of clearing certain paragraphs with the Departments of Energy and Industry. FP Division has agreed the general line but we have not yet been able to clear in detail.

CF

C FREEDMAN

Internal Circulation

CPS	Solicitor	Mr McGuigan
Mr Phelps o/r	Mr Howard	

SPEAKING NOTES

Important to consider road fuel duty increases in context of whole Budget strategy. All too easy to single out some part of the Budget for criticism, while treating the more popular parts as a quite unconnected bonus from providence. But the whole package hangs together.

I would not have been able to reduce interest rates if had not taken action to limit public borrowing to £10½ billion. Higher borrowing with lower interest rates would have meant risking higher inflation. This is why it was vital to cut public borrowing. And that meant higher taxes.

SPEAKING NOTES

There is no painless way of raising taxes. For income tax-payers this meant no increase in personal allowances (saving £1,900 million in 1981-82). And I had to raise over £2,400 million from taxes on spending. Main components, other than petrol and derv:-

14p on cigarettes	-	£500 million
£10 on VED	-	£225 million
4p on beer	-	£370 million
Wines (12p table, 25p sherry)	-	£ 70 million
60p on spirits	-	£ 60 million

These large increases on drinks, tobacco and VED raised only just over £1,200 million. This left another £1,200 million to be found. I decided it had to come from petrol and derv.

I can assure the House that I have examined all the "easy" alternatives that have been suggested.

Higher taxes on gambling? But the total revenue from all gambling taxes is only about £500 million a year. And that is after the increases in the gaming taxes I introduced in the 1980 Budget, which became effective from last autumn. Of course I want to obtain the maximum amount of revenue from gamblers rather than from motorists but any further large increase in gambling taxes would fail to raise anything like the £1,200 million needed. Anything beyond a very modest increase would risk driving gambling underground, into the hands of the criminal world.

A tax on overseas holidays? It would not work. It would be all too easy to avoid. The package holiday business would move out of Britain. In any case holidaymakers already pay indirect taxes abroad, just as foreign tourists pay indirect taxes here. A tax on foreign package holidays booked in Britain would amount to double taxation. It would contravene our international obligations.

A tax on caravans? They already pay 15% VAT, and the further revenue potential is limited. I estimate that the extension of car tax to touring caravans would raise only some £5 million to £10 million a year. I have also had to bear in mind the industrial implications. The domestic UK-based manufacturing industry which traditionally accounts for over 90% of home sales is already suffering because of the recession. Now would not be the time to impose additional taxation in this area.

My Postbag has produced two other very popular suggestions.

A tax on Space Invader games? Preliminary estimates suggest the revenue would be less than £5 million. So it hardly measures up to the problem. More expensive dog licences is the other favourite. Well-known that rate has been 37½p (7s 6d) since 1878. But even if Government put it up to £5 - 14 times the present level - that would only produce at the very most an extra £14 million or so. Another drop in the ocean, I'm afraid.

Hence my conclusion to look for the extra £1,200 million that was needed to the duty on petrol and derv. 20p on petrol raised £910 million, 20p on derv a further £270 million. The increase on petrol, although bound to be unpopular, was both necessary and justified. The tax on petrol is now less in real terms than it was in 1950, in 1960 and in 1970. As a proportion of the total price of petrol, the tax is now lower than it was during the whole of the decade up to the oil crisis of 1973. It was legitimate to restore the proportion of tax, as an incentive to energy conservation.

Before the Budget, the price of petrol in the UK was the lowest in the European Community, except for Germany. After the Budget, the price came broadly into line with the rest of the Community - and in real terms the same as it was here after the 1980 Budget.

It is true that the higher petrol duty will increase business costs, but must point out that businesses get relief on the VAT element of the increase. The effect on business costs must, in any case, be set alongside the Budget's benefits for industry: a £450 million concession on stock relief, help with energy prices, fresh tax incentives for new and small businesses and, above all, 2 per cent off interests rates.

Also took into account that many kinds of business are unaffected by the increase in derv, which applies only to vehicles used on roads. Thus farm machinery not driven on public roads, fishing vessels, [glasshouses,] and foresters' equipment are all unaffected. Ordinary buses making regular stops have the duty refunded. Oil used for production of petrochemicals is generally free of duty and I have proposed a limited degree of further duty relief in Clause 5 of the /Finance_7 Bill.

? insert 2 sentences about horticulture.

Nevertheless, on further consideration good industrial case for reducing duty on derv. Unlike petrol, where as already explained UK is in the middle of the international league table after the Budget, our derv price is the highest in the EC. Care has to be taken in these comparisons: retail prices are by no means a complete guide in a situation where, in the UK, over 80% of derv is sold under contract at a negotiated discount from the standard price (a somewhat smaller proportion in other EC States); moreover, some taxes are rebatable in some countries, not in others. In addition, some countries discriminate against diesel-engined vehicles through their vehicle excise duties. But, even taking account of all these factors, little doubt that we are clear leader. Also, we have received many representations from road haulage industry and others about the extent to which the Budget increase affected their costs. The duty on derv now accounts for about 8% of road freight transport costs and this in turn feeds through into all business costs and eventually final prices. A duty reduction will be of particular benefit to rural areas and to the Scottish economy and will meet concern regularly expressed about distribution costs of many commodities, ranging from food for livestock to petrol and beer.

Therefore decided to accept amendment standing in name of Mr Skeet and others and the 10p per gallon reduction in duty on derv which it proposes. Must make clear amendment has no legal effect until Royal Assent; position until then governed by the Budget Resolution (under the provisions of the Provisional Collection of Taxes Act 1968). Thus the 20p per gallon increase remains in force until the Bill becomes law. This is broadly similar to the procedure followed in 1977 for the petrol duty reduction. Some consequential technical amendments will be required and I will propose these at Report Stage.

Amendment will cost some £85 million for August implementation. Perhaps modest in comparison with total of £1,180 million from Budget increases on road fuel. Nevertheless, it would be most unwise to allow this to be reflected in the size of the PSBR and in my view no option but to ask people to pay the cost in some other way ~~recoup in due course~~. ~~This will have to be done by putting further tax burden on consumer~~.

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29/4

1. MR BATTISHILL

2. CHANCELLOR

The main speaking notes on Clause 44 will be reaching you direct from Customs this afternoon.

cc CST
FST
MST(C)
MST(L)
Sir D Wass
Sir A Rawlinson
Mr Ryrie
Mr Dixon
Mr Burgner
Mr Lovell
Mrs Gilmore
Mr Wicks
Mr Robson
Miss Peirson
Mr Mortimer
Mr Binns
Mr Ridley
Mr Cropper

PS/Customs and Excise
Mr Woollett C/E

FINANCE BILL DISCUSSIONS: HORTICULTURE

I understand that a letter has now been sent to Mr Walker informing him of your agreement to the introduction of a fuel oil subsidy to glasshouse growers.

2. I also understand that it is the intention that this decision should be announced tomorrow in connection with the resumption of discussions on the Finance Bill. There are two possible forms the announcement might take (which are not mutually exclusive). Mr Walker might make the announcement in a written answer in the Commons. Alternatively or in addition you might wish to make a brief announcement during the Committee Stage of the Finance Bill itself, though strictly speaking such an announcement would technically be out of order on an amendment relating to taxation. Assuming that you would wish to make such a statement in Committee, we would suggest the following form of words:

> "The Government has decided to introduce, for a period of 1 year only, a financial aid to enable glasshouse growers in the horticulture industry to adapt to ~~the higher fuel prices by which they are faced.~~ distortions of competition in this sector, caused by ~~lower~~ subsidised prices elsewhere in the European Community My rt.hon. friend will be announcing the details of the scheme, which will fully conform with the relevant European Community guidelines, shortly."

This could presumably be slotted in in the context of whatever may be said about the impact of tax changes on the rural community.

G E F.

G E FITCHEW 29 April 1981

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c. PS/MST(C)
Mr Battishill
~~Mr Griffiths~~
Mr Cropper
PS/CCE

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29/4

MR WIGGINS

cc PS/Chief Secretary
Mr Gordon
Mrs Woods
Mr Kelly
Mr Cardona

LEAD IN PETROL STATEMENT AND THE FINANCE BILL

I minuted the Chancellor on 15 April about the forthcoming Government announcement that the permitted lead levels in petrol are to be reduced and that petrol prices will in consequence rise. I advised against the idea of delaying this statement till the clauses of the Finance Bill dealing with the increase in fuel excise duties had been considered in the House. Peter Jenkins' minute of 16 April indicated that the Chancellor was content not to press the possibility of delay.

2. Meanwhile the Chancellor of the Duchy of Lancaster had minuted the Prime Minister on 15 April to suggest delaying the statement until after the relevant clause of the Finance Bill had been taken (the latter is due to come before the House on Thursday). At Private Secretary level, the Energy and Scottish Departments have also indicated that they are happy to delay the statement.

3. DOE officials told me yesterday that the lead in petrol statement is now likely to be made in the second week of May ie some time after the debate on the excise duty increase. They are working on the draft statement which will be cleared with us beforehand. (So far as I can determine, DOE have not so much made a conscious decision to delay the announcement as found themselves overtaken by events - particularly interdepartmental squabbling about the wording of the statement.)

LEAD IN PETROL & THE FINANCE BILL

4. You may like to let the Chancellor know the revised order of events (which is now irreversible). To the extent that the fears expressed in my earlier minute are warranted, Treasury Ministers may find themselves faced tomorrow with ill-informed and exaggerated claims about the effect on petrol prices on the anti-lead pollution measures (which have already been widely leaked in the Press). It may be useful to provide defensive briefing on this item before the debate, and for someone to stand ready to attend. Perhaps you or FP could let me know if they wish to take up this idea.

Barry H. Potter

BARRY H POTTER

29 April 1981

CONFIDENTIAL

PPS 153

PETER TEMPLE-MORRIS - INTERVIEW ON PETROL TAX REVOLT

Transcript from BBC Radio 4, Today, 29 April 1981

IN TERVIEWER: (Libby Purvis) ... . do you believe that, as is already rumoured, the Government is preparing for a small U turn, a small concession, on this issue?

TEM PLE-MORRIS I think they are preparing for a concession, and I think they recognise the strength of feeling in the rural areas - and that was amply demonstrated by the 30 people that either voted against or abstained on the Budget order vote. And I'd add to that that doesn't just emphasise the seriousness of the situation. There were a number of other Members Of Parliament who voted in favour of the Government on the Budget order vote but at the same time said in their constituencies that the right time to fight this was at the committee stage, which is of course tomorrow evening, and since that time have made their feeling s clear to the Whips. I would just add to that because coming in numbers over 30 makes it very serious, none of those - and I think this goes for everybody - really is looking for trouble and looking for a rebellion. We are making our position clear on behalf of our ~~xxxx~~ constitutents and on behalf of the country and we would hope that the Government will listen, and I think that there's a very real likelihood that they will.

INTERVEWER : Well what would you settle for; there's some talk of leaving petrol as it is but cutting the derv increase by half, say just 10 pence on derv, would that be enough?

TEMPLE-MORRIS: Not for me no. I ~~xx~~ mean I think that nationally speaking the tax on derv is very serious indeed. It's highly inflationary and it's disadvantageous to our transport industry as far as Europe is concerned and as far as the national responsibilities are concerned. But in the rural areas it's not just derv it is petrol as well. It is an u nfair tax and in the rather desperate understandably desperate, trawl to reach for every area of indirect taxation as the Chancellor indulged in in this Budget I'm afraid to say that they over reached themselves in this respect and they must correct it.

INTERVIEWER : But, as Eldon Griffith said, it's the duty of anybody who votes against this to suggest some alternative way of raising the money. He has suggested extra bank profits tax and betting tax increases; what would your your best bet seem to be?

TEMPLE-MORRIS: I would just want to say right at the beginning on this one that I accept entirely what you said and what Eldon Griffiths has said. But it is the duty of a Back Bench Member of Parliament when the Government does somthing - a Government Back Bencher might I say - when the Government does something which is wrong in the eyes of his constituents and against their interest it is a part of our constitutional process that we dispose. And I think it is up to up to us whatever the way that we decide, Parliament decides, to raise these tax s it's up to us to say no you have done wrong. And with the Treasury's resources and everything at their disposal I'm quite sure that they can find a way to raise these taxes. Now having said that it is the ~~responsibility~~ respon-sible way to criticise to suggest alternatives. There are many alternatives so that there can be a combination of them or their can be one particular one. The sort of areas that we're looking at, for example, is an enormous contingency fund in this Budget - £2.5 billion contingency which the Government is holding in reserve because all budgeting is to a certain extent guesswork

There are a number of other taxes, those could be less now because the Government will have had the revenue on petrol and derv right the way through the summer before there need to be any alteration. And I hope they're working on taxes on gambling. There are other rather unpleasant alternatives such as holidays, such as caravans, such as of course ~~xxp~~ spirits although I would like to leave off alcohol. There are cuts as well. There could be many more I would have thought cuts with regards to payments to nationalised industries with a regard to across the board in a public expenditure of £100 billion Surely to goodness we can cut the few hundred million here to be fair to the rural areas.

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29/4.

FAIR COPY OF A LETTER SENT TO THE CHANCELLOR OF THE EXCHEQUER BY MR. ELDON GRIFFITHS, MP.

HOUSE OF COMMONS

Thursday
11 pm

Dear Geoffrey,

I had hoped to say a word about your petrol tax proposals at the Finance Committee - but alas, you had to leave, no doubt for your TV broadcast. It was however, quite clear that many colleagues dislike the extra 20p - and believe, as I do, that it will be inflationary and politically very damaging to our Party.

Overall, I support your Budget, even though it is disappointing to see public spending still going up, and taxes increasing to pay for it; but the balance you have struck between the State and the individual seems to me to be wrong.

Why could you not cut the large subsidies to Steel and BL by - say - 5%, or run them over 13 months instead of 12? Why not reduce next year's cash limits on Government departments (except those like Defence and Police where we promised more), on the basis of holding down public service pay to 5% instead of 6-7%? Why not postpone Fourth Channel and Breakfast TV? And make a start on tapering the pensions of newly retiring civil servants eligible for more than £10,000?

All these are in line with our promises. Abandoning Rooker-Wise and hammering the Home Counties with 20p on petrol are not at all what a Conservative Government was elected to do!

/I accept,

I accept, of course, that the recession has limited your room for manoeuvre, and needless to say, I shall support a policy of paying our way. But the measures I have mentioned above would come close to saving the £500 million that is needed to cut petrol from 20p to 10p - and if they aren't quite enough, I for one would gladly see another ½% on betting levy tax and £50 million more from the banks.

I do hope you will say, in your wind-up, that you will reconsider petrol - on the basis of the kind of savings and/or other taxes I - and others - have suggested. It will not be possible for me to support you on petrol as it stands - and I suspect this goes for other colleagues too.

PLEASE think again.

Yours ever

(Sgd.) ELDON GRIFFITHS

I am copying this to the Chief Whip and will do a P.N. at the weekend

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cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State (C)
PS/Minister of State (L)
Mr Battishill
Mrs Boardman
Mr Freedman) Customs & Excise
Mr Howard)

MR WIGGINS

ROAD FUEL DUTIES

Mr Rosenfeld at the Department of Transport has asked me to pass on a suggestion from Mr Fowler that the Chancellor might like to refer in the debate tomorrow to the representations that the Freight Transport Association and the Road Haulage Association have made about the effects of the Budget increase in derv duty on road freight transport costs.

Apparently both trade associations have been pressing Mr Fowler strongly to urge the Chancellor to make a concession.

H M GRIFFITHS
29 April 1981

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CUSTOMS AND EXCISE

FINANCE BILL 1981 COMMITTEE

Clause 4

Amendment	Page	Line
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46	3	3

Dr David Owen	(Plymouth Devonport - Soc Dem)
Mr William Rodgers	(Teesside Stockton - Soc Dem)
Mr John Horam	(Gateshead W - Soc Dem
Mr Christopher Brocklebank-Fowler	(Norfolk NW - Soc Dem)
Mr Ian Wrigglesworth	(Teesside Thornaby - Soc Dem)
Mr John Roper	(Farnworth - Soc Dem)

Clause 4, page 3, line 4, leave out '10th March 1981' and insert '5th May 1981; but as respects the period beginning at 6 o'clock in the evening of 10th March 1981 and ending at 6 o'clock in the evening of 5th May 1981, the rate of the duty of excise charged by section 6(1) of the said Act of 1979 shall, notwithstanding subsection (1) above, be £0.1382 a gallon'.

Mr David Steel	(Roxburgh Selkirk & Peebles - Lib)
Mr Richard Wainwright	(Colne Valley - Lib)
Mr A J Beith	(Berwick-upon-Tweed - Lib)
Mr Cyril Smith	(Rochdale - Lib)
Mr David Penhaligon	(Truro - Lib)
Mr David Alton	(Edge Hill - Lib)

Clause 4, page 3, line 3, leave out subsection (2) and insert -

'(2) This section shall be deemed to have come into force at six o'clock in the evening on 10th March 1981, but as respects the period beginning at six o'clock in the evening on 10th March 1981 and ending at six o'clock in the evening of 5th May 1981 the rate of duty of excise charged by section 6(1) of the said Act of 1979 shall, notwithstanding subsection (1) above, be £0.1382 a litre in the case of light oil, and £0.1382 a litre in the case of heavy oil.'.

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CUSTOMS AND EXCISE

EXPLANATION

Resist

1. Both amendments would make the date of implementation of any change in the petrol or derv duty 5 May instead of Budget Day. Both provide legal cover for the charging of the full (VAT-inclusive) 20p increase proposed by the Chancellor for the period between Budget Day and 5 May. (The Social Democrat amendment is defective, however, in that it refers to the post-Budget rate of duty as being 13.82p per gallon, instead of per litre.)

2. The amendment on its own would cost nothing; its effect would depend on the actual change in duty rate voted by the House. If the Social Democrat amendment (No 7) to reduce the petrol and derv duties by 10p (VAT-inclusive) were carried, the 1981/82 cost would be about £530 million. If the Liberal amendment (No 5) reducing the (VAT-inclusive duty on petrol by 15p and on derv by 20p were passed, the 1981/82 cost would be £870 million. Reducing the petrol duty by 10p (including VAT) on 5 May instead of at the beginning of August would lose an additional £135 million in 1981/82; the parallel figure for derv is £35 million.

3. Without a new Resolution, the amendment cannot override the Budget Resolution until Royal Assent. In strict law, even if the amendment were to be carried, the higher rate of duty should continue to be collected until Royal Assent. Duty paid in excess of the amended rate after 5 May would then have to be repaid to the oil companies.

POINTS FOR USE IN DEBATE

<u>Compensating measures</u>

4. Any substantial reduction in the duty on petrol or derv must be accompanied by compensating measures elsewhere. Delaying the change in the duty rate until after Royal Assent will provide time to bring forward formal proposals for such compensating measures. (Any increase in other duties prior to Royal Assent to the Finance Bill would require a Resolution under the Provisional Collection of Taxes Act.)

<u>Revenue</u>

5. Delaying any reduction in duty rates until after Royal Assent will reduce the revenue cost to the Exchequer.

CUSTOMS AND EXCISE

Technical drafting

6. Those amendments which propose a lower rate of duty on derv than on petrol do not deal with all the legislative problems that a differential rate of duty would raise. Further amendments are necessary, for example, to set the rate of duty on petrol substitutes and road fuel gas (at present tied to the common rate of duty on petrol and derv).

April 1981

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