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PART: B

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PART. B.

BUDGET OVERVIEW
AND BUDGET
PACKAGES.

1983

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C/EX REF NO B(83)8

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RECORD OF THE FOURTH BUDGET OVERVIEW MEETING AT 11AM ON 15 FEBRUARY

Present:

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Sir Lawrence Airey (IR)

Mr Burns
Professor Walters (No 10)
Mr Middleton
Mr Moore
Mr Kemp
Mr Cassell
Mr Ridley
Mr Kerr
Mr Robson

Mr Fraser (C&E), Mr Bailey (C&E) Items 1-3 only

Mr Freedman (C&E)) Item 3
Mr Howard (C&E)) only

Mr Isaac (IR))
Mr Blythe (IR)) Item 4 only
Mr Spence (IR))

Papers:

i. Progress Report (Mr Kemp's minute of 14 February)

ii. Budget Packages (Sir D Wass's minute of 14 February)

iii. Indirect Taxes, Petrol and Derv (Mr Fraser's minutes of 11 February)

iv. Income Tax Options (Minutes of 7 and 11 February from Mr Spence, Mr Blythe and Mr Isaac)

v. Budget Speech (minute of 14 February by Mr Kemp)

ITEM 1: Progress Report

Budget Balance

The meeting considered whether Budget B (£2 billion fiscal adjustment, half on income tax thresholds) in Table A to Mr Kemp's minute was the best "central case" for planning purposes. It was suggested that, if in the light of the forecast which would be available in the week of 21 February a larger fiscal adjustment seemed possible, the increased relief should be tilted more to industry than in the present Budget C. Cabinet and backbench opinion favoured action to benefit industry, and such public opinion poll evidence as was available suggested that this preference was widely shared. It was also argued, however, that the likely future oil price movement might justify some caution about the fiscal adjustment, and that business and industry would benefit substantially, although indirectly, from increases in the income tax thresholds.

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2. It was agreed that Budget B should remain the "central case"; but the Chancellor asked that the next progress report should incorporate variants to Budget C which would tilt it further towards direct help to industry. (Action: Central Unit)

3. The meeting briefly considered the extent to which it would be possible at Budget time to take credit for the Autumn NIS reductions. It was suggested that only one of the two (half point) NIS reductions announced in the Autumn Statement could fairly be taken into the Budget arithmetic for presentational purposes. The Chancellor asked that the matter be further considered in the next progress report.
(Action: Central Unit)

ITEM 2: Packages

Construction

4. The Financial Secretary expressed concern that small operators were excluded from the extension of the Allowances envisaged for self-catering accommodation. He thought it important that some relief for the small operators should be found, particularly if the larger operators were to benefit. The Chancellor asked that the matter be considered further.
(Action: FST/MST(R))

West Midlands

5. The Chancellor and the Chief Secretary noted a reference, in Sir Douglas Wass's minute, to the possibility of giving the West Midlands development area status. It was noted that this should be seen as a warning, rather than a recommendation, and that the case against it had been put in a minute by Mr Chivers. It was agreed that the possibility should not be considered for the Budget: decisions on the designation of future development areas should await the consideration of the Quinlan regional policy study.

Fairness in Taxation

6. The Chancellor agreed that it would probably be wrong to envisage a specific package on "fairness in taxation" at Budget time. But some of the measures now being considered under this heading might well be appropriate to the Budget, and to presentation seriatim in the Budget Speech. (Action: FST/MST(R))

Review of Packages

7. It was noted that the overview meeting on 22 February would review progress on packages, and the balance between them, following individual meetings on each in the current week. The Chancellor asked that the packages should be presented, for that meeting, in a collated form, listing and costing firm decisions, and remaining options, on each. The options should be set out in the order of preference of the Minister coordinating each package. (Action: Central Unit)

ITEM 3: Excise Duties

Tobacco

8. The Economic Secretary reported on the position reached on the residual tobacco duties, which had been referred to him following the decision already taken on cigarettes. He suggested, and the Chancellor agreed, that the duty on cigars should be increased in line with that on cigarettes. As for pipe tobacco, he was attracted by the case - made, among others, by the Secretary of State for Northern Ireland - for no increase this year. The cost would be only some £2.5 million. The Chancellor agreed that there should be no increase in the duty on pipe tobacco.

VED/Petrol/Derv

9. Although this would be slightly above revalorisation, it was agreed that VED should rise by £5.

10. The Chancellor was inclined to think that straight revalorisation would be right for petrol, and probably also for derv, though there might

be a case for increasing the differential in favour of derv. It was noted that some rural interests would be offended by a duty increase on either petrol or derv (though real farm incomes rose by some 32 per cent in 1982) and the chances of a substantial revolt in the House were probably lower this year than last year, and could be further reduced if briefing material were available promptly on Budget Day. The Chancellor asked for the preparation of a short analysis of the Secretary of State for Transport's arguments for increasing petrol duty over and above revalorisation. (Action: Mr Moore) Meanwhile the options could be narrowed to full revalorisation of both petrol and derv, and increases of 4p a gallon (petrol) and 3p a gallon (derv). The cost of the latter would be £25 million. (Action: Customs & Excise)

Paraffin

11. It was decided not to pursue the Secretary of State for Energy's proposal to abolish the 1p a gallon duty on domestic paraffin.

ITEM 4: Personal Taxation

Income Tax Thresholds

12. The meeting considered the impact of an 8½ per cent increase in income tax thresholds. The inter-action with NIC was noted: figures including NIC would have to be included in the tables published on Budget Day. It was suggested that the tables, when converted from a static to a dynamic basis, would be less disturbing, but that to convert using a 6½ per cent factor could have a damaging impact on pay expectations.

13. The Chancellor agreed that planning should proceed on the basis of an 8½ per cent increase in thresholds. Tables should be prepared using the assumption of a 6½ per cent increase in average incomes, and also that of a 4½ per cent increase in average incomes. A final decision on the incomes increase(s) to be shown would be taken later.

Higher Rate Bands

14. It was suggested that the higher rate bands should be raised only by revalorisation, or at least by less than revalorisation plus 8½ per cent. Indexation plus 8½ per cent could provoke criticism. It was also suggested that such criticism could best be defused if the higher rate bands were raised only sufficiently to compensate for non-indexation since 1979, with a view to returning to the position reached in the 1979 Budget. It was however argued, particularly by Sir L Airey and Mr Isaac, that there were no obvious stopping-places short of 8½ per cent, that picking 1979 as an ideal year could be counter-productive, and that it was not unreasonable that those paying tax at the higher rates, who suffered most when the thresholds were not raised, should gain most when they were. The Financial Secretary agreed, and thought that an 8½ per cent increase across the board would give elbow-room for action against the more dubious reliefs, and defuse criticism of non-revalorisation of the mortgage interest relief ceiling.

15. It was agreed that the higher rate thresholds and bands should increase in line with the main personal tax allowances.

Investment Income Surcharge

16. The meeting considered the options of indexation, indexation plus 8½ per cent, indexation plus a reduction in the rate from 15 to 10 per cent, and an increase in the threshold to £11,000. It was noted that the Revenue cost of the last two options would be some £85 million, though the PSBR costs would be negligible in 1983/84, and only some £35 million in 1984/85.

17. The Financial Secretary and the Economic Secretary were attracted by the third option (ie a reduction in the rate): it would signal the Government's intention to abolish IIS in due course, whereas raising the thresholds would paradoxically make abolition more difficult. It was however noted that reducing the rate would create no staff saving. The Chief Secretary, Sir Lawrence Airey, and the Minister of State (C) argued for the second option; and the Chancellor decided that the IIS threshold should rise in line with the income tax threshold.

Age Allowance

18. It was also agreed that the age allowance should rise by the same percentage as the main tax thresholds.

ITEM 5: Budget Speech

19. The Chancellor commended the "building blocks" for the Budget Speech circulated with Mr Kemp's minute of 14 February. He had been encouraged by the progress so far made on the Speech. He asked that any general comments on the shape, scope, and structure of the draft should be forwarded to the Central Unit by close of play on 16 February.

J O KERR

Distribution:

Those present

Mr Littler
Mr Evans
Mr Hall
Mr French
Mr Harris
Mr Norgrove

Mr Burns

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NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM, HM TREASURY AT 9.00AM ON TUESDAY 15 FEBRUARY 1983

Those Present:

Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (R)
Sir Anthony Rawlinson
Mr Bailey
Mr Middleton
Mr Kemp
Mr Lovell
Mr Chivers
Mr Ridley

BUDGET INNOVATION AND TECHNOLOGY PACKAGE

The meeting had before it the Chief Secretary's minute of 9 February.

Tax Measures

2. The Chancellor noted that all three of the tax proposals identified in the Chief Secretary's minute had now been agreed.

Public expenditure

3. The Chancellor referred to the desirability of incorporating in the Budget measures which would be of especial benefit to the West Midlands. The Prime Minister was known to favour such an element. Mr Chivers' minute of 14 February had clearly demonstrated the difficulty of according the West Midlands Assisted Area stakes in advance of a general redrawing of the regional map. It would not in any case be possible to make an announcement in time for the Budget, while a general statement of the Government's intention to reconsider the coverage of

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the assisted areas would only create uncertainty throughout industry. The Chancellor therefore saw considerable attractions in measures such as SEFIS which could be shown to have particular relevance to firms in the West Midlands and presented as such.

4. On the individual expenditure proposals listed in the Chief Secretary's minute:

(i) SEFIS: The Chancellor wondered whether more expenditure might be devoted to this item. Mr Chivers explained that the Department of Industry had revised their bid downwards since their Secretary of State had written to the Chancellor on 12 January. The figures in the Chief Secretary's package represented the Department's current best estimate of what might be spent on a scheme which remained open for applications for a 6 month period. Mr Middleton pointed out that the Government could best ensure that money was spent quickly by placing a time limit on applications. It was agreed that provision should be made for SEFIS in the package on the basis of the figures set out in the Chief Secretary's Table 2. The Chancellor said that he would consider with the Secretary of State for Industry at his meeting on 18 February whether there might be any scope for reducing the import content of the scheme.

(ii) Information technology (computer aids and software): this item was agreed.

(iii) Innovation-linked investment: this was agreed.

(iv) Advisory services: the Chancellor said that he had at first reacted adversely to this proposal, believing it would involve an expansion of the bureaucracy. However it was pointed out that all this work would be contracted out to the private sector. On this basis, it was agreed that provision should be made for advisory services within the package.

(v) Science parks: it was noted that this item could also probably be given a West Midlands slant. The Chancellor would discuss the possibility of doing so with the Secretary of State for Industry later in the week. It was agreed that Science Parks could be included in the package, provided that the total size of the package did not exceed £200 million over the next three years. It was thought that scope should exist for cutting back provision on some of the other items in the package, if necessary to keep within the overall total.

(vi) Advanced equipment for education: this item was rejected.

5. It was agreed that no provision for Alvey at this stage, although the Secretary of State for Industry was known to attach high priority to the programme. It was also agreed that the Treasury would not make funds available to continue the maximum rate of grant under Support for Innovation at $33^{1}/3$ per cent. In practice, it was believed that the Department of Industry would probably finance an extension of the $33^{1}/3$ per cent rate from within their block budget.

6. It was noted that decisions on the content of the whole of the innovation package were contingent on final decisions to be taken on the size of the public expenditure element in the total fiscal adjustment

MOM

MISS M O'MARA

Distribution:

Those present
Minister of State (C)
Sir Douglas Wass
Mr Burns
Mr Mountfield
Mr Moore
Mr Robson
Mr French
Mr Harris

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BUDGET CONFIDENTIAL

FROM: DOUGLAS WASS
DATE: 14 FEBRUARY 1983

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Anthony Rawlinson
Mr Burns
Mr Littler
Mr Middleton
Mr Bailey
~~Mr Middleton~~
Mr Cassell
Mr Kemp
Mr Moore
Mr Hall
Mr Ridley

Sir Lawrence Airey (IR)
Mr Fraser (C&E)

Mr Kerr

BUDGET PACKAGES

Attached are the familiar three notes reporting progress on the packages: Note A, summary table; Note B, listing of the packages; Note C, fiscal risks and possibilities. The notes do not reflect the results of the meeting you took this morning on the construction package (though the arithmetic would not be altered substantially).

2. The totals for the packages remain in the right range, though at the top end they would cost more than has been provided in the Budgets we have been discussing. Some of the risks seem to be fading, but others seem now to have greater strength. I might mention two. First, to give Development Area status to the West Midlands would cost around £100 million a year. A note on this possibility is in preparation. Secondly, to drop the social security adjustment would cost £158-250 million in 1983-84 and £530-725 million in 1984-85. This latter risk is substantial even in terms of the overall Budget arithmetic.

3. The packages are in general moving forward satisfactorily and you will be holding a number of meetings on them this week. But "fairness in taxation" could well

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prove sensitive and troublesome. The Financial Secretary and the Minister of State (R) will I understand be reporting to you on various aspects of the package, and I think it would be useful for you to hold a meeting on it early next week. It seems right for the moment to continue to see this as a package, though you may not want to present it as such in the Speech.

DW

DOUGLAS WASS

BUDGET CONFIDENTIAL

NOTE A

DATE : 14 February 1983

BUDGET 1983 - PACKAGES ETC - SUMMARY

(£m revenue costs)	1983-84 Total	1983-84 P/Ex element	1984-85 Total	1984-85 P/Ex element
Packages (Note B below)	315-335	150	265-350	92
Other risks and possibilities (Note C below)	0-410	0-255	0-510	0-355
Child Benefit (In main Progress Report)	90	90	250	250
	405-835	240-495	515-1110	342-697
Less: net amount absorbed by virtue of P/Ex charged to Reserve (see Note 1)	(100)		(100)	
Reduction to convert revenue costs to PSBR	(50-80)		(60-120)	
Net PSBR charge to Fiscal Adjustment	255-655		355-890	
Provided in Progress Report	400		550	

Note 1. How much of the public expenditure element should be charged to the Reserve, and the scope within the Reserve for this, is under review. But whatever the treatment, the allowance for shortfall in the fore-cast has to be reduced, thus giving rise to a charge to the fiscal adjustment. It is estimated that for 1983-84 allowance for shortfall has to be reduced to the extent of the whole excess of the additional public expenditure elements over £100 million; for 1984-85 the figure is less certain but a similar amount, which may be on the prudent side, is deducted.

Note 2. For mention of some other risks see covering minute. There is also of course the continuing risk on oil prices.

Note 3. All figures still tentative and subject to change.

BUDGET CONFIDENTIAL

NOTE 8

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BUDGET PACKAGES: COSTS SUMMARY TABLE

14 February 983

£ million

	1983-84	1984-85	Full year
Enterprise and Small Firms	73-74	145-236	179-276
of which public expenditure:	5	5	-
Wider Share Ownership	Now incorporated in enterprise package		
of which public expenditure:			
Technology and Innovation	44	84	127
of which public expenditure:	44	74	82
Construction	175-200	120-145	125-150
of which public expenditure:	100	-	-
(of which mortgage interest refief:	75-100	100-125	75-100)
Oil Taxation			
of which public expenditure	Not counted in package totals		
Tourism	-	-	-
of which public expenditure:	-	-	-
Agriculture	-	-	-
of which public expenditure:	-	-	-
Betting and Breeding	Package dropped		
of which public expenditure			
Caring and Charities	24-29	41-46	69-74
of which public expenditure:	-	13	41
Fairness in Taxation	3-12	125-160	230-260
of which public expenditure:	-	-	-

Note on business/persons split of package items is overleaf

11 February 1983

TOTALS	315-335	265-350	270-370
of which public expenditure	150	92	123

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BUDGET PACKAGES : BUSINESS/PERSONS SPLIT

	1983-84	1984-85
		£ million
PERSONS:-		
Capital transfer tax	34	70
Mortgage interest relief	75-100	100-125
Caring and charities package	24-29	41-46
TOTAL	133-163	211-241
of which public expenditure	-	13
BUSINESS:		
ALL other package items		
TOTAL	182-172	54-110
of which public expenditure	150	79

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BUDGET PACKAGES
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: SMALL FIRMS AND ENTERPRISE
DATE : 11 February 1983

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

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
	Meeting to discuss package arranged for 16.2.83. FST to circulate note on package 14.2.83			
(a) Business Expansion Scheme	FST minuted Chancellor 31.1.83 with recommendations on main elements of scheme. Chancellor (minute 3.2.83) endorsed broad approach. Costs highly tentative.	under 1	10-100	10-100
(b) Joint venture vehicles for institutional investment.	FST meeting 20.1.83 requested FP/IR to sound out institutions on possible constraint on their investment in small firms: meetings to be completed by 11.2.83.	na	na	na
(c) Zero and deep-discounted stock.	Consultative document issued 12.1.83, with comments requested by 11.2.83. Not costed since no definite proposal yet decided. Shelf issues will need to be considered in light of response.	na	na	na
(d) Simplification of PAYE and NIC payment: Schedule E/D issues.	Discussed at FST meeting 17.1.83. Revenue (Mr R Martin) submission on alternative PAYE system and tax free pay on 8.2.83. Revenue (Mr R Martin) submission on Schedule D/E issues in week ending 18.2.83.	na	na	na
(Continued/..)				

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BUDGET PACKAGES
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: SMALL FIRMS AND ENTERPRISE
DATE : 14 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(e) Capital transfer tax	FST minuted Chancellor 18.1.83 proposing package of improved rate scale, higher agricultural/business reliefs and extended instalments period. Additional Revenue submissions 20.1.83 (Mr Isaac) and 25.1.83 (Mr Beighton). Discussed at Chancellor's meeting 4.2.83.	34	70	90
(f) Loan Guarantee Scheme	Discussed at HIG meeting 11.1.83. Interim submission (Mr Bailey) to Chancellor 24.1.83. Detailed DOI proposals now received; IA submission today.	(pe) 5	(pe) 5	-
(g) Enterprise agencies: widening of qualifying conditions for relief.	Proposed in Mr Heseltine's letter of 6.1.83; Presumption at Chancellor's meeting on 12.1.83 against and Revenue (Mr Lusk) submission so recommended. FST minuted Chancellor (7.2.83) endorsing recommendation - costs not therefore included.	-	-	-
(h) VAT registration etc thresholds EST	Customs submission 24.12.82. Ministerial decision reached. SETTLED	5	10	10

(Continued/..)

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BUDGET PACKAGES

SUMMARY NOTE

PACKAGE: SMALL FIRMS AND ENTERPRISE

DATE : 11 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(i) Corporation tax: small companies profits limits and rates. MST(R)	Revenue submission (Mr Battishill) 26.1.83. 1% reduction in rate would cost £10 million in 1983-84 and £15 million in full year. Cost of broad revalorisation limits, to £100,000 & £250,000 shown opposite. To be considered in light of main options for changes in corporation tax.	6	10	10
(j) Schedule D case V trading losses (starter number 124)	Revenue submission (Mr Keith) of 22.12.82 to FST: Chancellor's meeting 12.1.83 agreed that should remain on table.	under 1	under 1	under 1
(k) De minimis limit for assessment of apportioned income (starter number 152)	MST(R) recommended increase to Chancellor 26.1.83: Chancellor's minute 7.2.83 approved increase to £1000 SETTLED	under 1	under 1	under 1
(l) Relief for interest-employee buy-outs (starter number 189)	Revenue submission (Mr Stewart) to FST 28.1.83. Costs dependent on take-up: figures assume 100,000 employees with relief on £150 each. Wider repercussions could increase costs. Discussed at FST meeting 9.2.83: further Revenue submission pending.	under 1	2	5
(Continued/..)				

BUDGET PACKAGES
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: SMALL FIRMS AND ENTERPRISE
DATE :11 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(m) Close companies: ACT limit on loans (starter number 181) MST(R)	Chancellor's minute 1.2.83 agreed that limit should go hand in hand with mortgage interest relief ceiling.	under 1	under 1	under 1
(n) CGT monetary limits	Revenue (Mr Bryce) submission to FST 13.1.83. FST (17.1.83) commended package to Chancellor. Discussed at Chancellor's mtg 4.2.83 SETTLED	-	under 1	under 1
(o) CGT - retirement relief	Revenue (Mr Beighton) submission to FST 7.1.83. FST (12.1.83) suggested an increase to £100,000 should form part of package. Discussed at Chancellor's mtg 4.2.83 SETTLED	-	under 1	1 - 2
(p) VAT - annual accounting (starter number 5) EST	Chancellor's meeting 28.1.83 agreed unlikely but not ruled out: Chancellor's minute 1.2.83 asked for further discussion. Cost in 1983-84 £20 million and 1984-85 £170 million; once-for-all and not included at this stage. Cu stoms (Mrs Strachan) submission 8.2.83 to Chancellor on consultation tactics. EST to to hold meeting 14.2.83.	-	-	-
(q) VAT - bad debts EST	Suggested in Lord Cockfield's letter of 12.1.83. Customs (Mrs Strachan) submission 8.2.83: advised against and costs therefore not included. Costs would be substantial (in range £150-200m) if comprehensive relief granted. EST (10.2.83) agreed no action.	-	-	-

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BUDGET PACKAGES
SUMMARY NOTE

PACKAGE: SMALL FIRMS AND ENTERPRISE
DATE : 11 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(r) Changes to existing wider share ownership schemes	FST's recommendations to Chancellor 24.1.83. Chancellor's response 3.2.83. Provisionally settled, but FST to put note to Chancellor on possible further options. Costs are for changes already agreed	20	35	40-45
(s) Discounts on bills of exchange (acceptance credits)	Revenue (Mr Stewart) submission 31.1.83. FST agreed proposal 1.2.83 : SETTLED	1-2	1-2	1-2
(t) Interest on foreign borrowing (Eurobonds)	Consultative document issued 26.1.83, with comments requested by mid-February. Cost estimates uncertain.	under 1	under 1	10
	TOTAL	73-74	145-236	179-276
	of which public expenditure	5	5	-

BUDGET PACKAGES

SUMMARY NOTE

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PACKAGE: TECHNOLOGY AND INNOVATION

DATE : 10 February 1983

Minister in lead: CST
Official in lead: Mr Bailey

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
	CST minuted Chancellor 9.2.83: meeting 15.2.83			
(a) Extension of transitional period for capital allowances on British films.	SETTLED	nil	nil	- (30 in 1985-86, 55 over 1985-88 period)
(b) Extension of transitional period for capital allowances for rented teletext televisions.	SETTLED	nil	10	- (15 in 1985-86, 55 over 1984-87 period)
(c) Small Engineering Firms Investment Scheme. (d) Information technology (e) Innovation-linked investment. (f) Advisory services	These items recommended in CST's minute of 9.2.83; costs opposite. If resources available, also recommended additional items (science parks, advanced equipment for education) with additional costs of £6, 11 and 17 million in the three years; these costs not included.	(pe) 44	(pe) 74	(pe) 82 (1985-86)
	TOTALS	44	84	127 (1985-86)
	of which public expenditure	44	74	82

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BUDGET PACKAGES

SUMMARY NOTE

CONFIDENTIAL

PACKAGE: CONSTRUCTION

DATE : 11 February 1983

Minister in lead: CST

Official in lead: Mr Moore

Note: CST minuted Chancellor 4.2.83 on package: meeting on 14.2.83.

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Mortgage interest relief ceiling (starter no 105)	Inclination against at Chancellor's meeting 24.1.83. Further FP note (Mr Moore) 10.2.83. Pending final decision costs included in package; assume increase to £35,000, which after 5 years would cost £200-300 million.	75-100	100-125	75-100
(b) Stamp duty threshold	Revenue (Mr Draper) note to Chancellor 1.2.83: Chancellor's respone 3.2.83: option stands pending decision on (a)..	-	-	-
(c) DLT - own use deferment and write off of deferred tax.	MST(R) 28.1.83 recommended: CST endorsed in minute of 4.2.83.	-	less than 1	5
(d) Changes in home improvement grant rules.	Recommendations in CST's minute 4.2.83; preference is for (e).	(pe) 50	-	-
(e) Funds for enveloping.		(pe) 50		
(f) Increase proportion of office space qualifying for Industrial Building Allowance.	One of proposals in Mr Heseltine's 6.1.83 letter. CST recommends increase to 25% in minute of 4.2.83.	nil	10	25

(Continued/..)

PACKAGE: CONSTRUCTION
DATE : 10 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(g) "Tourism" capital allowances.	There are two items which have previously been candidates for tourism package which are now being examined in construction package:-			
	(i) increase in allowance for hotels to 50%	nil	5	(around 10 after 4 yrs
	(ii) extension of 20% allowance to self-catering accommodation.	nil	up to 5	up to 10
	CST's minute to Chancellor 4.2.83 recommends (ii) in preference to (i).			
	TOTALS	175-200	120-145	125-150
	of which public expenditure	100	nil	nil

BUDGET PACKAGES

SUMMARY NOTE

CONFIDENTIAL

PACKAGE: OIL TAXATION

DATE : 10 February 1983

Minister in lead: MST(R)
Official in lead: Mr Middleton

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) North Sea regime, phasing out APRT etc (starter no 109)	Option B (plus doubling of oil allowance for future fields, which has no short-term cost) proposed to Mr Lawson at meeting 2.2.83: correspondence continuing.	90	140	340 (1985-86)
(b) PRT expenditure reliefs and receipts (starter no 115)	Consultative document issued May 1982. Revenue (Mr Crawley) submissions 26.1.83 and 4.2.83. Costs/yields are for MST(R)'s proposals on abatement put to Mr Lawson 4.2.83.	15	30 yield	50 yield
(c) PRT. Minor provision (starter nos 162, 163, 164 167, 184, 187 and 192).	MST(R)'s recommendations in minute to Chancellor 26.1.83. Chancellor's reply 31.1.83 indicated that he is content. Items involve rough y balancing mix of small costs and yields. SETTLED	-	-	-
(d) PRT. Exempt gas and payback (starter no 166)	Inland Revenue analysing details from companies which may be affected. Submission from Mr Crawley next week. Likely to be unnecessary, so no cost included.	-	-	-
	TOTALS	105	110	290 (1985-86)
	of which public expenditure	nil	nil	nil

CONFIDENTIAL

BUDGET PACKAGES

SUMMARY NOTE

CONFIDENTIAL

PACKAGE: TOURISM

DATE : 10 February 1983

Minister in lead : EST
Official in lead : Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
	EST's recommendations in minute to Chancellor 19.1.83. CST wrote to Lord Cockfield 9.4.83 regarding Mr Sproat's review. To be discussed at construction package meeting 14.2.83.			
(a) Rating reliefs	EST's recommendation against, unless action on industrial/commercial rating relief.	-	-	-
(b) Capital allowances	Two proposals: (i) increase allowance for hotels to 50%; (ii) extend 20% allowance to self-catering accommodation (and smaller hotels). These are now being examined in context of construction package: costs not included here.	-	-	-
(c) Increased grants under section 4, Development of Tourism Act.	EST recommended against.	-	-	-
	TOTALS	nil	nil	nil
	of which public expenditure	nil	nil	nil

CONFIDENTIAL

BUDGET PACKAGES
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: AGRICULTURE
DATE : 10 February 1983

Minister in lead: FST
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Rental income to be treated as earned income.	FST asked (10.1.83) Revenue (Mr Battishill) to examine: submission pending. This is among proposals in Lord Ferrer's letter of 21.1.83; FST's reply of 24.1.83 indicates presumption against all these proposals and therefore no costs included at this stage.	-	-	-
	TOTALS of which public expenditure	nil nil	nil nil	nil nil
	Note: Questionable whether there is sufficient for free-standing package. CTT agricultural reliefs included in item (e) of small firms and enterprise package.			

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BUDGET PACKAGES

SUMMARY NOTE

CONFIDENTIAL

PACKAGE: CARING AND CHARITIES

DATE : 11 February 1983

Minister in lead: CST
Official in lead: Mr Monger

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
	Proposals now received from Mr Fowler (4.2.83) and Mr Whitelaw (5.2.83). ST (Mr Monger) submission to CST 10.2.83. Meeting fixed for 15.2.83.			
(a) Extension of Widows Bereavement Allowance for further year.	FST recommended (11.1.83) following Revenue (Mr Isaac) submission 23.12.83. CST in favour at 25.1.83 meeting on package.	20-25	25-30	25-30
(b) Restoration of 5% abatement of invalidity benefit.	Not proposed by Mr Fowler: costs therefore removed.	-	-	-
(c) Removal of invalidity benefit "trap".	A proposal in Mr Fowler's letter; covered in ST submission of 10.2.83.	(pe) 7	(pe) 23	(pe) 24 (1985-86)
(d) War pensioners mobility scheme.	A proposal in Mr Fowler's letter; covered in ST submission of 10.2.83.	-	(pe) 1	(pe) 3 (1985-86)
(e) Real increase in mobility allowance/theraputic earnings limit. (Continued)	A proposal in Mr Fowler's letter; covered in ST submission.	(pe) 2	(pe) 6	(pe) 6 (1985-85)

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BUDGET PACKAGES
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: CARING AND CHARITIES
DATE : 11 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(f) Development of voluntary etc care service for elderly.	Discussed at FPG meeting 9.2.83: ST submission recommends against.	(pe) 2	(pe) 2	(pe) 2 (1985-86)
(g) Extension of Invalid Care Allowance.	Effectively rejected at FPG meeting 9.2.83: costs therefore removed.	-	-	-
(h) Other social security measures:				
(i) Housing benefit - children's needs allowance.	Mr Fowler likely to press: ST reservations.	(pe) 5	(pe) 15	(pe) 16 (1985-86)
(ii) SB - capital disregard	ST recommend in 10.2.83 submission.	(pe) 2.5	(pe) 7	(pe) 7 (1985-86)
(iii) SB - single payment capital disregard		(pe) 1	(pe) 3	(pe) 3 (1985-86)
(Continued/..)	Note: All other items in Mr Fowler's 4.2.83 letter recommended for rejection in ST 10.2.83 submission.			

CONFIDENTIAL

PACKAGE: CARING AND CHARITIES
DATE : 11 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(i) Abolition of £250,000 ceiling for CTT exemption on gifts to charities.	CST in favour at 25.1.83 meeting. Increase proposed in Mr Whitelaw's 5.2.83 letter.	under 1	under 1	under 1
(j) Deeds of covenant: increase in ceiling for higher rate relief to £5,000.	CST in favour at 25.1.83 meeting. A proposal in Mr Whitelaw's 5.2.83 letter.	nil	3	3
(k) <u>Other fiscal measures</u>:				
(i) relief for payroll giving;	CST inclined against at 25.1.83 meeting. Mr Whitelaw's 5.2.83 letter suggests study.	-	-	-
(ii) relief for individual donations	CST inclined against at 25.1.83 meeting.	-	-	-
(iii) relief for company donations;	CST inclined against at 25.1.83 meeting.	--	-	-
(iv) relief for seconded staff;	CST in favour at 25.1.83 meeting. A proposal in Mr Whitelaw's 5.2.83 letter.	under 1	under 1	under 1
(v) covenanted payments gross.	CST inclined against at 25.1.83 meeting. Mr Whitelaw's letter of 5.2.83 proposes composite rate.	-	-	-
(Continued/.)				

BUDGET PACKAGES
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: CARING AND CHARITIES
DATE : 11 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(1) Other public expenditure measures:				
(i) investment grants to voluntary sector;	CST inclined against at 25.1.83 meeting.	-	-	-
(ii) central grant to National Association of Councils of Voluntary Service.		-	-	-
	Note: The total cost of the public expenditure measures in the package is £20 million for 1983-84, £57 million for 1984-85 and £61 million for 1985-86. However, taking into account offsetting savings, if the package recommended by ST is agreed, the net effect will be as shown opposite. It is these figures which are included in the package totals.	nil	13	41
	TOTALS	24-29	41-46	69- 74
	of which public expenditure	nil	13	41

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BUDGET PACKAGES

SUMMARY NOTE

PACKAGE: FAIRNESS IN TAXATION

DATE : 11 February 1983

Minister in lead: FST and MST(R)

Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
	Revenue (Mr Isaac) submission (9.2.83) to FST and MST (R) suggest measures should not be presented as a package. Further Revenue package summary note 10.2.83.			
a) Fringe benefits: scholarships (starter no. 197)	Chancellor's meeting 22.12.82 agreed on legislation. SETTLED	1-10 yield	1-10 yield	1-10 yield
b) Fringe benefits: car and car fuel scales (starter no. 134)	Revenue (Mr Driscoll) submission (11.2.83) suggests increase in car and car fuel scales of 20% for 1984-85,	-	45 yield	45 yield
(c) Fringe benefits: others (starter no. 133)	and possible package of other fringe benefit measures for 1983 Bill. FST to hold meeting on 14.2.83	-	35-50 yield	35-50 yield
	(Revenue (Mr Corlett) submission 2.2.83 to FST on potentially related issue of capital allowances for company cars. FST (minute 4.2.83) requested further note; FP to submit week ending 18.2.83). No firm options yet; cost/yields not included.			

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BUDGET PACKAGES
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: FAIRNESS IN TAXATION
DATE : 14 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(d) CGT: capital loss buying; group of companies (starter no. 142)	Revenue submission (Messrs. Battishill and Bryce) 27.1.83. MST(R) minuted Chancellor 4.2.83 recommending (e) but against (d) this year. Chancellor agreed 8.2.83. Costs included for (e) alone. SETTLED	-	30-40 yield	30-40 yield
(e) Group relief: avoidance (BL) (starter no. 119)				
(f) Life assurance: chargeable events: secondhand bonds (starters no. 110)	Announcement of intention to legislate 24.6.82 SETTLED	under 1 yield	under 1 yield	under 1 yield
(g) DLT: disposals by non-residents (starters no. 149)	Revenue (Mr Beighton) submission on 5.11.82. Discussions held with Law Society and RICS; RICS not yet responded. Revenue (Mr Beighton) submission 10.2.83 recommends proceeding with measure.	1 yield	2 yield	2 yield

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BUDGET PACKAGES
SUMMARY NOTE

PACKAGE: FAIRNESS IN TAXATION
DATE : 11 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(h) Stock relief: payments on account (Starters no. 154)	Revenue (Mr Battishill) submission 2.12.82. MST(R) authorised drafting (19.1.83); item to be reviewed in light of other measures affecting construction industry though inclination against at starters mtg 27.1.83.	under 1 yield	10-15 yield	15 yield
(i) Stock relief: deny to commodity/bullion dealers (Starters no. 153)	Revenue (Mr McConnachie) submission 4.2.83. MST(R) minute to Chancellor 6.2.83 recommends against for this year. CST 7.2.83 agrees.	-	-	-
(j) Taxation of international business (starter no. 157)	Draft legislation published December 1982; comments requested by mid-February.	under 1 yield	under 1 yield	100 yield
	TOTAL YIELDS	3-12 yield	125-160 yield	230-260 yield

BUDGET PACKAGES
SUMMARY NOTE

MISCELLANEOUS UNPACKAGED ITEMS
DATE : 10 February 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Investment income surcharge - abolition/ options.	Revenue (Mr Spence) submission 2.1.83: discussed at Chancellor's meeting 3.2.83. Further submission on options 10/13.2.83. Figures are for reduction to 10%.	5	50	85
(b) Stamp duty - selective reform package.	MST(R) note to Chancellor 4.2.83: Chancellor's initial response 8.2.83.	5	5	5
	TOTALS	10	55	90
	Note: There are in addition a number of "heritage" proposals. These are:-			
	Mr Heseltine, 6.1.83			
	(i) VAT exemption for works of art accepted in lieu of tax; Customs (Mr Knox) submission 4.2.83.	na	na	na
	(ii) tax relief for business contributions to preservation and environmental trusts; Revenue (Mr Lusk) submission 4.2.83 recommended against.	na	na	na

BUDGET PACKAGES

SUMMARY NOTE

MISCELLANEOUS UNPACKAGED ITEMS

DATE : 14 February 1983

CONFIDENTIAL

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
	Lord Bellwin, 18.1.83 (iii) tax allowances for repairs to listed buildings: Revenue (Mr Lusk) submission against 4.2.83 recommended against. FST's minute to Chancellor 7.2.83 endorsed the Revenue recommendations on (ii) and (iii). CST's minute 10.2.83 agreed that neither item desirable, as did EST (minute 11.2.83).	-	-	-

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NOTE C

14 February 1983

OTHER FISCAL RISKS AND POSSIBILITIES

	1983-84		1984-85	
				£ million
Possible Public Expenditure				
Unemployment. Mr Tebbit's ideas put to Prime Minister starting 1983-84.				
i. Extension and modification of TSTWCS and/or	100		100	
ii. Continuation and extension of Enterprise Allowance Scheme.	45		145	
(Amended JRS would start 1984-85.) Other possible proposal:				
iii. Early retirement: extension of existing scheme entitling people over 60 to leave labour market in exchange for long-term Supplementary Benefit rate. Largest DHSS option, say	10	155	10	255
Petrochemicals. A review of current problems may lead to proposals to give assistance either by way of PRT modification or by public expenditure means. Submission circulated.		100		100
		255		355
Possible Tax				
Empty Property Rates. Wide range of possible options for reductions with widely varying costs. Say		50		50
Stamp duty – selective reform		5		5
Oil Taxation. Further relief called for by Mr Lawson above amount provided in packages, say		100		100
		155		155
TOTAL		410		510

FROM: E P KEMP
14 February 1983

CHANCELLOR OF THE EXCHEQUER

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

FOURTH BUDGET PROGRESS MEETING TOMORROW

I attach a note showing three possible Budgets, for consideration at your Progress meeting tomorrow. This is on the lines of Annex A to my minute of 7 February, which we looked at at the Progress meeting on 8 February.

2. It reflects :-

a. The various possible tax changes etc on the basis of the provisional decisions that have been taken or the various ranges and possibilities which have been kept on the table.

b. Figures for packages and risks at around the middle of the range of possibilities shown in the separate summary note coming forward with Sir Douglas Wass' minute. These are in terms of PSBR effects, and take account of the estimated impact of the public expenditure items on shortfall in the forecast.

c. PSBRs of £8 billion for 1983-84 in accordance with the last Progress meeting, and £7.5 billion for 1984-85. (At the last Progress meeting figures for 1984-85 of £8 billion <u>or</u> £7½ billion (2¼ per cent of GDP) were kept open).

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All figures remain tenative and subject to checking and change.

3. As you suggested, the table now shows how the revenue costs of the Budget could be said to split between persons and businesses, both taking account and not taking account of the Autumn NIS reduction. (This is on an indexed basis; a non-indexed basis would show a slightly more favourable balance towards persons.) For the purpose of this analysis I have assumed arbitrarily that the packages are split 50:50 persons and businesses, which is not likely to be all that far out.

4. Points to note include the following :-

a. The Budgets are not self-contained "take it or leave it" entities. Many different permutations are possible.

b. While on the simple arithmetic now before us, Budget C - the most "Expensive" - looks not impossible (its cost for 1983-84 is only slightly above the fiscal adjustment we have and for 1984-84 there is a modest but positive adjustment even on the basis of a £7.5 billion PSBR), it is risky given what may happen to the forecast on eg oil prices and the like. Per contra, Budget A seems over safe. Budget B looks like the best "central case" to work on.

c. The revenue costs of any of the budgets, as they might appear in the FSBR, are not, one could argue, all that frightening - even the biggest figures shown (the 1984-85 cost of Budget C) are at £3290 million indexed and £3745 million non-indexed not substantially above the parallel figures for last year £2520 million and £3485 million).

d. If one takes budgets alone the revenue costs split as between persons and businesses is fairly heavily in favour of persons, as one would expect. But if we throw in the Autumn NIS reduction then the split is very much more even.

(Note: we have taken the value of the whole 1 per cent as the Autumn measure - some might argue that we should only take $\frac{1}{2}$ per cent, having regard to the backdating, so to speak, of the other $\frac{1}{2}$ per cent. But even if we only take $\frac{1}{2}$ per cent the figures are arguably defensible.)

e. More worthy of attention, perhaps, is the split - as it could be perceived - of the benefits for persons as between benefits for the "better off" and benefits for the rest. This is a point which will come up later in the Progress meeting, and Mr Isaac has submitted a note. It will be necessary to consider how possible elements in the Budget such as relief over Rooker/Wise on the higher grade thresholds and allowances, small firms CGT and CTT reliefs, increase in Mortgage Interest Relief, revalorisation of IIS threshold (and reduction in rate), measures on wider share ownership, and taxation of fringe benefits, all would look if taken and presented together; and of course as seen in the context of the handling of the adjustment for the over-provision on social security benefits at November 1982.

f. The amount provided for packages and risks is (as I say) around the middle of the present range of the possibilities. It could prove adequate. On the other hand depending on decisions it may not be enough (and certainly would not be enough if the risks on the social security benefits over-provision materialised). Some cutting down, either within the packages or in one or other of the other elements on the table, would then become necessary. (This is of course something different from the separate constraint imposed by the position on the Reserve and the need not to add to overall public expenditure totals.)

5. The meeting may like to consider the table and the features which I have just mentioned. No immediate action is called for; of the main elements outstanding tomorrow's Progress meeting will discuss the remaining excise duty issues and personal taxation, further meetings will need to be set up to discuss further Corporation Tax issues and oil, and it is expected that a full run round the

packages etc picture should take place at the Progress meeting on 21 February. Following those meetings the precise constraints will become clearer (and it may be necessary to return to some of the matters previously thought closed). Tomorrow's meeting may like to look at two broad points :-

a. Whether the sort of overall PSBR costs incurred by Budget B are the sort of ball park we should be in at this stage, or whether we shall be going for something less - towards Budget A - or something more - towards Budget C - having regard to the risks, the position on the PSBRs, and the fiscal adjustment to be shown for 1984-85.

b. Whether the approximate balance as between persons and industry of various Budgets, notably Budget B, are about right, taking account as appropriate of the Autumn measures. (The question of balance within the personal tax area (paragraph 4(d) above) is better taken later in the meeting).

If the answer to (a) or (b) is "no", then more work might be needed to look at alternatives giving a better pattern.

EPK

E P KEMP

BUDGET PROGRESS REPORT

BUDGET SECRET

DATE: 14 FEBRUARY 1983 TABLE A

PSBR COSTS (indexed base) £m

		Firm or Open	BUDGET A 1983-84	BUDGET A 1984-85	BUDGET B 1983-84	BUDGET B 1984-85	BUDGET C 1983-84	BUDGET C 1984-85	Comment
Specific Duties	Overall	F	10	10	10	10	10	10	Cigarettes and Cider
	Petrol	O	-	-	-	-	50	50	Possible petrol
Industry	NIS	F	200	300	200	300	200	300	½% NIS from August, private sector only
	Oil	F	90	140	90	140	90	140	Oil - Package B) Note: Mr Lawson looking
	Oil	O	-	-	-	-	15	(30)	Oil - PRT reliefs) for £200m in total) 1983-84
	CT	O	-	-	130	180	130	180	Cockfield on CT or Reduce CT rate by 2% etc
	CT	O	-	-	-	-	-	100	ACT/DTR options
Persons	R/W	O	700	730	990	1040	1140	1200	R/W + 6-8½-10%
	CB	O	[90]	[250]	[90]	[250]	[90]	[250]	CB (P/Ex charged to the Reserve)
	IIS	O	-	-	-	-	5	35	Reduce IIS to 10%
Packages/Risks	Misc	O	400	550	400	550	400	550	(say) see separate notes
			1400	1730	1820	2220	2040	2535	
Fiscal Adjustments		O	2000	3000	2000	3000	2000	3000	Depending on forecast.
PSBR		O	8000	7500	8000	7500	8000	7500	Depending on decisions.

REVENUE COSTS OF BUDGETS £m

	1983-84	1984-85	1983-84	1984-85	1983-84	1984-85	Comment
Indexed	1530	2130	2015	2805	2255	3290)	These might appear in Table 1 of the FSBR
Non-indexed	1760	2585	2345	3260	2485	3745)	
Direct Split - Revenue costs							
Budget							
Persons	1020	1315	1360	1735	1570	2085	
Businesses	510	815	655	1070	685	1205	
As above	1530	2130	2015	2805	2255	3290	Indexed revenue costs as above
Budget plus Autumn							
Persons	1020	1315	1360	1735	1570	2085	
Businesses	1210	1615	1455	1870	1485	2005	
As above plus Autumn	2230	2930	2815	3605	3055	4090	Indexed revenue costs as above plus 1% NIS from April (£700m 1983-84, £800m 1984-85)

FROM: E P KEMP
21 February 1983

CHANCELLOR OF THE EXCHEQUER

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

cc Mr Evans
(on Mr Kemp's instruction.)

cc
22/2

FIFTH BUDGET PROGRESS MEETING TOMORROW

I attach a set of papers showing where we now stand on the fiscal side of the Budget. The figures revolve around "Budget B" as we discussed it at the last Progress meeting. The tables below show the total picture, a summary of the packages and risks, and details of some of the individual packages.

2. The basis of the arithmetic is as follows :-

a. The specific duties are fully revalorised except in the case of cigarettes and cider where you have made a firm decision, and petrol and derv, where the decision is still open.

b. The NIS $\frac{1}{2}$ per cent cut from August for the private sector is regarded as firm. So is the first leg of the oil tax concessions, though in view of the outstanding risk with Mr Lawson a further £100 million has been provided in "packages" just in case. So far as the CT, ACT and DTR options go, these stem from the recent Inland Revenue submission; I have shown the conceivable ranges which; "Option 6" - variants on

462/2

the upper profits limit so as to help with the marginal rate <u>or</u> "Option 17" which does the same but takes the main rate to 50 per cent; <u>plus</u> the ACT carry-back option; <u>plus</u> the DTR option which should be taken with action on tax havens if such were decided upon.

c. For individuals I have simply kept the $8\frac{1}{2}$ percentage points over Rooker/Wise for all bands and rates etc. Equally I have kept the child benefit increase at the level that has been discussed.

d. To a great extent the packages speak for themselves. At the top end I am including the risks of an increase in Mortgage Interest Relief ceiling to £35,000, employment measures costing £120 million, and additional measures on oil tax, in case any of these materialise. It should be noted that the packages include a substantial <u>credit</u> for the various "fairness" measures.

Mtge 75
95
Emply
oil
CT option
71575
1.6

e. For the fiscal adjustment I have retained for now the pre-Budget forecast for the PSBR £8 billion for 1983-84 and either £7.5 billion or £7 billion for 1984-85 (either of these are broadly consistent with the $1\frac{3}{4}$ per cent of GDP that has been discussed). There is, however, a serious risk in this whole area, as you will see from the draft Industry Act Forecast which is also coming forward today; that shows that the fiscal adjustments we have been thinking about up to now, and which are reflected in the note below, may in fact be shrinking. I return to this below.

f. It looks as though the public expenditure possibilities - even at the higher end of the range - can be accommodated within the Contingency Reserve and the planning totals.

g. No provision is made for anything on eletricity prices for heavy industrial users - Mr Wicks' note to the Chief Secretary of Friday; nor for anything on tax relief on NIC for the self-employed.

3. Taking the picture as displayed, the following tentative conclusions emerge:-

a. On the face of it there is room for Budget B, in both 1983-84 and 1984-85, right up to the maximum of the options and risks shown; for 1983-84 this costs £1915 million against a fiscal adjustment of £2 billion, while for 1984-85 it costs £2420 million against a fiscal adjustment of £2.5 billion or £3 billion. (However if one did go for the upper end of Budget B as presented one would I think need a PSBR for 1984-85 of £7.5 billion, to give a reasonable fiscal adjustment showing for that year in the FSBR.)

b. Again at the top end of Budget B the revenue costs are probably tolerable. The biggest figure shown is £3.8 billion, to be compared with the parallel figure last year of £3.48 billion. (I should emphasize that the £3.8 billion is a little rough and needs refining.)

c. On the direct split between persons and businesses, the position does not look too bad provided one can take one-half of the Autumn NIS reduction into the picture. You will see, in fact, that for 1984-85 the top end of Budget B shows the benefits split almost precisely equally between persons and businesses. (In making this split I have allocated the Mortgage Interest Relief cost to persons but the employment measures (principally TSTWCS) to businesses.)

d. As one goes towards the lower end of Budget B the split between persons and businesses begins to look less good, which is what one would expect since the items that are thrown out or reduced are preponderantly "Business". At the lower end of the Budget B range it is not easy to tilt the thing in favour of businesses, because of the overwhelming weight of the cost of the excess over Rooker/ Wise; if we did have to do so then we would have to think of doing something less than $8\frac{1}{2}$ per cent over Rooker/Wise and

recycling some of the savings into eg a bigger CT option. (Each Rooker/Wise point costs slightly over £100 million in PSBR terms).

e. Within "personal" measures - and indeed generally - care will however have to be taken that the Budget does not risk being described as simply "for the better off". While the individual elements we are considering are all justifiable in their own right, taken together they could lend themselves to this sort of attack - excess over Rooker/ Wise for the higher rates, Mortgage Interest Relief ceiling, something on CGT and CTT, non-taxation of banks, etc. Against this there are things like increased taxation on fringe benefits, anti-avoidance measures, and the caring and charities measures. But you will want to keep an eye on the whole question of balance and presentation.

4. On the whole this is all right so far. But there are two large risks overhanging us.

5. The first of these is that referred to in paragraph 2(e) above - the fiscal adjustment we have hitherto been working on melting at the hands of the forecasters As I say a draft of the Industry Act Forecast is being put forward this afternoon, and a meeting to discuss it has been set up for Thursday. That meeting would also, I think, want to discuss the prospects for the later years, not just for 1983-84.

6. The second risk lies in the question of the social security over-provision. The amounts involved here are £180 million in 1983-84 and £530 million in 1984-85, or alternatively (on a scenario when not only do we not make the recovery of the over-provision but the various concessions now in contemplation are nevertheless given away) £250 million in 1983-84 and £725 million in 1984-85. This question is being discussed separately.

7. Without knowing precisely how the forecast is going, nor the decisions on the social security problem, it is difficult to say with any precision what the effects of these risks on the Budget might be. On the face of it, however,

one might hazard a guess that if either of these two risks (but not both) came to pass then Budget B at the lower end might still be tenable, albeit the balance shifts in the direction of persons away from businesses. In those circumstances there might be a case for reviewing the number of percentage points over Rooker/Wise that could be afforded. However if both risks came to pass then Budget B is in serious difficulty, and it would probably be necessary to have a much more profound review of the whole position.

Tomorrow's meeting

8. Tomorrow's meeting might like to :-

a. Note the general position on the possible ranges for Budget B, as set out above, and on the basis shown and the features this has eg by way of the split of costs between persons and businesses. Assuming something on the lines of Budget B holds, is this broadly acceptable? If not, in what manner should it shift.

b. Note the risks mentioned in paragraphs 5 to 7 above. (Amongst other things these mean that while decisions on ranges for outstanding matters - eg Corporation Tax - can now be taken, final decisions cannot). Does the meeting have any views - albeit preliminary and provisional - on which of the elements shown in Budget B should be shaded down, and to what extent, should either or both of these risks materialise?

c. Note in particular the risk to the fiscal adjustments mentioned in paragraph 5 above. Has the meeting any preliminary ideas about the implications of this for the Budget in the broadest sense (as opposed to how the fiscal measures might have to be altered)? Is there any further work in this area needed against the meeting on Thursday which is to discuss the draft IAF?

d. Consider the overall position on the "packages", as to content, balance, etc. Acceptable? Any changes?

e. Consider (rapidly) the position on the detailed packages and the various outstanding matters; these may be briefly summarised as follows :-

i. CGT and CTT matters, which are to be considered at a separate meeting tomorrow.

ii. The "Fairness" elements.

iii. Mortgage Interest Relief ceiling.

iv. The employment measures.

v. The position on the North Sea fiscal regime.

vi. Various smaller matters.

Is the meeting satisfied with the position and progress in each case?

EPK

E P KEMP

£ million

PSBR COSTS

		1983-84 BUDGET B	1984-85
Specific Duties:	Cigarettes and Cider	10	10
	Petrol and Derv	30	30
Industry:	NIS ½% from August	200	300
	Oil "Package B" (but see also "packages")	90	140
	CT Option 6 - Option 17	35- 140	60- 270
	ACT Option	-	0- 70
	DTR Option	-	0- 40
Persons:	8½% over R/W	1010	1060
	CB (Public Expenditure)	[90]	[250]
Packages:	See separate note	200-435	275-500
		1575-1915	1875-2420
Fiscal Adjustment)	but see covering minute	2000	3000-2500
With PSBR of)		8000	7500-7000

REVENUE COSTS

		1983-84	1984-85
Indexed	) As in Table 1	1860-2280	2640-3350
Non-indexed	) of PSBR (approximate)	2030-2510	3090-3800

Direct Split (Revenue costs, indexed) :-

Budget

	1983-84	1984-85
Persons	1290-1390	1760-1880
Business	570- 890	880-1470
As above	1860-2280	2640-3350

Budget plus Autumn

	1983-84	1984-85
Persons	1290-1390	1760-1880
Business	920-1240	1280-1870
As above plus ½% NIS (£350-£400)	2210-2630	3040-3750

DATE: 21 FEBRUARY 1983

"PACKAGES" SUMMARY

£million

		Annex	1983-84	1984-85
Enterprise and Small Firms (Note 1)		A	67	205
Technology and Innovation		B	44	84
Construction		C	85	25
Caring and Charities		D	30	60
Miscellaneous (including "Fairness")		E	-	(40)
Mortgage Interest Relief (to £35,000)	up to		100	125
Employment	up to		120	120
Oil Tax - additional to settled package	up to		100	100
Child Benefit - in main Progress Report			90	250
			316-636	584-929
Less Public Expenditure element already allowed for in forecast (say) (Note 2)			(100-150)	(200-250)
Less Reduction to adjust to PSBR costs (say) (Note 2)			(20- 50)	(100-180)
In Progress Report (say)			200-435	275-500
Gross Public Expenditure elements			224-344	229-449

Notes:

1. No provision is made for anything on electricity prices for big users or tax reliefs on NIS for the self-employed, on grounds that these are unlikely to proceed.

2. Adjustments still under review.

3. Due to further refinement some of these figures differ from those in Summary of 18 February. Yet further changes remain possible.

BUDGET - CONFIDENTIAL DATE: 21 February 1983

BUDGET PACKAGES [Note: items marked * are public expenditure]

TABLE A

SMALL FIRMS, ENTERPRISE AND WIDER SHARE OWNERSHIP

	1983-84	1984-85	Full Year
Settled			
1. Business Expansion Scheme	nil	75	75
2. Loan Guarantee Scheme*	5	5	-
3. Wider share ownership	20	35	40-45
4. Capital Gains Tax			
(a) monetary limits	nil	under 1	under 1
(b) retirement relief	nil	under 1	1-2
5. VAT registration thresholds	5	10	10
6. De minimis limit for assessment of apportioned income	under 1	under 1	under 1
7. Acceptance credits	1-2	1-2	1-2
Revenue cost	27	122	
Public expenditure cost	5	5	-
TOTAL PACKAGE COST	32	127	129-134
Still outstanding			
8. Capital Transfer Tax (22.2.83 mtg)	23 ~~34~~	55 ~~70~~	90
9. Zero/deep-discounted stock (FST to minute Chancellor)	na	na	na
10. Net of tax pay tables (FST dealing)	na	na	na
11. Schedule D/E issues (FST dealing)	na	na	na
12. Relief for interest, employee buy-outs (IR submission 18.2.83 to FST)	under 1	2	5
13. Close companies - ACT limit on loans (depends on mortgage interest relief ceiling)	under 1	under 1	under 1
14. Tax treatment of interest paid by companies to non-residents (comments on consultative document by 22.2.83)	under 1	under 1	10
15. Other wider share ownership	nil	5	5-10
[16. Tax relief for self-employed NICs (CST/FST/EST against) - pm only	50	100	100]
OUTSTANDING ITEMS COST (excluding No 16)	35	78	110-115
GRAND TOTAL	67	205	239-249

BUDGET - CONFIDENTIAL

TABLE B

DATE: 18 February 1983

BUDGET PACKAGES

TECHNOLOGY AND INNOVATION

[Note: items marked * are public expenditure]

Settled	1983-84	1984-85	1985-86
1. Extension of transitional period for capital allowances - films	nil	nil	30
2. Extension of transitional period for capital allowances - teletext TVs	nil	10	15
3. SEFIS*	20	40	40
4. Information technology*	7	10	13
5. Innovation linked investment*	5	15	20
6. Advisory services*	12	9	9
7. Science Parks (see note)	-	-	-
Revenue costs	nil	10	45
Public expenditure costs	44	74	82
TOTAL PACKAGE COSTS	44	84	127

Note: The total public expenditure cost over three years is £200 million; any science park cost is to be accommodated within this total. The cost of the whole package over three years is £255 million.

DATE: 18 February 1983

TABLE C

DATE: 21 February 1983

BUDGET PACKAGES

CONSTRUCTION [Note: items marked * are public expenditure]

	1983-84	1984-85	Full Year
Settled			
1. Enveloping*	50	nil	-
2. Improvement grants*	35	nil	-
3. Increase in proportion of office space qualifying for industrial building allowance	nil	10	25
4. Extension of hotel allowance to self catering	nil	up to 5	up to 10
5. DLT - extension of own-use deferment	nil	under 1	5
6. Small Workshop Scheme - averaging for converted premises	under 1	under 1	under 1
Revenue costs	nil	15	40
Public expenditure costs	85	nil	-
TOTAL PACKAGE COSTS	85	15	40
Still outstanding			
7. Stock relief: householders part exchange (IR submission pending)	under 1	10	10
Tourism items			
8. Section 4 grants	nil	nil	nil
GRAND TOTAL	85	25	50

Notes

(1) The mortgage interest relief item previously listed in the construction package is now listed separately.

(2) Item 8 on Section 4 grants would involve expenditure of £3 million each year, but with offsetting savings from Tourist Boards.

BUDGET - CONFIDENTIAL

TABLE D

BUDGET CONFIDENTIAL

DATE: 21 February 1983

BUDGET PACKAGES

CARING AND CHARITIES

[Note: items marked * are public expenditure]

	1983-84	1984-85	Full year
Settled			
1. Extension of widows bereavement allowance	20-25	25-30	25-30
2. Real increase in mobility allowance*	2	6	-
3. Real increase in therapeutic earnings limit*	0.1	0.3	-
4. Abolition of £250,000 limit for CTT exemption -gifts to charities	under 1	under 1	under 1
5. Deeds of covenant; increase in ceiling for higher rate relief to £5,000	nil	3	3
6. New war pensioners mobility supplement*	-0.1	1	-
7. Supplementary benefit capital disregards*	3.5	10	-
8. Tax relief for staff seconded by companies to voluntary bodies	under 1	under 1	under 1
9. Removal of invalidity trap*	7.5	23	-
Revenue costs	20-25	28-33	28-33
Public expenditure costs	13	40	-
Public expenditure costs after offsetting savings	nil	11	-
TOTAL PACKAGE COSTS	20-25	39-44	28-33
Still outstanding			
10. Real increase in housing benefit childrens' needs allowance *) see note	5	15	-
11. Grants to bodies involved in voluntary service for elderly *) see note	2	2	-
GRAND TOTAL	27-32	56-61	28-33

Note: Decision on items 10 and 11 to be taken after meeting with Secretary of State for Social Services.

DATE: 21 February 19

BUDGET - CONFIDENTIAL

BUDGET PACKAGES

TABLE E

MISCELLANEOUS (INCLUDING FAIRNESS IN TAXATION)

Note: All figures are yields unless otherwise specified

	1983-84	1984-85	Full Year
Settled			
1. Fringe benefits - scholarships	1-10	1-10	1-10
2. Fringe benefits - car and car fuel scales	nil	35-40	35-40
3. Fringe benefits - "Marks & Spencer" device	nil	nil	1
4. Beneficial loans - official rate COST:	nil	1-2	1-2
5. Life assurance: chargeable events: secondhand bonds	under 1	under 1	under 1
6. CGT: non-resident trusts	under 1	under 1	under 1
TOTAL PACKAGE YIELD	2-11	36-49	37-50
Still outstanding			
7. Group relief: avoidance (BL)	nil	10	10
8. DLT: disposals by non-residents	1	2	2
9. Taxation of international business.	under 1	under 1	100
Note: MST(R) recommends proceeding with items 7-9			
10. Fringe benefits; double £25,000 device (depends on mortgage interest relief ceiling)	nil	under 1	under 1
11. Directors PAYE tax (decision in context of Keith and package as a whole).	nil	10	10
12. TSBs to be treated as bodies corporate (inclusion depends on Budget arithmetic) COST:	10	20	20
13. Company cars: capital allowances (FST dealing)	nil	nil	nil
14. Company cars: easement of potential double charge	nil	nil	nil

15. /...

	1983-84	1984-85	full year
15. Stamp duty - selective reform package (awaiting Chancellor's decision) COST:	5	5	5
16. VAT exemption for work of art accepted in lieu of tax (Customs to advise)	na	na	na
17. Agricultural rental income to be treated as earned income (FST dealing)	na	na	na
OUTSTANDING ITEMS YIELD	14 (COST)	2 (COST)	97
GRAND YIELD TOTAL	3-12 (COST)	34-47	134-147
Taken as	nil	(40) yield	

BUDGET CONFIDENTIAL

A31

BUDGET SECRET 3 March 1983

BUDGET MEASURES	1983-84 PSBR	1983-84 REVENUE	1984-85 PSBR	1984-85 REVENUE
FIRM				
Tax NIS - ½% from August	200	220	300	400
IT - 8½ over RW + roundings	1010	1170	1060	1490
Specific Duties - net	(10)	(10)	(10)	(10)
Oil - as proposed	105	120	85	100
CT - Package 6(b)	35	40	60	70
MIRC - to £30,000	55	60	70	85
Packages (separate notes)				
Small firms	32	36	132	148
Technology	-	-	10	10
Construction	-	-	15	15
Caring	-	-	4	4
Miscellaneous	3	4	(36)	(42)
Public Expenditure - separate notes	120	250	180	395
TOTAL FIRM	1550	1890	1870	2665
OTHER POSSIBILITIES				
Tax ACT carry back	-	-	60	70
Widows Bereavement	20	25	25	30
Public Expenditure - separate note (say)	30	30	20	20
TOTAL POSSIBILITIES	50	55	105	120
GRAND TOTAL	1600	1945	1975	2785
(Grand total of notes of 1 March)	1590	1920	2020	2830)

\\

A31

C/EX REF NO B8311

COPY NO 8 OF 35 COPIES

RECORD OF THE FIFTH BUDGET OVERVIEW MEETING AT 11 AM ON 22 FEBRUARY

Present:

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson

Mr Burns
Sir Lawrence Airey (IR)
Mr Fraser (C&E)
Mr Littler
Professor Walters (No 10)
Mr Bailey
Mr Middleton
Mr Moore

Mr Kemp
Mr Cassell
Mr Ridley
Mr Hall
Mr Evans: Item 1 only
Mr Green: (IR) Items 3&4 only
Mr Kerr

Papers:

i. Post-Budget Forecast and Draft IAF (Mr Evans' minute of 21 February)

ii. Petrol, Derv and VED (Minutes of 18 February from Mr Moore and Mr Freedman, and of 21 February from Mr Bone)

iii. Corporation Tax (Mr Battishill's minute of 17 February)

iv. Progress Report (Mr Kemp's minute of 21 February)

v. Budget Speech (Mr Norgrove's minute of 18 February)

ITEM 1: Post-Budget Forecast

It was noted that the provisional post-Budget forecast appeared to imply that the fiscal adjustment in 1983-84 might be some £0.5/1 billion lower than in the January forecast. But it was still subject to a number of uncertainties, for example the oil price assumption, and further work was in hand. The forecast for inflation was rather better than before. The 1982-83 outturn PSBR might now be only some £7.5 billion, though further work too was in hand on it.

2. The Chancellor noted that further discussion of the post-Budget forecast would be required. But Mr Evans' submission illustrated the need to keep close to the lower end of the cost-bracket for Budget B in the annex to Mr Kemp's minute. A separate meeting on the draft industry act forecast (and the MFTS) had been arranged for 24 February.

/ITEM 2: Petrol

ITEM 2: Petrol and Derv

3. It was agreed that increases of 4p and 3p in the excise duties on petrol and derv should be the preferred option. The alternative option of increases of 4½p and 3½p should however be kept alive, pending discussions with the Secretaries of State for Transport, Energy, Scotland, and Wales, and with the Chief Whip and the Prime Minister.

ITEM 3: Corporation Tax

4. It was agreed that, in the light of the provisional post-Budget forecast, corporation tax options involving a reduction in the main rate from 52 per cent to 50 per cent should now be dropped. Cutting the small companies rate from 40 per cent to 38 per cent was regarded as a higher priority, and it was agreed that option 6b in Mr Battishill's minute should be included in the Budget. The lower profit limit would remain at £0.1 million, but the upper limit would rise to £0.5 million. The new marginal rate would be 55½ per cent, and the cost some £40 million in 1983-84, and £70 million in 1984185.

ITEM 4: Progress Report

Budget Balance

5. It was suggested that some might see the proposed NIS reduction as the marginal item, and the proposed 8½ per cent increase (above Rooker Wise) in income tax thresholds as the essential element, if the fiscal adjustment were squeezed. Others, including the Chief Secretary, however suggested that the increase in thresholds and the NIS cut should be regarded as central to the Budget. Given the forecast, it was agreed that it would be important not to exceed "Package B" on oil taxation, now under discussion with the Secretary of State for Energy: the Minister of State (R) would indicate to the Energy Secretary on 23 February that the Chancellor could not go beyond the position described in his letter of 21 February. The ACT and DTR

/options should

options should remain under consideration, though both might suffer in the event of a serious squeeze. It was noted that the risk of pressure for assistance for petrochemicals, or on energy prices, appeared to have receded. Discussions on the mortgage interest relief ceiling were proceeding: a concession must be strongly resisted. And on employment measures, it appeared that the sum now at risk was /now/ only of the order of £25 million, since the Employment Secretary was not pressing for the temporary short time working scheme. (No provision need be made in the Budget arithmetic for tax reliefs on NIC for the self-employed.) The Chancellor would talk to the Employment Secretary (on 23 February)

Public Expenditure

6. Apart from the separate question of the adjustment of the social security uprating, it was noted that the public expenditure position was reasonably satisfactory, given the reduction from £120 million to £25 million in the amount at risk on employment measures.

Packages

7. The Chancellor thought the technology and innovation package - as described in the note of 18 February - satisfactory, though it must of course remain subject to review in the event of a squeeze. In the construction package, as described in the note of 21 February, only items 4 and 7 were contentious. Urgent advice from the Inland Revenue was required on item 7 (stock relief: householder's part exchange); while the Chief Secretary should consult Lord Cockfield about item 4 (extension of hotel allowance to self-catering). Final decisions on the caring package should await other decisions on social security matters, and a meeting with the Secretary of State for Social Services (subsequently arranged for 28 February). It was noted that the most costly item - the extension of widow's bereavement allowance - was also probably the most attractive: the Chancellor thought that it should if possible be retained. In the miscellaneous package, the

Chancellor asked

Chancellor asked for early submissions on items 10 and 12 to 17 in the list of 21 February. It was noted that item 11 could now be dropped.

8. The Central Unit were asked to provide revised and condensed tables, covering the overall Budget and the packages, for further discussion, perhaps before the next overview meeting.

BUDGET SPEECH

9. The Chancellor commended the draft Budget speech circulated by Mr Norgrove on 18 February. Drafting suggestions should be submitted to the Central Unit by close of play on 23 February, bearing in mind the desirability of shortening, rather than lengthening, the present text.

J O KERR
22 February 1983

Distribution:

Those present

Mr Freedman - Customs and Excise
Mr Howard - Customs and Excise
Mr Isaac - Inland Revenue
Mr Battishill - Inland Revenue
Mr Mountfield
Mr Robson
Mr Griffiths
Mr French
Mr Harris
Mr Norgrove

FROM: E P KEMP
23 February 1983

CHANCELLOR OF THE EXCHEQUER

A31

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Middleton
Mr Cassell
Mr Evans
Mr Moore
Mr Ridley
Mr Norgrove

BUDGET - FURTHER PROGRESS REPORT

I attach a further Progress Report against your meeting tomorrow evening.

2. The top half of the top sheet below summarises the various measures. These fall into three categories :-

a. The measures which are firm or which are reasonably likely to proceed. These total up to the lower end of the ranges shown. It should be noted that not all these are yet finally settled.

b. Measures which might be (or might have to be) accommodated. These are added in to give the higher ranges shown below. They include the possibility of an increase in the Mortgage Interest Relief ceiling to £30,000, the spending of £25 million on employment measures, and of course the risk on the social security position where I have provided for a possible cost of £30 million in 1983-84 and £90 million in a full year, though whether this would merely be a charge against the forecast or whether it would be reflected in the Budget arithmetic remains for study. Alternative uplifts in child benefit are also provided for. There is also provided for in this category the desirable but dispensable measures on ACT and DTR.

564/2

c. Not provided for at all include risks such as energy prices of big users, tax reliefs on NIC for the self-employed, and anything on industrial rates (the "anti-deroofing" measures, if they go ahead, are estimated to have a negligible cost).

3. As well as showing the estimated PSBR costs involved, the table below also shows how these measures, if they went ahead, split as between persons and businesses, and how they would look in the FSBR on an indexed and non-indexed basis. The persons/businesses split is not all that happy, on the face of it, but of course one would pray in aid the fall in the exchange rate and the way businesses have been favoured in previous years. A perhaps more important problem here, of which you are aware, is how the "persons" measures could be selectively paraded with a view to making the Budget look as though it were "for the better off".

4. The lower part of the top sheet below seeks to show how the PSBR costs of these measures we have in contemplation looks as against the fiscal adjustment which might be available. I set out in the table how the fiscal adjustments currently look, against stated assumptions for the PSBR as they would appear in the MTFS - these would of course be the rounded figures and the actual PSBRs as they would appear in the more detailed arithmetic might well be up to £250 million higher in each year.

5. I should emphasize, although it needs no emphasizing, that these fiscal adjustments are dependent on the forecasts, which are still shifting around. In particular I am told that for 1984-85 the fiscal adjustment shown below may be optimistic.

6. Subject to this reservation, however, it looks as though the total of the cost of the proposed Budget measures at the lower end (paragraph 2(a) above) is acceptable for 1983-84. For 1984-85, however, the position as shown is less comfortable - and may turn out to be even more difficult than shown - so that it might prove difficult to have much of a positive fiscal adjustment, if indeed any, for that year. As we move up into the higher end of the possibilities shown (that is, taking in some of the measures/risks referred to in paragraph 2(b) above) then while give or take the margins of error the

position might still just be tenable for 1983-84, for 1984-85 it looks even less comfortable.

7. One immediate conclusion from this analysis is that the position is acceptable. For 1983-84 one would seek to stay towards the bottom end of the range shown, but even if all the risks etc materialised the thing would not be impossible. For 1984-85 the position could be eased by a moving up of the proposed PSBR to Mr Burns' original "Variant A" of £8 billion; a political/economic judgment would have to be made as to the relative drawbacks on the one hand of showing a higher PSBR than £7½ billion and on the other showing a small or nil fiscal adjustment.

8. However even if the position as stated could be lived with on these terms, that position could deteriorate eg because of adverse changes in the forecast and/or the materialising of other inescapable Budget measures which have to be met. In this case it might be necessary to consider one or both of two possibilities :-

a. Showing a higher planned PSBR path than that now shown for 1983-84, and for that shown (or Mr Burns' higher variant) for 1984-85.

b. Scaling down or throwing out some of the measures now in contemplation. However the scope for this is very limited. I think we have to regard the NIS reduction, the 8½ per cent over Rooker/Wise, the oil package as stated and the child benefit proposals (at least at the lower end in contemplation) as firm. This mops up some £1.3 billion for 1983-84 and £1.6 billion for 1984-85. One might scrape up a further £100 million or thereabouts through a rigorous re-examination of eg what is proposed on Corporation Tax or parts of the packages (candidates costing more than £10 million include the CTT measures, parts of the technology and innovation measures, parts of the construction measures, and widows bereavement allowance), but this only at the cost of throwing out some very worthwhile measures, both

economically and presentationally. Moreover, a cull on these lines would be very likely to worsen the person/business split.

9. At your meeting tomorrow you might like to discuss :-

a. Is it possible (or desirable) to try to hold the options on the table to the lower end of the ranges displayed?

b. On the given forecast and PSBR assumptions, could we live with the higher end of the ranges?

c. As a development of (b), what views are there on the PSBR/fiscal adjustment trade-off in respect of 1984-85?

d. Against the possibility that things may turn down, how are the options set out at paragraph 8(a) and (b) above to be ranked and rated?

e. Is the persons/businesses split as displayed, and within the persons element the distributional consequences, acceptable; and, if not, are there any feasible modifications to what we have now which might be made.

10. Much of this, of course, turns vitally on the prospects for the forecast for 1983-84 and 1984-85, and I understand Mr Burns will come to tomorrow's meeting ready to speak to this.

EPK

E P KEMP

BUDGET SECRET   DATE: 24 FEBRUARY 1983

£ million

PSBR COSTS

		BUDGET B 1983-84	BUDGET B 1984-85
Specific Duties:	Cigarettes and Cider	10	10
	Petrol and Derv, less VED	10	10
Industry:	NIS - ½% from August	200	300
	Oil - "Package B"	80	120
	Oil - "Condoc" concessions	15	(30)
	CT - "Package 6(b)"	35	60
	ACT - extended carry back	-	0- 60
	DTR - reverse set off with ACT	-	0- 35
Persons:	IT - 8½ over R/W	1010	1060
	CB - 10p variation (P/Ex)	[70-90]	[200-250]
Packages:	As attached note	150-300	250-450
Cost of Budgets		1510-1660	1780-2075

REVENUE COSTS (approximate)

	1983-84	1984-85
Persons	1330-1400	1810-1910
Businesses (including ½% of Autumn).	890- 920	1320-1450
Total including ½% NIS of Autumn (Indexed)	2220-2320	3130-3360
Total without ½% NIS of Autumn (Indexed) (for FSBR)	1870-1970	2730-2969
Total without ½% NIS of Autumn (Unindexed) "	2100-2200	3160-3390
PSBR cost of Budgets (as above)	1510-1660	1780-2075

Fiscal Adjustments - on provisional forecast at 21.2.83.

	1983-84	1984-85
With rounded PSBRs of £8/£7½ billion (2¾/2¼% GDP)	1500	1750-2250

DATE: 24 FEBRUARY 1983

"PACKAGES" SUMMARY

£ million

	TABLE	1983-84	1984-85
Enterprise and Small Firms	A	50	215-240
Technology and Innovation	B	44	84
Construction	C	85	30
Caring and Charities	D	30	57
Miscellaneous (including "Fairness")	E	2- 11	(53- 76)
Mortgage Interest Relief (to £30,000)		0- 75	0-100
Employment		0- 25	0- 25
Child Benefit - in main Progress Report		70- 90	200-250
Social Security uprating changes (Note 2)		0- 30	0- 90
		281-440	533-800
Less: Public Expenditure element already allowed for in forecast		(100)	(250)
Less: Reduction to adjust to PSBR costs		(25-30	(50-100)
		156-310	233-450
In Progress Report (say)		150-300	250-450
Gross Public Expenditure elements	F	201-276	288-453

Notes:

1. No provision is made for anything on electricity prices for big users, tax reliefs on NIC for the self-employed, or additional North Sea oil measures.

2. Treatment of Social Security changes under review.

3. Due to further refinement some of these figures differ from those in Summary of 22 February. Yet further changes remain possible.

TABLE A

DATE: 24 February 1983

BUDGET PACKAGES [Note: items marked * are public expenditure]

SMALL FIRMS, ENTERPRISE AND WIDER SHARE OWNERSHIP

		1983-84	1984-85	Full Year
Settled				
1.	Business Expansion Scheme	nil	75	75
2.	Loan Guarantee Scheme*	nil	nil	-
3.	Wider share ownership	20	35	40-45
4.	Capital Gains Tax			
	(a) monetary limits	nil	under 1	under 1
	(b) retirement relief	nil	1	4
5.	VAT registration thresholds	5	10	10
6.	De minimis limit for assessment of apportioned income	under 1	under 1	under 1
7.	Acceptance credits	1-2	1-2	1-2
	Revenue cost	27	123	130-135
	Public expenditure cost	nil	nil	-
	TOTAL PACKAGE COST	27	123	130-135
Still outstanding				
8.	Capital Transfer Tax (22.2.83 mtg; see note)	23	46	55
9.	Zero/deep-discounted stock (FST to minute Chancellor)	neg	25	na
10.	Net of tax pay tables) (FST dealing)	nil	nil	nil
11.	Schedule D/E issues) (FST dealing)	nil	nil	nil
12.	Relief for interest, employee buy-outs (IR submission 18.2.83 to FST)	1	2	2
13.	Close companies - ACT limit on loans (depends on mortgage interest relief ceiling)	under 1	under 1	under 1

		1983-84	1984-85	Full Year
14.	Tax treatment of interest paid by companies to non-residents (comments on consultative document by 22.2.83)	under 1	under 1	10
15.	Other wider share ownership (IR submission 22.2.83)	nil	20-25	25-50
	OUTSTANDING ITEMS COST	24	93-118	92-117
	GRAND TOTAL	50	215-240	222-252

Note: For item 8 the cost of the measures when statutory indexation is taken into account is £38, 76 and 90 million respectively.

DATE: 24 February 1983

TABLE B

DATE: 23 February 1983

BUDGET PACKAGES

TECHNOLOGY AND INNOVATION [Note: items marked * are public expenditure]

		1983-84	1984-85	1985-86
Settled				
1.	Extension of transitional period for capital allowances - films	nil	nil	30
2.	Extension of transitional period for capital allowances - teletext TVs	nil	10	15
3.	SEFIS*	20	40	40
4.	Information technology*	7	10	13
5.	Innovation linked investment*	5	15	20
6.	Advisory services*	12	9	9
7.	Science Parks* (see note)	-	-	-
	Revenue costs	nil	10	45
	Public expenditure costs	44	74	82
	TOTAL PACKAGE COST	44	84	127

Note: The total public expenditure cost over three years is £200 million; the science park cost is to be accommodated within this total. The cost of the whole package over three years if £255 million.

DATE: 23 February 1983

TABLE C

DATE: 23 February 1983

BUDGET PACKAGES

CONSTRUCTION

[Note: items marked * are public expenditure]

		1983-84	1984-85	Full Year
Settled				
1.	Enveloping*	50	nil	-
2.	Improvement grants*	35	nil	-
3.	Increase in proportion of office space qualifying for industrial building allowance	nil	10	25
4.	Extension of hotel allowance to self catering (CST to discuss with Lord Cockfield)	nil	up to 5	up to 10
5.	DLT - extension of own-use deferment	nil	under 1	5
6.	Small Workshop Scheme - averaging for converted premises	under 1	under 1	under 1
	Revenue costs	nil	15	40
	Public expenditure costs	85	nil	-
	TOTAL PACKAGE COST	85	15	40
Still outstanding				
7.	Stock relief: housholders part exchange (IR submission 24.2.83)	under 1	up to 10	up to 10
8.	Small Workshop Scheme - extension of period for buildings up to 2,500 sq ft. (IR submission 21.2.83)	neg	5	5
Tourism items				
9.	Section 4 grants	nil	nil	nil
	GRAND TOTAL	85	30	55

Notes

(1) The mortgage interest relief item previously listed in the construction package is now listed separately.

(2) Item 9 on Section 4 grants would involve expenditure of £3 million each year, but with offsetting savings from Tourist Boards.

TABLE D

DATE 23 February 1983

BUDGET PACKAGES

CARING AND CHARITIES [Note: items marked * are public expenditure]

		1983-84	1984-85	Full year
Settled (see note)				
1.	Extension of widows bereavement allowance	20-25	25-30	25-30
2.	Real increase in mobility allowance*	2	6	-
3.	Real increase in therapeutic earnings limit*	0.1	0.3	-
4.	Abolition of £250,000 limit for CTT exemption - gifts to charities	under 1	under 1	under 1
5.	Deeds of covenant; increase in ceiling for higher rate relief to £5,000	nil	3	3
6.	New war pensioners mobility supplement*	0.2	2	-
7.	Supplementary benefit capital disregards*	3.5	11	-
8.	Tax relief for staff seconded by companies to voluntary bodies	under 1	under 1	under 1
9.	Removal of invalidity trap*	7.5	23	-
	Revenue costs	20-25	28-33	28-33
	Public expenditure costs	13	42	-
	Public expenditure costs after offsetting savings	nil	12	-
	TOTAL PACKAGE COSTS	20-25	40-45	28-33
Still outstanding				
10.	Real increase in housing benefit children's needs allowance*	3	10	-
11.	Grants to bodies involved in voluntary service for elderly*	2	2	-
	GRAND TOTAL	25-30	52-57	28-33

Note: All the public expenditure items in the package are subject to further discussions with Mr Fowler.

DATE 23 February 1983

TABLE E

Date: 23 February 1983

BUDGET PACKAGES

MISCELLANEOUS (INCLUDING FAIRNESS IN TAXATION)

Note: All figures are yields unless otherwise specified

		1983-84	1984-85	Full year
Settled				
1.	Fringe benefits - scholarships	1-10	1-10	1-10
2.	Fringe benefits - car and car fuel scales (FST note 23.2.83)	nil	35-40	35-40
3.	Fringe benefits - "Marks & Spencer" device (FST note 23.2.83)	nil	nil	1
4.	Beneficial loans - official rate Cost:	nil	1-2	1-2
5.	Life assurance: chargeable events: secondhand bonds	under 1	under 1	under 1
6.	CGT: non-resident trusts	under 1	under 1	under 1
	TOTAL PACKAGE YIELD	2-11	36-49	37-50
Still outstanding				
7.	Group relief: avoidance (BL)	nil	30-40	30-40
8.	DLT: disposals by non-residents	1	2	2
9.	Taxation of international business	under 1	under 1	100
Note:	MST(R) recommends proceeding with items 7-9			
10.	Fringe benefits; double £25,000 device (depends on mortgage interest relief ceiling; FST note 23.2.83)	nil	under 1	under 1.
11.	Directors PAYE tax (FST note 23.2.83)	nil	10	10
12.	TSBs to be treated as bodies corporate (inclusion depends on Budget arithmetic) Cost	10	20	20
13.	Company cars: capital allowances (FST dealing)	nil	nil	nil
14.	Company cars: easement of potential double charge (FST note 23.2.83)	nil	nil	nil

		1983-84	1984-85	Full year
15.	Stamp duty - selective reform package (awaiting Chancellor's decision) Cost:	5	5	5
16.	VAT exemption for work of art accepted in lieu of tax (Customs submission 23.2.83) COST:	1	1	1
17.	Agricultural rental income to be treated as earned income (FST dealing in context of "self-caterers")	na	na	na
	OUTSTANDING ITEMS YIELD	13 (cost)	17-27	116-126
	GRAND YIELD TOTAL	2-11(cost)	53-76	153-176

Note: Ministers are to discuss 'fairness in taxation' items at a meeting on 2.3.83.

Date: 23 February 1983

TABLE F

PUBLIC EXPENDITURE IN "PACKAGES"

£ million

	1983-84	1984-85
Loan Guarantee Scheme	nil	nil
Technology and Innovation	44	74
Construction	85	nil
Caring and Charities (after offsetting savings)	2	14
Employment	0-25	0-25
Child Benefit	70-90	200-250
Social Security general	0-30	0-90
	201-276	288-453

FROM: MINISTER OF STATE (R)
DATE: 28 February 1983

CHANCELLOR OF THE EXCHEQUER

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cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Sir Douglas Wass
Mr Burns
Mr Byatt
Mr Middleton
Mr Kemp
Mr Wicks
Mr Robson
Mr Crawley
PS/Inland Revenue

OIL TAXATION PACKAGE

You asked for a table setting out where we stood on the oil taxation package, following Nigel Lawson's 25 February letter.

2. The table below sets out the position we have agreed so far.

(- = cost to the Exchequer; + = yield)

	£m, money of the day				
	1983-84	1984-85	1985-86	1986-87	Average over 4 years
Main structure package (offered in 21 Feb letter)	-90	-130	-340	-290	-212
Condoc proposals offered (MST(R) 4 Feb letter, with ½m tonnes allowance)	-15	+30	+10	+25	+12
Overall package	-105	-100	-330	-265	-200

3. As I thought he would, Nigel stresses in his letter that he wants to ensure "that the net cash flow benefit to the companies does not drop below £200m a year" in what he calls "the years which most concern us."

3/3

4. The table above shows that we have reached an average of £200m a year down to 1986-87 with our present package. Judging from his letter, Nigel is reckoning that the yield from Condoc will be approaching £50m in 1985-86 and 1986-87 which he deduces will reduce the average to some £150m per year. He will be pleased to find out that this is not so.

5. The question is, whether this goes far enough to satisfy him. My feeling is that we really need to do a bit more. Rather than do this on Condoc - where we are already at the generous end of what the industry themselves suggested - I think we could accelerate the phase-out of APRT. The choice seems to be between packages G and M of my 25 February note. These cost the same overall, but M has a higher cost in 1983/84. They produce the following overall costs (including Condoc and appraisal relief):

	83/84	84/85	85/86	86/87	Average over 4 years
G	105	160	400	225	223
M	125	150	400	215	223

6. In addition, I see some merit in giving temporary further abatement for pre-May 1982 agreements (para 5(b) of my 25 February minute) for 5 years. This would cost less than £5 million a year, but might lessen the unjustified criticism of retrospective taxation.

7. Thus if we can afford M and do the temporary further abatement in paragraph 6, the total oil package will be one totalling over £900 million for 4 years.

8. For the sake of completeness, I ought to mention 3 other relevant points, which I am still discussing with officials.

(a) Future Southern Basin and On-Shore Fields

Nigel Lawson wants these fields to be given the new fields treatment for royalties and the PRT oil allowance. Treasury and Inland

Revenue officials recommend against this, and I accept their advice. I agree with the advice that the new PRT appraisal relief should be given to these fields.

(b) Exempt Gas and Pay Back

There is a complicated problem affecting Esso and Shell, where they claim that the curtailment of uplift and safeguard reliefs in 1981 is going to produce an increase in their total tax payable of some £250 million between now and 1988/89. Our officials recommend that we should not legislate to avoid this charge on them. I will report to you in more detail on this, but both we and the oil companies have good cases to deploy. On balance, I think ours is the better, but we should recognise that there will be trouble with this during Finance Bill debates.

(c) Esso Reorganisation

Esso have pointed to an anomaly in some 1980 legislation, which leads to a tax charge on a recent reorganisation they have made. I accept the case for correcting this (at a once-for-all cost of £10 million in 1983/84, followed by a yield of £5 million in 1984/85), and it may help us presentationally.

Andrew Hudson

for JOHN WAKEHAM

/Written by the Minister and signed in his absence/

FROM: E P KEMP
1 March 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Middleton Littler
Mr Cassell
Mr ~~Evans~~ Bailey Evans
Mr Moore
Mr Hall
Mr Ridley
Sir Lawrence Airey IR
Mr Fraser C&E
Professor Walters No 10

BUDGET - FURTHER PROGRESS REPORT ON FISCAL PROPOSALS

I attach a further Progress Report for consideration at the sixth "Overview" meeting tomorrow afternoon.

2. This comprises :-

Note A, which shows the PSBR costs of the measures we now have on the table ranked in descending order of priority as you asked.

Note B, which shows the revenue costs of the same measures split as between those which directly affect businesses and those which directly affect persons.

Note C, which summarises the various packages, and similarly both ranks them in priority order and splits them between businesses and persons; Note C is supported by Tables A to E which show more detail of the packages.

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3. There is, I am afraid, rather a lot of detail in these papers, which is inevitable since they seek to summarise what we are now proposing more or less all completely.

4. There seem to me to be three broad questions now arising, for discussion tomorrow or otherwise :-

a. How do the total PSBR costs of the measures as shown in Note A now appear seen from the point of view of the PSBR paths looked for and the latest position on the forecast. On this I understand that Mr Burns may be letting you have separately a note. If any of the measures have to be dropped what would be the precise priorities? Anything to be added?

b. How does the balance of the fiscal side of the Budget as a whole now look, taking into account in particular the analysis of the split of the direct effects of the measures on persons and businesses shown in Note B? As we always expected, even if we take into account one half of the Autumn NIS reduction, persons come out well ahead. Against that, however, the measures for businesses remains substantial in absolute terms (nearly £1 billion for 1983-84, counting the ½ per cent Autumn NIS), and of course businesses will have benefited from the fall in the exchange rate. But if the balance is not attractive, what if anything might be done to alter it?

c. How, administratively, are we going in clearing up the various outstanding points? In the tables dealing with the packages I have side-lined elements where it seems to me final decisions are still required. Elsewhere we want final decisions on oil (and I see the MST(R) in his minute of 28 February suggests an addition to the package we now have on the table which seems to add substantially

to the cost particularly for 1984-85), on unemployment where I gather a meeting is being held tomorrow, and of course on the Mortgage Interest Relief ceiling and the whole question of the social security area. We also need to tackle the ACT/DTR proposals, and what is finally to be done on personal thresholds, though these are more dependent on how much can be afforded than on their own merits.

5. In addition to decisions on the precise tax and public expenditure measures we also need decisions on the PSBRs (see paragraph 4(a) above) and the associated monetary target paths, for the purpose of the FSBR and of course the Budget Speech. I hope we shall be able to let you have drafts of the whole FSBR, in printers proof form, tomorrow or the day after.

E P KEMP

NOTE A

1 March 1983

BUDGET MEASURES

£ million PSBR costs indexed

	1983-84		1984-85	
Prior Claims				
NIS - ½% from August	200		300	
IT - 8½ over RW - bare basic*	990		1040	
CB - lower rate contemplated**	[60]		[175]	
Total Prior Claims		1190		1340
Group A				
Specific Duties - net***	(10)		(10)	
Oil - Package B plus Condoc concessions	95		85	
CT - Package 6(b)	35		60	
IT - roundings on allowance*	20		20	
CB - higher rate contemplated**	[20]		50	
Unemployment Measures	[25]		25	
Package elements (see attached Note C)	125	265	205	435
Total Prior Claims + Group A		1455		1775
Group B				
MIRC - upper end of costs of going to £30,000	70		85	
ACT - extension of carry-back 6 years	-		60	
DTR - reverse ACT/DTR set off	-		~~35~~	
Package elements - other (see attached Note C)	65	135	65	245
Total Prior Claims + Group A + Group B		1590		2020
Not reflected				
Social Security (?) (Revenue cost)****	0-30		0-90	

* This is the basic cost of 8½ per cent over RW. In Group A is the additional cost of rounding the married man's allowance. Other permutations are possible.

** CB and unemployment measures are public expenditure. Of the total cost £100 about million and £175 million (1983-84 and 1984-85) are scored at nil for the Budget arithmetic being covered by public expenditure shortfall already allowed for in the forecast. All the other public expenditure elements in the Budget are charged at full PSBR cost.

*** Gains on cider and VED, less costs on tobacco, petrol and derv concessions.

**** Net cost after offsetting unemployment benefit and caring proposals.

BUDGET SECRET

Note B

1 March 1983

FOR DETAILS OF MEASURES SEE NOTE A

£ million revenue costs indexed

	Persons 1983-84		Businesses 1983-84		Persons 1983-84		Businesses 1983-84	
Prior Claims								
NIS*			570				800	
IT	1150				1450			
CB	60				175			
Total Prior Claims		1210		570		1625		800
Group A								
Specifics			(10)				(10)	
Oil			105				100	
CT			40				70	
IT	20				40			
CB	20				50			
Unemployment			25				25	
Packages	5	45	133	293	(10)	80	250	435
Total Prior Claims + Group A		1255		863		1705		1235
Group B								
MIRC	75				100			
ACT							70	
DTR							40	
Packages	27	102	48	48	5	105	76	186
Total Including Prior Claims, Group A, Group B and Autumn ½% NIS. Tax and P/Ex.		1357		911		1810		1421
Total revenue costs - Budget only indexed**		1620				2215		
Total revenue costs - Budget only unindexed**		1900				2750		

* ½% August plus ½% Autumn

** As in FSBR (provisional figures). Excludes P/Ex elements charged to reserve or otherwise absorbed in existing totals.

NOTE C

1 March 1983

PACKAGES

£ million revenue costs

	1983-84 Group A	1983-84 Group B	1984-85 Group A	1984-85 Group B
Enterprise and Small Firms (Table A)	(B) 28		(B) 146	
except CTT*		(B) 23		(B) 46
Technology and Innovation (Table B)	(B) 44		(B) 84	
Construction (Table C)	(B) 60		(B) 20	
except some cutting down on enveloping and/or improvement grants		(B) 25		
Caring and Charities (Table D)**	(P) 5		(P) 27	
except Widows Bereavement		(P) 25		(P) 30
Miscellaneous and "Fairness" (Table E)	(B) 1		(P) (37)	
except "publicans mortgages"		(P) 2		(B) 5
Total revenue costs as Note B	138	75	240	81
Reduce to PSBR costs (say)	13	10	35	16
Total PSBR costs as Note A (say)	125	65	205	65

Revenue costs split (say)

	1983-84 Group A	1983-84 Group B	1984-85 Group A	1984-85 Group B
Businesses (B)	133	48	250	76
Persons (P)	5	27	(10)	5

* CTT taken as "businesses" in this analysis as part of enterprise etc package. But it could be described as "persons". (There are other items which can score both ways or not at all).

** "Caring" package costs (and unemployment benefit proposals) scored net

DATE: 1 March 1983

BUDGET PACKAGES [Note: items marked * are public expenditure]

SMALL FIRMS, ENTERPRISE AND WIDER SHARE OWNERSHIP

		1983-84	1984-85	Full Year
1.	Business Expansion Scheme	nil	75	75
2.	Loan Guarantee Scheme*	nil	nil	-
3.	Wider share ownership	20	30	35
4.	Capital Gains Tax (see note)			
	(a) monetary limits	nil	1	1
	(b) retirement relief	nil	1	4
5.	VAT registration thresholds	5	10	10
6.	De minimis limit for assessment of apportioned income	under 1	under 1	under 1
7.	Acceptance credits	1-2	1-2	1-2
8.	Capital Transfer Tax (see note)	23	46	55
9.	Zero/deep-discounted stock (under discussion)	neg	25	75
10.	Relief for interest, employee buy-outs	1	1	2
~~11.~~	Close companies - ACT limit on loans (depends on mortgage interest relief ceiling but assumed dead)	-	-	-
12.	Tax treatment of interest paid by companies to non-residents (Revenue submission to come)	under 1	under 1	10
	GRAND TOTAL	51	192	268

Notes: (1) For item 4 of the cost of the measures when statutory indexation is taken into account is nil, 5 and 15 million.
(2) For item 8 the cost of the measures when statutory indexation is taken into account is 38, 76 and 90 million respectively.

TABLE B

DATE: 1 March 1983

BUDGET PACKAGES

TECHNOLOGY AND INNOVATION [Note: items marked * are public expenditure]

		1983-84	1984-85	1985-86
1.	Extension of transitional period for capital allowances - films	nil	nil	30
2.	Extension of transitional period for capital allowances - teletext TVs	nil	10	15
3.	SEFIS*	20	40	40
4.	Information technology*	7	10	13
5.	Innovation linked investment*	5	15	20
6.	Advisory services*	12	9	9
7.	Science Parks* (see note)	-	-	-
	Revenue costs	nil	10	45
	Public expenditure costs	44	74	82
	TOTAL PACKAGE COST	44	84	127

Note: The total public expenditure cost over three years is £200 million; the science park cost is to be accommodated within this total. The cost of the whole package over three years is £255 million.

DATE: 28 February 1983

TABLE C

DATE: 1 March 1983

BUDGET PACKAGES [Note: items marked * are public expenditure]

CONSTRUCTION

		1983-84	1984-85	Full Year
1.	Enveloping*	50	nil	-
2.	Improvement grants*	35	nil	-
3.	Increase in proportion of office space qualifying for industrial building allowance	nil	10	25
4.	Increase in hotel allowance or extension to self catering (CST minute to Chancellor 24.2.83).	nil	up to 5	up to 5
5.	DLT - extension of own-use deferment	nil	under 1	4
6.	Small Workshop Scheme - averaging for converted premises	under 1	under 1	under 1
	Revenue costs	nil	15	40
	Public expenditure costs	85	nil	-
7.	Stock relief: householders part exchange - simple scheme.	under 1	5	5
8.	Extension of assured tenancy capital allowance to shared ownership properties (still under discussion with DOE)	na	na	na
	GRAND TOTAL	85	20	45

TABLE D

DATE: 1 March 1983

BUDGET PACKAGES

CARING AND CHARITIES

[Note: items marked * are public expenditure]

		1983-84	1984-85	Full year
ALL ITEMS STILL OUTSTANDING				
1.	Extension of widows bereavement allowance	25	30	30
2.	Real increase in mobility allowance*	2	6	-
3.	Real increase in therapeutic earnings limit*	0.1	0.3	-
4.	Abolition of £250,000 limit for CTT exemption - gifts to charities	under 1	under 1	under 1
5.	Deeds of covenant; increase in ceiling for higher rate relief to £5,000	nil	3	3
6.	New war pensioners mobility supplement*	0.2	2	-
7.	Supplementary benefit capital disregards*	3.5	11	-
8.	Tax relief for staff seconded by companies to voluntary bodies	under 1	under 1	under 1
9.	Removal of invalidity trap*	7.5	23	-
	Revenue costs	25	33	33
	Public expenditure costs	13	42	-
	Public expenditure costs after offsetting savings	nil	12	-
	TOTAL PACKAGE COSTS	25	45	33
10.	Real increase in housing benefit children's needs allowance*	3	10	-
11.	Grants to bodies involved in voluntary service for elderly*	2	2	-
	GRAND TOTAL	30	57	33

Note: All the public expenditure items in the package are subject to further discussions with Mr Fowler.

DATE: 28 February 1983

TABLE E

DATE: 1 March 1983

BUDGET PACKAGES

£m (yields) unless otherwise stated

MISCELLANEOUS (INCLUDING "FAIRNESS")

		1983-84	1984-85	Full year
1.	Fringe benefits - scholarships	neg	(5)	(5)
2.	Fringe benefits - car and car fuel scales - 14% or 15%	nil	(30)	(30)
3.	Fringe benefits - "Marks & Spencer" device	nil	nil	1
4.	Life assurance: chargeable events: secondhand bonds	under (1)	under (1)	under (1)
5.	CGT: non-resident trusts	under (1)	under (1)	under (1)
6.	CTT - remove special deemed domicile rule for offshore islands Cost:	1	2	2
7.	Group relief: avoidance (BL)	nil	(10)	(10)
8.	DLT: disposals by non-residents (MST (R) considering)	(1)	(2)	(2)
9.	Taxation of international business (consider with ACT/DTR change)	under (1)	under (1)	(100)
10.	Fringe benefits; double £25,000 device (depends on mortgage interest relief ceiling)	nil	under (1)	under (1)
11.	Directors PAYE tax	nil	(10)	(10)
12.	TSBs to be treated as bodies corporate	2	20	20
13.	Stamp duty - selective reform package (awaiting Chancellor's final decision ? nil	-	-	-
14.	VAT exemption for work of art accepted in lieu of tax (Customs submission 23.2.83	1	1	1
15.	Self employed second home mortgage interest relief ("Publicans")	2	5	5
	GRAND TOTAL costs/yields	3	(32)	(132)

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CH/EX REF NO B(83)14

COPY NO 9 OF 34 COPIES

RECORD OF THE SIXTH BUDGET OVERVIEW MEETING AT 4PM ON 2 MARCH

Present:

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson

Mr Burns
Sir Lawrence Airey (IR)
Mr Fraser (C&E)
Professor Walters (No 10)
Mr Bailey
Mr Middleton
Mr Moore
Mr Kemp

Mr Cassell
Mr Ridley
Mr Kerr
Mr Hall
Mr Green (IR))
Mr Monger) Item 2
Mr Mountfield) only
Mr Pestell)

Papers:

i. PSBR Forecast (Mr Burns' minute of 2 March)

ii. Progress Report (Mr Kemp's minute of 1 March)

ITEM 1: PSBR Forecast

Mr Burns recommended that, in the absence of further changes in oil prices, the PSBR for 1983-84 should be shown as 2¾ per cent of GDP (£8.2 billion), which would be consistent with Budget measures along the lines of those in Annex A to Mr Kemp's minute. For 1984-85, a PSBR of £8 billion, with a fiscal adjustment of £0.5 billion, could be shown. The latest estimate for the 1982-83 outturn was between £7.5 and £8 billion: to show £8 billion for each of the 3 years would produce a GDP percentage path of 3 per cent, 2¾ per cent, and 2½ per cent.

2. It was suggested that the 1983-84 PSBR could be raised to £8.5 billion (or £8.7 billion, rounded to £9 billion). It was however noted that a 1984-85 figure of £8 billion would be unattainable if additional Budget measures, whose impact would carry forward, were allowed for 1983-84. It was also noted that a 1983-84 PSBR of £8 billion had been suggested in the Autumn Forecast, and that developments on the exchange rate and the oil price since the autumn could point to greater caution. The 1982 MTFS had suggested a 1984-85 PSBR of 2 per cent of GDP: to go up to 2½ per cent of GDP for that year might be seen as

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a significant relaxation, even if the 1983-84 PSBR remained at 2¾ per cent of GDP, as indicated in the 1982 MTFS. To compound this by going above 2¾ per cent in 1983-84 would give the wrong signal.

3. It was agreed that, in the absence of any further dramatic oil price fall before Budget Day, the MTFS would show PSBR figures of £8 billion for the 3 years 1982-83 to 1984-85. A further meeting would be held - on 4 March - to consider what action would be appropriate in the event of a major fall in the oil price before 15 March, and how the risk of such a fall after 15 March should be handled in the Budget Speech.

ITEM 2: Progress Report

Specific Duties

4. It was noted that decisions had been taken on all the specific duties. Those on petrol and derv might however be at risk in the event of an early and major oil price fall: they could be reopened without undue difficulty up to 7 March, though changes thereafter would create difficulty.

Oil Taxation

5. It was agreed that the Secretary of State for Energy should be offered the additional concessions noted in paragraphs 6 and 8(c) of the Minister of State (R)'s minute of 28 February, but not that in its paragraph 5. The Revenue cost of the total oil package would then be £120 million in 1983-84 and £100 million in 1984-85, the PSBR costs some £105 and £85 million. The Chancellor would write immediately to the Energy Secretary: if a further meeting with him proved necessary, it would take place on 3 March.

Budget Core

6. It was agreed that the NIS ½ point reduction from August, the Rooker-Wise plus 8½ per cent increase in income tax allowances, and

the additional rounding of the married man's allowance, and package 6(b) on corporation tax should remain the core of the Budget.

Child Benefit

7. The Chief Secretary proposed that the increase in child benefit should be to £6.50 a week. The extra costs above those already allowed for would be £20 million in 1983-84 and £50 million in 1984-85. To cover the 1983-84 costs he proposed to drop the proposed extension of the home improvement scheme to inter-war houses, and to deduct £5 million from the innovation package. How to handle the additional costs in 1984-85 would need further study.

8. The Chancellor agreed. Child benefit should be raised to £6.50. The handling of the 1984-85 extra costs would be discussed at a separate meeting on 3 March, which would also consider the public expenditure implications of the decisions taken at the Prime Minister's meeting on unemployment measures on 2 March.

Capital Transfer Tax

9. It was agreed that no major CTT relaxation, on top of indexation, could be afforded, but that it would be in order to round up the indexed scale at a cost not exceeding £5 million in 1983-84. [The Chancellor subsequently agreed to the rounded scale proposed in Mr Beighton's minute of 3 March.] Three minor CTT reliefs were also agreed, viz a 2 year increase in the period for payment by instalments (1983-84 cost £2.5 million), the removal of the £0.25 million limit on gifts to charities (1983-84 cost negligible), and the removal of the special deemed domicile rule for the offshore islands (1983-84 cost £0.5 million). [The Chancellor subsequently agreed to the inclusion of the two further reliefs - the extension of the business relief for minority holdings in unquoted companies, and of the agricultural relief for let land, from 20 per cent to 30 per cent, mentioned in Mr Beighton's minute of 3 March (1983-84 cost £0.5 million)].

Tourism Package

10. The meeting discussed the Chief Secretary's minute of 24 February, and subsequent comments from the Financial and Economic Secretaries. It was agreed to drop both the proposed increase in the hotel allowance and its extension to self-catering.

Caring Package

11. It was agreed that the proposed increase in the mobility allowance should be dropped. The proposed extension of the widows' bereavement allowance, and the possible removal of the invalidity trap, would be discussed further on 3 March, when the public expenditure implications of the child benefit and unemployment measures decisions were clear.

Taxation of International Business/Advance Corporation Tax

12. The Minister of State (R) proposed legislation in 1983, for implementation from 1984, on tax havens and the reversal of the ACT/DTR set-off. As explained in his minute of 2 March, the package would be Revenue-neutral throughout.

13. It was suggested that, if implementation were to be deferred, legislation this year on tax havens might court unpopularity to no good purpose. The Minister of State, and Professor Walters, disagreed: the Minister of State thought that every reasonable objection to the tax havens proposals had now been met, and Professor Walters thought that the package, including the reversal of ACT/DTR set-off, was well worth while, and would be well received.

14. It was agreed that the package, as proposed in paragraph 5 of the Minister of State's minute, should be included in the Budget.

15. On the separate issue of the extension to six years of ACT carry back, a decision was deferred. It would be taken in the light of

the decision reached on the mortgage interest relief ceiling.

J O KERR

Distribution:

Those present
Mr Littler
Mr Battishill - Inland Revenue
Mr Crawley - Inland Revenue
Mr Evans
Mr Robson
Mr French
Mr Harris
Mr Norgrove

A31

CH/EX. REF. NO B(83)15

COPY NO 9 OF 31 COPIES

NOTE OF A MEETING AT NOON ON 3 MARCH IN HM TREASURY ON RESIDUAL BUDGET ISSUES

Present:

All Ministers	Mr Middleton	Mr Moore
Sir A Rawlinson	Mr Green - IR	Mr Kemp
Sir L Airey - IR	Mr Monger	Mr Pestell
Mr Burns	Mr Mountfield	Mr Ridley
Mr Bailey	Mr Cassell	Mr Kerr

Papers: Mr Kemp's minute of 3 March "Budget: The Public Expenditure Position".

1. The meeting noted the public expenditure elements recommended for the Budget, and approved the category A list in the Annex to Mr Kemp's minute, noting only that:-

i. A 1984-85 cost of £10m should be shown for uprating the cost limitson improvement grants; and

ii. The 1984-85 cost of the part-time job release scheme could be substantial, and perhaps of the order of £25m.

2. The items in category B - possible casualties - were considered and it was agreed that:-

a. The decision on 2 March to drop the proposed real increase in the mobility allowance should stand;

b. The removal of the invalidity trap (the 1983-84 cost of which would be £4m) should be further considered /it was subsequently approved by the Chancellor/;and

c. The proposed

77/3

c. The proposed extension of eligibility for improvement grant to inter-war houses should be dropped.

It was noted that removal of the invalidity trap might have high staff costs: though the Chancellor recalled that DHSS had earlier indicated that such costs might be absorbed - para 9 of the Chief Secretary's minute of 14 February. Mr Monger was asked to investigate this point, and to try to ensure that additional staff requirements were minimised.

3. The meeting then considered fiscal issues.

4. It was noted that the mortgage interest relief ceiling would be raised to £30,000 at a PSBR cost of £55m (1983-84) and £70m (1984-85).

5. The case for dropping the extension of the widows' bereavement allowance was considered. It was noted that the Chief Secretary had regarded this - minute of 14 February - as the highest priority in the caring package, and the one substantial Revenue item in it, needed to make it credible. The Chancellor deferred a decision. [He subsequently agreed that the extension should be implemented.]

6. The case for dropping the extension to six years of ACT carry-back was similarly discussed. It was suggested that it would be right to keep at least one free-standing response to the Corporation Tax Green Paper in the Budget; and that the proposed measure was well targeted to help manufacturing companies. It was on the other hand suggested that public debate would proceed, whether or not the Budget contained such a Corporation Tax concession, and that - given the raising of the mortgage interest relief ceiling - the heavy (£60m) 1984-85 costs of extending ACT carry-back would be particularly difficult. A decision was deferred. [But the Chancellor subsequently decided that the measure should be dropped.]

7. The meeting

7. The meeting then considered the staffing implications of the Budget.

8. It was suggested that the impact of the Budget measures as a whole might be to create an increased net staff requirement. This was however contested: the large rise in income tax thresholds would reduce IR staff requirements considerably.

9. The Central unit were asked to prepare an overall staff costs score sheet. The reckoning would have to be released on Budget day, and might well merit a place in the Budget speech.

J O KERR
3 March 1983

Distribution:

Those present

Sir D Wass
Mr Fraser: C&E
Mr Littler
Mr Evans
Mr Robson
Mr Hall
Ms Seammen
Mr Norgrove
Professor Walters No 10.

A31

FROM: J O KERR
DATE: 3 March 1983

CH/EX REF NO B(83)13

COPY NO 9 OF 22 COPIES

MR KEMP

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Middleton
Mr Bailey
Mr Cassell
Mr Moore
Mr Monger
Mr Mountfield
Mr Ridley
Sir L Airey) IR
Mr Green)
Mr Beightin)

BUDGET DECISIONS ON 3 MARCH: STOP PRESS

This is to confirm to you, and inform copy addressees, that the items outstanding at the end of today's noon meeting have been settled as follows:-

(a) <u>To be included in the Budget</u>

	£m PSBR costs 1983-84	£m PSBR costs 1984-85
Removal of Invalidity Trap	4	14
Widows' Bereavement Allowance Extension	20	25
CTT: increase from (i) 20% to 30% in business relief for minority holdings in unquoted companies and (ii) in agricultural relief for let land	0.5	5
(b) <u>Dropped from the Budget</u>		
ACT carry back, extension to 6 years	-	60

JOK.

J O KERR

3/3

BUDGET CONFIDENTIAL

A31

FROM: T BURNS
DATE: 2 MARCH 1983

CHANCELLOR

cc. Chief Secretary
Financial Secretary
Economic Secretary
Minister of State(C)
Minister of State(R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Littler
Mr Middleton
Mr Cassell
Mr Evans
Mr Kemp
Mr Ridley

PSBR FORECAST

1. I have been looking again at the prospects for the PSBR.

2. Over the period January-February 1983, estimates of the PSBR - on the basis of a Budget package worth £1½ billion in 1983-84 and £2 billion in 1984-85, in PSBR terms - have varied as follows:

PSBR	£ billion
1983-84	7½-9
1984-85	6½-9

The January forecast was at the lower end of the range; at the end of last week we were at the top of the range; very latest estimates are in the upper half of the range for each year.

3. As we have always tried to make clear, forecasts of the PSBR are subject to errors of several billions of pounds in either direction. The average error on PSBR forecasts is the equivalent of £4 billion in 1984-84. In consequence, each new forecast is liable to show a revision which, while small in relation to the margins of error, is large in relation to Budget changes.

4. Examination of the published forecasts for the PSBR since 1967 does not suggest any bias. However since 1976 (coincidentally (?) since concern with the PSBR has increased) there has been a small bias: the outturn has been on average a little below the forecast.

5. We have often pointed out that there has been something of a cyclical pattern in these errors. For example the outturn has tended to be below forecast when the growth rate has been improving. This points, if anything, to a further error in the same direction in 1983-84 as the growth rate is expected to improve further. We have tried to give weight to these factors in forecasting; nevertheless we cannot be sure that they have been fully taken into account.

6. In these circumstances I recommend that for 1983-84 you publish a PSBR of 2¾% of GDP (£8.2 billion) which would coincide - when rounded to £8 billion - with the figure used in the Autumn Statement and last year's MTFS.

7. For 1984-85 I suggest a PSBR of about £7½ billion with zero fiscal adjustment, or £8 billion with a fiscal adjustment of £½ billion These figures would be consistent with the forecasts of most outside organisations.

8. The latest estimate for 1982-83 is between £7½ billion and £8 billion. If we were to show £8 billion for each of the years 1982-83 to 1984-85 the figures as a percentage of GDP would run - 3%; 2¾%; 2½%.

9. All this is on the basis of the present assumption about oil prices (a $30.50 North Sea price from February 1): if we decide to base the Budget forecast on a substantially lower price then you will want to look again at the PSBR and the size of the fiscal adjustment. But in the absence of further changes in oil prices I suggest freezing the PSBR figures at this point.

T BURNS

BUDGET CONFIDENTIAL

A31

FROM: T BURNS
DATE: 2 MARCH 1983

CHANCELLOR

cc. Chief Secretary
Financial Secretary
Economic Secretary
Minister of State(C)
Minister of State(R)
Sir Douglas Wass
Sir Anthony Rawlinso
Mr Littler
Mr Middleton
Mr Cassell
Mr Evans
Mr Kemp
Mr Ridley

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T BURNS

A31

BUDGET SECRET

FROM: E P KEMP
3 March 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Middleton
Mr Bailey
Mr Cassell
Mr Moore
Mr Monger
Mr Mountfield
Mr Pestell
Mr Hall
Mr Ridley

BUDGET - THE PUBLIC EXPENDITURE POSITION

Following the request at your meeting yesterday, we have prepared the tables below which list for decision the public expenditure elements now on the table for the Budget. Category A are the items now favoured, while Category B are some other items which have been in recent lists but which it is now proposed to drop. Costs shown are excesses over the provisions made in the White Paper.

2. All the items adopted will be charged to the Contingency Reserve. This should be stated in the Budget Speech in order to minimise the impression of weakening control and failure to hold to White Paper decisions.

3. For Category A the note below shows not only the gross public expenditure cost but also the net PSBR cost. As advised in previous papers, for 1983-84 the first £100 million of the items charged to the Reserve can be regarded as allowed for in the PSBR forecast; the excess over this scores against fiscal adjustment. For 1984-85 the parallel figure is £175 million. In addition in converting the revenue figures to PSBR figures we have made an allowance for the off-setting saving on benefits arising from the employment measures.

4. I am letting you have separately a total score card for the Budget as it now stands, reflecting the figures shown in the notes below.

5. The figures in the tables below have been agreed with those responsible.

EPK

E P KEMP

BUDGET SECRET

3 March 1983

£ million

Category A-Favoured

	1983-84		1984-85	
Social Security				
Raise cut off for SB resources to £3,000	2		7	
Raise cut off for SB single payments to £500	1		3	
Real increase in therapeutic earnings limit	neg		neg	
New mobility supplement for War Pensioners	neg		1	
Less housing benefit savings	(2)		(6)	
Restoration of 5 per cent abatement in UB	22		59	
Increase Child Benefit to £6.50 per week, plus corresponding rise in one parent benefit	74	97	212	276
Technology				
As previous package, less £5m reduction on advisory service and computer aids		39		69
Construction				
Enveloping	50		-	
Improvement Grants: uprating cost limits	10	60		-
Employment				
DHSS early retirement (automatic credits 2 long-term SB 22)	24		24	
Enterprise allowance; cash limited Nationwide scheme, plus spill over (gross)	25		25	
Part-time JRS from 62, starting October (gross)	5	54	Note 1	49
Gross P/Ex costs		250		394
Less allowed for in PSBR forecast	100		175	
netting of unemployment measures cost	14	114	8	183
		136		211
Less adjustment to PSBR costs		16		31
Net PSBR costs		120		180

Note 1: Unknown - to be determined ad referendum Ministers at D/Em meeting on 3 March

	1983-84	1984-85
Category B - Proposed to drop		
Real increase in Mobility Allowance	2	6
Removal of Invalidity Trap (net of amount already in Employment package above)	2	14
Improvement Grant inter-war houses	25	-
Gross P/Ex costs	29	20
Summary		
Gross cost of Category A items	250	394 (Note 1)
-ditto- Category B items	29	20

Note 1: Plus cost of Part-time JRS for 62, still to be determined.

A31

BUDGET SECRET

FROM: E P KEMP
3 March 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Middleton
Mr Bailey
Mr Cassell
Mr Moore
Mr Monger
Mr Mountfield
Mr Pestell
Mr Hall
Mr Ridley

BUDGET - THE PUBLIC EXPENDITURE POSITION

Following the request at your meeting yesterday, we have prepared the tables below which list for decision the public expenditure elements now on the table for the Budget. Category A are the items now favoured, while Category B are some other items which have been in recent lists but which it is now proposed to drop. Costs shown are excesses over the provisions made in the White Paper.

2. All the items adopted will be charged to the Contingency Reserve. This should be stated in the Budget Speech in order to minimise the impression of weakening control and failure to hold to White Paper decisions.

3. For Category A the note below shows not only the gross public expenditure cost but also the net PSBR cost. As advised in previous papers, for 1983-84 the first £100 million of the items charged to the Reserve can be regarded as allowed for in the PSBR forecast; the excess over this scores against fiscal adjustment. For 1984-85 the parallel figure is £175 million. In addition in converting the revenue figures to PSBR figures we have made an allowance for the off-setting saving on benefits arising from the employment measures.

Sues X
~~6~~
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4. I am letting you have separately a total score card for the Budget as it now stands, reflecting the figures shown in the notes below.

5. The figures in the tables below have been agreed with those responsible.

E P KEMP

£ million

Category A-Favoured

	1983-84		1984-85	
Social Security				
Raise cut off for SB resources to £3,000	2		7	
Raise cut off for SB single payments to £500	1		3	
Real increase in therapeutic earnings limit	neg		neg	
New mobility supplement for War Pensioners	neg		1	
Less housing benefit savings	(2)		(6)	
Restoration of 5 per cent abatement in UB	22		59	
Increase Child Benefit to £6.50 per week, plus corresponding rise in one parent benefit	74	97	212	276
Technology				
As previous package, less £5m reduction on advisory service and computer aids		39		69
Construction				
Enveloping	50		-	
Improvement Grants: uprating cost limits	10	60		-
Employment				
DHSS early retirement (automatic credits 2 long-term SB 22)	24		24	
Enterprise allowance; cash limited Nationwide scheme, plus spill over (gross)	25		25	
Part-time JRS from 62, starting October (gross)	5	54	Note 1	49
Gross P/Ex costs		250		394
Less allowed for in PSBR forecast	100		175	
netting of unemployment measures cost	14	114	8	183
		136		211
Less adjustment to PSBR costs		16		31
Net PSBR costs		120		180

Note 1: Unknown - to be determined ad referendum Ministers at D/Em meeting on 3 March

	1983-84	1984-85	
Category B - Proposed to drop			
Real increase in Mobility Allowance	2	6	
Removal of Invalidity Trap (net of amount already in Employment package above)	2	14	
Improvement Grant inter-war houses	25	-	
Gross P/Ex costs	29	20	
Summary			
Gross cost of Category A items	250	394	(Note 1)
-ditto- Category B items	29	20	

Note 1: Plus cost of Part-time JRS for 62, still to be determined.

A31

NOTE OF A MEETING ON MONDAY 7th MARCH AT 4.15 P.M. IN THE CHANCELLOR'S ROOM, H.M. TREASURY

Present:

Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Sir D Wass
Sir A Rawlinson
Mr Burns
Mr Littler
Mr Middleton
Mr Cassell
Mr Mountfield
Mr Evans
Mr Moore
Mrs Lomax
Mr Shields
Mr Kemp
Mr Stibbard
Mr Hall
Mr Norgrove
Mr Corcoran
Mr Ridley

1983-84 FSBR

The meeting had before it Mr Corcoran's minute of 4 March.

2. The Economic Secretary queried the sense of moving the Budget proposals in detail to the proposed position (part 4). After a brief discussion it was agreed that this did in fact make sense and the document would stand as drafted.

3. The meeting considered the point in paragraph 8 of Mr Corcoran's minute, whether the table 1.1 could be expanded to take credit for the autumn measures. It was pointed out that this could create an unwelcome precedent and would pose conceptual problems. It was agreed that the table should not be so expanded.

4. There was some discussion of the change in definition of sterling M3 and the PSBR alluded to in the footnotes to tables 2.2 and 2.5. It was noted that these changes would be explained in greater depth in the Bank of England quarterly bulletin article but this would not appear for two weeks after the FSBR was produced. It was agreed that there should be a technical press notice produced to accompany the FSBR to explain the change and that the footnotes should give a Part 5 paragraph reference. The Chancellor queried the consistency of treatment of money GDP in paragraph 2.23. Mr Burns was not sure whether the figures should be highlighted. He undertook to have another look at the figures.

5. The Chancellor asked if all were agreed on the formulation "no major change" to describe the exchange rate in paragraph 2.13. Mr Middleton said that this had been accepted by the Bank of England. It was agreed that this formulation should be used. Mr Cassell agreed to have another look at the penultimate sentence of that paragraph.

6. The Chancellor asked that all references to oil prices be square bracketed in the next version of the FSBR.

7. The FST noted that there was scant reference to unemployment in the FSBR. It was agreed that this was not appropriate in such a document. The treatment was consistent with the Government's insistence that it did not publish unemployment forecasts. The Chancellor noted references to unemployment should be consistent with the Budget speech.

8. The Economic Secretary was concerned about the apparent discrepancy between the text on productivity and the chart. Mr Kemp agreed to have another look at the words although Mr Burns and Mr Evans did not think there was any inconsistency.

9. The Chancellor expressed concern about the picture shown on nationalised industry price increases in table 3.2 of the section on inflation. It was agreed that this table should be dropped. The reference to nationalised industry prices would come in the paragraph 3.22 where future performance could also be referred to.

10. There was some discussion of chart 3.6 and chart 3.3. It was agreed that the reference "competitiveness" in chart 3.3 should be dropped and that there should be an attempt to explain more clearly the concept of real unit labour cost.

11. The Chancellor asked that the square bracketed sections showing the difference between what was proposed and simple indexation should be left out from the part 4 text.

12. The Chancellor expressed concern about the zero percentage increase shown from manufacturing production in 1983. Mr Burns thought that the table should show half year figures. The Chancellor agreed that these should be included. That would put the figures on the same basis as those on the autumn statement.

13. Mr Middleton agreed to have a careful look at the PSBR outturn for 1982-83.

14. The Chief Secretary alerted the meeting to the issues raised in Mr Stibbard's minute of 4 March. It was agreed that these would be discussed subsequently.

JKR

JILL RUTTER

Distribution

Those Present
PS/Minister of State (R)
Mr Monck
Mr Peretz
Mr Allen
Mr Collison
Mr Robson
Mr Martin
Mr Harris

A31

CH/EX REF NO B/83/20.

COPY NO 9. OF 28. COPIES

RECORD OF THE SEVENTH BUDGET OVERVIEW MEETING AT 11.30AM ON 8 MARCH

Present:

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson

Mr Burns
Sir Lawrence Airey (IR)
Mr Fraser (C&E)
Professor Walters (No 10)
Mr Bailey
Mr Middleton

Mr Moore
Mr Kemp
Mr Cassell
Mr Ridley
Mr Kerr
Mr Hall

Papers:

i. Progress Report (Mr Kemp's minute of 8 March)

ii. Lower Oil Prices (Minutes of 4 March from Sir A Rawlinson and Mr Cassell)

ITEM 1: Decisions of Minor Measures

The following decisions on minor measures were taken:-

a. as proposed by the FST (minute of 4 March) it was agreed that the Business Expansion Scheme should be brought into effect from 1 January, rather than 1 March, 1984. The effect would be to bring forward into 1983/84 costs which would otherwise fall in 1984/85. They might be up to some £25 million.

b. It was agreed that, as suggested by the Minister of State (R) (minute of 4 March) the six year period of carry back of ACT should be introduced, as from the present date, though with no backdating. Compared to no extension of the period, there would be no additional costs in 1983-84, and a cost of some £1 million in 1984-85.

21/3

c. It was noted (Miss O'Mara's minute of 7 March) that the Secretary of State for Industry was bidding for the restoration of £5 million a year to the technology and innovation package, for use on Alvey. The decision was that this bid should be rejected: decisions on Alvey would have to be taken collectively, and should be taken comprehensively.

d. It was noted that the increases in the car and fuel scales, which were to be 15 per cent, had been rounded to cash figures which all produced increases of over - and in some cases substantially over - 15 per cent (Mr Driscoll's minute of 7 March). While reasonably round cash figures were certainly desirable, it was agreed that the proposed scales should be re-examined, with a view to producing figures rather closer to 15 per cent.

e. It was noted, and agreed, that no action was proposed on de-roofing.

ITEM 2: Budget revisions in the event of an oil price cut pre-15 March

It was agreed that no change to the proposed Budget would be required provided that the world oil price did not fall below \$27. Any further fall before 15 March would, however, require Budget revisions. A fall to \$25 might increase the PSBR by some £0.8b, on top of the increase of £0.5b which would result from the fall to \$27. These estimates assumed only a modest exchange rate fall - 2 per cent for a 10 per cent fall in the oil price: a larger exchange rate fall would mean a smaller PSBR effect, though the need for offsetting action might be greater on other grounds.

The Chancellor asked for the urgent preparation of advice on possible revisions to the Budget, on the assumption that the oil price fell to $25 before 15 March. While it might not in practice be necessary to correct the full £0.8b PSBR effect of the fall from $27 to $25, it was essential to consider what steps would be appropriate in the event that it was decided to do so.

J O KERR

Distribution:

Those present
Mr Evans
Mr Robson
Mr French
Mr Harris
Mr Norgrove

A31

BUDGET SECRET

FROM: E P KEMP
7 March 1983

CHANCELLOR OF THE EXCHEQUER

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

BUDGET - FURTHER PROGRESS REPORT ON FISCAL PROPOSALS

I attach a further Progress Report for consideration of the seventh "Overview" meeting tomorrow morning. This is the same Report as you saw late last week. It comprises an overall summary of where we are, detailed tables on the "packages", and a commentary on some of the individual measures.

2. These tables summarise what I hope can be regarded as the near final position on the Budget overall. They are, however, still subject to change, or risk of change, from three main angles :-

a. The actual arithmetic still requires updating in some places (for instance the figures entered for car and car fuel scales in Annex B are actually for the previously suggested 14 per cent average increase; they need to be increased for the 15 per cent now settled.) There may be other points of correction within agreed decisions that also seen to be picked up.

b. Some policy issues are still outstanding. I understand, for instance, that there is a proposal to advance the start of the BES from 1 April 1984 to 1 January 1984. This would have a cost. Another outstanding point,

122/3

though this time with as I understand it no cost, is the MST(R) proposal on the question of extending the carry back of ACT. I am not aware of any other outstanding points; if there are any they could perhaps be mentioned at the meeting tomorrow.

c. Changes could of course be necessitated by events in the oil price area this week (or even on Monday of next week). On this you had minutes from Sir Anthony Rawlinson and Mr Cassell of 4 March.

3. Finally, of course, for completeness - I hope only for that reason - I could mention that it is always possible to review or reopen some of the proposals shown below, even if we have regarded them as firm, if now the total picture can be seen it is felt it wants amending in some way.

4. I would suggest that the Overview meeting tomorrow might cover three broad areas :-

a. To note the overall position reached.

b. To clear up any known outstanding points.

c. To discuss on a contingency basis what might happen if the price of oil did make some reductions necessary over the next few days.

5. On the first of these, the meeting might just like to note what it set out in the attached tables. The general shape of the Budget, as we knew, is one in which the lion's share goes to individuals in the first place, though the position alters a little if one brings in to the reckoning one half of the NIS reduction that was announced in the Autumn, and notes that some of the measures scored to individuals particularly in "Housing and Home Ownership" also help the construction industry.

6. On the second point the only two matters I am aware of that are outstanding are those mentioned at paragraph 2(b) above. As I say, if there are any others perhaps they could be mentioned at the meeting. In principle it is undesirable to add to the cost of the Budget following the settlement (at last week's Overview meeting) of the forecasts/PSBRs/fiscal adjustment picture for the FSBR. But it may be that small changes that do not alter the picture materially might be acceptable if there were strong reasons for them.

7. On the third point you have, as I say, minutes from Sir Anthony Rawlinson and Mr Cassell. It is difficult to come to any firm decision about what might be done, since the situation in which something might be necessary has not yet arisen. But it seems sensible to assume that if the size of the Budget does have to be cut down in a hurry it is best to go for measures which are (a) not yet announced and (b) fairly big in themselves - we do not want to try to pick up large sums of money in penny packages. This really reduces the possibility to those which are listed in Mr Cassell's paragraph 5; NIS, personal allowances, Mortgage Interest Relief ceiling, oil, child benefit and enveloping; plus, if revenue increases are to be looked for, action on the indirects of which petrol is the most obvious. On the other side, of course, some of the effect of a fall in oil prices could be met by letting the PSBR rise.

8. Since the situation is unclear obviously final decisions cannot be taken. But the meeting might like to discuss (a) whether these possibilities are all that could be reasonably looked if it was necessary to take urgent action, or whether there are any others which should be pursued, (b) how these various possibilities would rank one against each other if the need for action did come up, (c) possible practical difficulties, eg with the (FSBR, Press Notices, Revenue and Customs publications) and (d) whether there is any more work which can usefully be put in hand now?

EPK

E P KEMP

£ million

	1983-84 PSBR	1983-84 REVENUE	1984-85 PSBR	1984-85 REVENUE
Individuals				
Personal Allowances	1010	1170	1060	1490
Housing and Home Ownership (Table B1)	80	115	65	105
Social Security (Table B2)	75	125	190	320
Unemployment (Table B3)	25	55	40	75
	1190	1465	1355	1990
Businesses and Industry				
Corporation Tax	35	40	60	70
National Insurance Surcharge	200	220	300	400
Small Firms and Enterprise (Table B4)	25	35	130	165
Technology and Innovation (Table B5)	30	40	50	80
	290	335	540	715
North Sea Oil	105	120	85	100
Specific Duties	(10)	(10)	(10)	(10)
Miscellaneous (Table B6)	-	-	(30)	(45)
GRAND TOTAL	1575	1910	1940	2750

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

2: The figures shown are rounded and may still vary marginally. The specific PSBR costs shown for each group of measures is necessarily approximate.

ANNEX B

TABLE 1

HOUSING AND HOME OWNERSHIP

£ million

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

Note: Items marked * are public expenditure

ANNEX B
TABLE 2

SOCIAL SECURITY

£ million

		1983-84	1984-85
1.	Abolition of £25,000 limit for CTT exemption on gifts to Charities	under 1	under 1
2.	Deeds of Covenant - increase in ceiling for higher rate		3
3.	Tax relief for staff seconded by companies to voluntary bodies	under 1	under 1
4.	Extension of widow's bereavement allowance	25	30
5.	Raise cut-off for SB resources to £3,000 *	2	7
6.	Raise cut-off for SB single payments to £500 *	1	3
7.	Real increase in therapeutic earnings limit *		
8.	New mobility supplement for War Pensioners *		
	Less housing benefit savings	(2)	(6)
9.	Restoration of 5 per cent abatement in UB *	22	59
10.	Increase child benefit to £6.50 per week, plus corresponding rise in one parent benefit *	74	212
11.	Removal of invalidity trap *	4	14
	Revenue costs	25	34
	Public expenditure costs	101	290
	GRAND TOTAL	126	324
	Taken as	125	320

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

ANNEX B

TABLE 3

UNEMPLOYMENT

£ million

	1983-84	1984-85
DHSS early retirement (automatic credits 2, long-term SB 22)*	24	24
Enterprise allowance: cash limited nationwide scheme, plus spill over (gross)*	25	25
Part-time JRS from 62*	5	25 ≠
GRAND TOTAL	54	74
Taken as	55	75

Note: Items marked * are public expenditure

≠ £25 million is provisional estimate

SMALL FIRMS, ENTERPRISE AND WIDER SHARE OWNERSHIP

£ million

		1983-84	1984-85	Full Year
1.	Business Expansion Scheme	nil	75	75
2.	Loan Guarantee Scheme*	nil	nil	-
3.	Wider share ownership	20	30	40
4.	Capital Gains Tax (see note 1)			
	a. monetary limits	nil	1	1
	b. retirement relief	nil	1	4
5.	VAT registration thresholds	5	10	10
6.	De minimis limit for assessment of apportioned income	under 1	under 1	under 1
7.	Acceptance credits	1	1	1
8.	Capital Transfer Tax (see note 2)	8	18	20
9.	Zero/deep-discounted stock	neg	15	15
10.	Relief for interest, employee buy-outs	1	1	2
11.	Tax treatment of interest paid by companies to non-residents	under 1	under 1	10
12.	Increase in proportion of office space qualifying for industrial building allowance	nil	10	25
13.	DLT - extension of own-use deferment	nil	under 1	4
14.	Small Workshop Scheme - averaging for converted premises	under 1	under 1	under 1
	GRAND TOTAL	36	163	208
	Taken as	35	165	

Note: Items marked * are public expenditure

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

2. Indexation of CTT costs 15, 30 and 45 respectively. The additional costs shown for item 8 are for rounding up the indexed thresholds, for extending the instalment period from 8 to 10 years, and for increasing reliefs on let land and unquoted companies to 30 per cent.

TECHNOLOGY AND INNOVATION

£ million

		1983-84	1984-85	1985-86
1.	Extension of transitional period for capital allowances - films	nil	nil	30
2.	Extension of transitional period for capital allowances - teletext TVs	nil	10	15
3.	SEFIS*	20	40	40
4.	Information technology*	5	8	11
5.	Innovation linked investment*	5	15	20
6.	Advisory services*	9	6	6
7.	Science Parks* (included above)			
	Revenue costs	nil	10	45
	Public expenditure costs	39	69	77
	GRAND TOTAL	39	79	122
	Taken as	40	80	

Note: Items marked * are public expenditure

The cost of the whole package over three years is £240 million

MISCELLANEOUS

£ million (yields)

		1983-84	1984-85	Full Year
1.	Car and car fuel scales - 15 per cent average increase	nil	(25)	(30)
2.	Cheap housing for directors	nil	nil	(1)
3.	Life assurance: chargeable events: secondhand bonds	under (1)	under (1)	under (1)
4.	CGT: non-resident trusts	under (1)	under (1)	under (1)
5.	CTT: remove special deemed domicile rule for Isle of Man etc	1	2	2
6.	Group relief: avoidance (BL)	nil	(10)	(10)
7.	DLT: disposals by non-residents	(1)	(2)	(2)
8.	Taxation of international business. Offset by Double Taxation Relief against Corporation Tax	nil	nil	nil
9.	Beneficial mortgage loans from employers	nil	under (1)	under (1)
10.	Directors PAYE tax	nil	(10)	(10)
11.	TSBs to be treated as bodies corporate	3	10	10
	GRAND TOTAL	2	(47)	(52)
	Taken as	-	(45)	

Annex C.

INDIVIDUAL MEASURES

Personal Allowances

1. All thresholds and allowances (including the higher rate and IS thresholds) to increase by 14 per cent, or 8½ per cent above the statutory minimum. This will for the great majority of people (but not quite all) more than outweigh the increased National Insurance Contributions which come into effect in April.

Social Security etc.

2. Child benefit to increase to £6.50 per week, taking its value above the level inherited in 1979. There will be a parallel increase in one-parent benefit. The 5 per cent abatement in unemployment benefit, effected in 1980, to be restored; widows bereavement allowance to be extended to a second year; the invalidity trap to be eliminated. Should go some way to offset the criticism on general social security upratings.

Housing and Home Ownership

3. This group includes the increase in the Mortgage Interest Relief ceiling from £25,000 to £30,000. Also included are proposals to provide more for Home Improvement Grants, and also to provide money for so-called "enveloping" schemes, under which local authorities repair the external fabrics of complete streets or terraces, as part of helping counter the problems of housing decay.

Unemployment

4. The measures here include proposals in respect of early retirement, a nationwide extension of the Enterprise Allowance Scheme, and making the Job Release Scheme available to part-timers from the age of 62.

Corporation Tax

5. Reduce the small companies rate from 40 per cent to 38 per cent, and alter the limits so as to reduce the transitional marginal rate.

National Insurance Surcharge

6. Cut NIS by ½ per cent for the private sector only, from next August. Complete abolition of the Surcharge is the single measure most frequently and forcefully pressed in industrial representations.

Small Firms, Enterprise and Wider Share Ownership

7. A major extension and simplification of the Business Start-Up Scheme, to be called the Business Expansion Scheme. The principal change is the extension of the present scheme to provide tax relief for equity investment not just in new companies but in all qualifying established unquoted trading companies. (Following a review, other changes are being made to make the scheme less restrictive.) Also further measures to encourage wider share ownership, improvements in the Capital Transfer Tax regime, an extension of the Loan Guarantee Scheme, and an increase in the VAT registration threshold.

Technology and Innovation

8. The major measure is the re-opening, at a cost of £100 million over the next three years, of the Small Engineering Firms Investment Scheme (SEFIS). Also included in the total technology package of £240 million over three years is help with Information Technology, Innovation Linked Investment and a provision for extension of Science Parks. It is hoped that this package will particularly benefit the West Midlands.

Other

9. The measures here comprise mainly action on corporate anti-avoidance and personal fringe benefits.

10. On anti-avoidance, the intention is:-

(i) to counter the "British Leyland" device for avoidance through group relief. Treasury Ministers are satisfied that the proposals will not hamper genuine business transactions.

(ii) to legislate on tax havens but not implement the new measures before 1984, and to provide for Double Taxation Relief to be allowed from the same date against the full corporation tax liability before ACT is deducted. This is one of the

changes most widely requested in representations on our corporation tax green paper. Taken together the two changes do not involve any net increase in the burden of tax on international business, but a switch in the burden away from those who remit profits to the UK towards those who accumulate surplus cash balances in tax havens overseas. The tax havens element in the package has been the subject of extensive consultation by Mr Wakeham: he and the Chancellor are satisfied that the proposals in their latest form meet every reasonable representation that has been made during the consultative process.

11. On fringe benefits, the intention is:-

(i) from 1984/85, to increase car and car fuel scales for company cars used privately by higher paid employees by 15 per cent on average. (But the scales will still be well below any realistic estimate of the costs of running a car.)

(ii) on Directors PAYE tax, to deal with cases in which close companies pay directors or higher paid employees a sum without deduction of tax from him and so account for insufficient tax to the Revenue. To do this, tax accounted for by the company will be deemed to be a benefit in kind to the director.

(iii) to tax as a benefit expensive accommodation provided by companies to employees.

(iv) a deficiency in the present rules will be remedied to prevent employees getting both tax relief up to the limit on a commercial mortgage and the benefit of a commensurate interest free loan from the employer for house purchase.

Several other proposals go in the opposite direction:-

(i) the extension from 20 per cent to 30 per cent of the CTT reliefs for minority holdings in unquoted companies, and for let land.

(ii) the removal of the special "deemed domicile" CTT rule applying to those emigrating to the Channel Islands and the Isle of Man. (The Home Secretary has pursued this case for some time.)

(iii) allowing the tenant self-employed (publicans and farmers) to have interest relief on "second" home mortgages.

Specific Duties

12. These will be increased generally in line with inflation, thought with some small real decreases in cigarettes, petrol and derv, and, largely due to rounding, some small real increases in beer, cider and VED. The Chancellor's minute to the Prime Minister of 24 February set out details of the proposals for petrol, derv and VED.

Oil

13. The Chancellor's minute of 4 March reports on the package of measures agreed with the Secretary of State for Energy.

A31

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

PRESENT:

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

PAPERS:

Sir Anthony Rawlinson's minute of 4 March;
Mr Cassell's minutes of 4, 8 and 9 March;
Sir L Airey's minute of 8 March.

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

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

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

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

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

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

c. The NIS cut would be a logical casualty.

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

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

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

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

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

J O KERR

Distribution:

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

£ million

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

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

OTHER

9. Petrol and Derv - another 1p		50	50
10. Cigarettes - another 1p		35	35
11. Child Benefit - £6.25 instead of £6.50		45	120

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

A31

FROM: D R NORGROVE
DATE: 11 MARCH 1983

1. MR ~~KEMP~~
2. CHANCELLOR

I think it is very useful to have this written down. It is easy to go astray with the numbers.

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Littler
Mr Middleton
Mr Bailey
Mr Moore
Mr Cassell
Mr Evans
Mrs Lomax
Mr Allen
Mr Hall
Mr Ridley
Mr French
Mr Harris

THE BUDGET ARITHMETIC

The Budget speech (eighth draft) makes various statements about the overall arithmetic of the Budget and the autumn measures. People may find it helpful to have a more precise description of how these figures are derived than is possible in the speech itself.

A. "Last autumn, I announced measures with a revenue cost in 1983-84 ~~approaching~~ of some £1 billion" (Public borrowing, paragraph 9)

This is:

	1983-84 £m revenue	
NIS 1% cut	700	
Costs of holding down NIC by 0.3% in total	200	("a little over 200")
	900	

B. "Most of this [autumn measures] was directed to reducing the burden on private industry and commerce". (also paragraph 9)

	1983-84 Revenue cost
NIS 1% cut	700
Cost of holding down employers' NIC by 0.15%	100
	800

So 800 out of 900 gives "most".

C. PSBR of £8 billion in 1983-84 "permits further real tax cuts with a cost to the PSBR of some £1½ billion" (pargraph 10 of "Public Sector Borrowing").

"real" here means above indexation.

	£m 1983-84 revenue cost
Cost of tax measures (table 1.1 FSBR first column)	1,670
Cost of expenditure measures scored against fiscal adjustment (not mentioned in FSBR but can be revealed if necessary)	140
	1,810

Then adjust from revenue cost to PSBR gives near £1.6 billion but say "some £1½ billion".

D. Budget and autumn together will "provide help for business and industry that is worth around £1¼ billion in a full year". [Present draft of the speech says "more than £1½ billion". See separate minute proposing change.] (People and Business, paragraph 2).

Autumn Measures	£m Revenue Cost 1983-84
Lower cash burden of NIS and NIC	450

Chancellor said on 8 November: "As a result of the changes in national insurance contribution and national insurance surcharge, the total reduction in the cash burden on employers in the next year will be £686 million, about £450 million of which will be a reduction wholly to the benefit of the private sector." [Note that this estimate takes account of rising earnings, higher NIC, lower NIS etc. It is of course on a different basis from the figure shown in B above. B looks at the changes from the government's point of view ie the cost of the measures compared to what would otherwise have happened. The above calculation looks at the position from the point of view of the amount of cash having to be found by employers.]

1983 Budget	Full year £m revenue cost	
Corporation tax	70	
NIS	390	
Small firms and enterprise	190	
Technology and innovation	120	
North Sea oil	100	(full year estimate not shown in FSBR)
	870	

Note that this assumes revalorisation of the excise duties is not a charge to industry (the CBI sometimes imply that it is) though on the other side the housing and construction measures have not been scored as helping business. The cash cost to business of revalorising petrol, derv and VED is about £170 million; the housing etc package is worth £115 million.

	Full year £m revenue cost
So Autumn and Budget together say "around £1¼ billion"	1320

E. "The cost to the PSBR [of the increases in allowances, thresholds and bands] above indexation, will be over £1 billion". (Personal tax, paragraph 6)

Revenue cost £1,170 in 1983-84 and £1,490 in a full year (table 1.1 FSBR). Then adjust to PSBR cost.

F. "Including indexation, the total revenue foregone [by raising the allowances, thresholds, and bands] will amount to some £2 billion in 1983-84 and £2½ billion in a full year." (Personal tax, paragraph 6).

£2,000 million in 1983-84 and £2,545 million in a full year (table 1.1 FSBR).

2. There are some rough edges to these figures (combining full year and 1983-84 figures in D for example). But these seem unavoidable and generally defensible. The numbers themselves will be checked yet again on Monday.

D R Norgrove

D R NORGROVE

A31

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

CST
FST
EST
MST(R)
MST(C)
Sir D Wass
Mr Burns
Mr Middleton
Mr Byatt
Mr Cassell
Mr Kemp
Mr Moore
Mr Crawley: IR

PRIME MINISTER

MORTGAGE INTEREST RELIEF

... I attach the note by my people which I mentioned to you. I know you won't like it, but I am bound to say that I find the case against an increase in the ceiling on mortgage interest relief pretty convincing. I have discussed this with all your Treasury Ministers. None of us believes that it would be right to raise the ceiling.

2. As you will see from the figures in the note, the costs of making a move would significantly affect the Budget arithmetic. To raise the ceiling to £30,000 could in the end cost about as much as a full percentage point increase this year in all the income tax thresholds, which would in practice be far more beneficial. Gains would go mainly to existing owners: because house prices would be pushed up, benefits to first-time buyers would be minimal.

3. I believe the politics point in the same direction. Any change on this front will increase our exposure to the charge that the Budget (like the income tax changes which we rightly made in 1979) leans too much in favour of the better off. And it would be criticised for favouring the "affluent South" to the disadvantage of the North.

/4. If you remain

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4. If you remain unhappy about this, I will of course be happy to have another word. But I really do think that to increase the ceiling would be a mistake.

G.H.
24 February 1983

MORTGAGE INTEREST RELIEF

Costs of increasing the limits

1. The cost of mortgage interest relief in 1983-84 will be some £2.1 billion. The following table gives broad estimates of how the costs would rise if the ceiling were raised:-

Increase ceiling to:	1983-84 cost	1984-85 cost (including initial extra borrowing)	Eventual* cost (at 1983-84 prices and income levels) including the effect of additional borrowing
	£m	£m	£m
£30,000	50-75	75-100	100-200
£35,000	75-100	100-125	200-300
£40,000	100-125	125-150	250-350
£60,000	125-150	150-200	350-450
£80,000	150-175	200-250	400-500

*This cost would build up over about 5 years.

If the ceiling were raised in line with average increases in house prices in the life of this Government it would be about £33,000.

Mortgages and house prices

2. The figures for building society average new mortgages show that the £25,000 ceiling affects only a minority of cases, and that these are concentrated in London and the South East.

Average new mortgages:
(Building Societies only)

	UK	Greater London	Rest of South East
	£	£	£
All buyers (Q4 1982)	16,900	22,600	20,100
First-time buyers (Q4 1982)	15,700	22,300	19,300

The Inland Revenue estimate that out of nearly six million mortgages only about 100,000 to 150,000 are currently over £25,000.

3. House prices rose by 6 per cent from Q4 1981 to Q4 1982. The house price/earnings ratio is lower now (3.3:1) than at any time since the introduction of the mortgage interest ceiling in 1974 - at the end of 1973 the ratio was 4.5:1. Gross mortgage repayments for first-time buyers now average 20 per cent of income, compared with 27 per cent at the end of 1981, and 26 per cent at the end of 1973.

Gainers and losers

4. The main beneficiaries of a ceiling increase would be existing owners with big mortgages who would pay less tax. First-time buyers at the top end of the market might benefit for a time, but lower mortgage costs are likely to increase house prices (especially when the market is rising anyway). Raising the ceiling is thus unlikely to make housing cheaper for first-time buyers.

The effect of lower interest rates

5. The mortgage rate fell from 15 per cent to 10 per cent in 1982.

- a purchaser taking out a £25,000 mortgage in December 1981 would have paid interest gross of £3,750, or net of tax relief at the basic rate, of £2,625;

- for the same house now, and allowing (generously) for a 10 per cent increase in mortgage to cover house price increases, a £27,500 mortgage would cost only £2,000 a year net despite the £25,000 limit;

- the £2,625 net he would have paid in December 1981 would now pay his net interest on a £33,750 mortgage.

Investment in housing or

Investment in housing or in enterprise

6. The tax treatment of investment in housing already compares very favourably with the treatment of investment in risk projects. Tax concessions to home ownership are already worth over £5 billion. In addition to mortgage relief, the sale of a taxpayer's main residence is exempt from capital gains tax, but other gains from investment are not, and tax and investment income surcharge is levied on the income they generate. As the Tax and Savings Group pointed out, this has channelled funds away from the equity market, raised the cost of capital, and so contributed to the decline in private equity and business investment, which we wish to stimulate.

7. The following table summarises the contrast in treatment:-

	House	Own Business	Shares
Tax relief			
- on investment	No	Yes	No (1)
- on interest payments	Yes	Yes	No
Tax			
- on income from asset	No	Yes	Yes
- on capital gain from asset	No	Yes	Yes

Note:

(1) But relief is given at the company stage in the form of a capital allowance against corporation tax.

Monetary implications

8. A large part of mortgage lending is of course used to finance additions to the stock of owner-occupied houses, or to finance improvements. But most of the remainder undoubtedly ends up financing

/additional

spending or purchases of other assets. There are perfectly legal ways in which this kind of leak can occur. For example, a large part of the funds raised for housing inevitably accrues as cash in the hands of the last person in the chain, who is ceasing to be an owner-occupier; and tax relief encourages people to borrow more than they otherwise would, leaving more of their own funds free for other uses.

9. Total bank lending to persons rose by 45 per cent and bank lending for mortgages by 85 per cent in the year to January 1983. A recent Messels survey suggested that mortgage lending which becomes available to finance other forms of spending will amount in 1983 to some £7.2 billion. This is probably an over estimate: a figure of some £4-5 billion out of total mortgage lending of around £12 billion is more likely. But the impetus this gives to monetary growth, consumer spending and ultimately inflation is disturbing, and would increase if the ceiling on mortgage interest relief were raised.

Comparison between owner-occupiers and council tenants

10. Between 1979-80 and 1983-84 council rents will have more than doubled. Tenants will be paying some 80 per cent more from their own resources than in 1979. Most mortgagors will, however, be paying less in cash now than at any time since 1979 because of the fall in interest rates and because they still have the same mortgage.

11. As the following table shows, owner-occupiers have also done better from the subsidies under this Government. Mortgage tax relief has increased by 50 per cent while direct subsidies to public sector housing have halved.

	1979-80	1983-84
Council house subsidies	£1.95 billion	£0.85 billion
Mortgage tax relief	£1.4 billion	£2.1 billion

HM TREASURY
24 February 1983

NOTE OF A MEETING ON FRIDAY 4 MARCH 1983 AT 11.00AM IN THE CHANCELLOR'S ROOM HM TREASURY

Present:

Chancellor of the Exchequer
Sir Douglas Wass
Sir Anthony Rawlinson
Mr Burns
Mr Littler
Mr Byatt
Mr Middleton
Mr Unwin
Mr Cassell
Mr Kemp
Mr Kerr
Mr Wicks

THE ECONOMIC EFFECTS OF LOWER OIL PRICES

The meeting had before it Mr Wicks agenda of 3 March, Mr Barber's minute of the same date, and Mr Middleton's minute of 1 March.

OPEC timetable

Mr Wicks reported that almost all OPEC Ministers were now in London. He was not sure whether a formal meeting would take place but it was clear that they were hoping to take decisions over the week or on Monday or Tuesday. The status of the meeting was not yet clear. No one had yet approached the Department of Energy as a formal emmisary, but as a matter of normal courtesy the Energy Secretary was agreeing to see Ministers who requested a meeting. The UK was taking the line that it had no power to control production and that the price was a matter for OPEC to determine. The focus of attention now was on the Nigerians. Oteiba had said that the OPEC Ministers might try to persuade the Nigerians to raise the price of their crude to $30 a barrel. In that scenario OPEC would want the UK to keep the price of North Sea crude at $30.50. But North Sea crude was inferior to Nigerian and the Department of Energy would find it hard to defend that

/differential.

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differential. It was possible that OPEC might present an agreement conditional on the UK sticking at its current price. But that would make UK crude uncompetitive. It was noted that the market at present was very weak because de-stocking was taking place in the expectation of a price cut.

2. On handling, the Chancellor thought it would be worthwhile having a collective Ministerial discussion before Budget day. There was some discussion of the mechanics of a meeting. The Chancellor thought that Ministers not directly involved would require a factual background paper. The Chancellor agreed that it might be better to meet in a smaller forum than OD. Mr Middleton undertook to call a meeting to organise the most suitable paper. The Chancellor thought that such a paper might usefully include not only an appraisal of the current situation but also an assessment of where the UK's interest lay and how the UK should react to approaches from OPEC and from the European Commission on a variable oil levy; it should also take account in the broader summit context of energy use and fiscal policy.

Future course of oil prices

3. In discussion it was pointed out that undertakings not to impose production cuts before the end of the Parliament reduced UK Government's scope for action. The nature of the participation agreement prevented the UK Government from holding back from the market. Since companies were making money from upstream operations it was unlikely that they would come to the Government asking for production cuts. Mr Middleton thought it would be worth looking again at Annex B approvals.

4. In discussion of the course of oil prices it was agreed that the UK had an interest in smoothing out violent fluctuations. The Chancellor expressed scepticism about estimates of a large increase in the real oil price by the year 2000. The UK did not

/have a long run

have a long run interest in a high oil price because by the mid-1990's the UK would cease to be self-sufficient. Mr Burns pointed out that future forecasts were subject to high margins of error and should not determine current policy. Mr Byatt and Mr Barber took the view that if the oil price fell sharply now the oil market was likely to be tighter in later years.

5. There was some discussion of how far the oil price might fall. Mr Barber thought that if OPEC disintegrated completely the oil price could go below $20 a barrel. Mr Middleton pointed out that in these circumstances Saudi Arabia would account for a large proportion of OPEC oil and that result would require a reversal of current Saudi policy. Mr Middleton thought that a deal might emerge at a marker of around $29-30. Mr Byatt noted that many producers were now producing well below capacity and those that faced severe revenue constraint would be tempted to increase production if the price fell.

Short term options

6. The Chancellor thought it necessary to focus on the probablities for the coming week and for the period in a month or two following Budget day. The Chancellor thought it would be necessary to reassess if the marker price went below $27 a barrel. If a price was agreed above $27 a barrel the impact on Government revenue could be taken on the PSBR. The exchange rate was also a factor in the equation. Mr Middleton pointed out that if nothing was done on the PSBR in circumstances where the oil price fell substantially interest rates would take the strain. He thought there could be a case for meeting some of the shortfall of revenue through a levy on domestic consumption of oil. It was pointed out that in the short run the immediate effect would be to depress the price of oil further. Mr Cassell thought that if there was uncertainty on the long term expectation on the oil price it might be better to recoup the revenue through a diffuse mechanism. Mr Middleton agreed. The Chancellor thought

/that domestic

that domestic consumption could be expected to carry some of the burden. The Chancellor asked for an assessment of fiscal options if the oil price dropped below $27 dollars a barrel before Budget day. Mr Kemp pointed out that it was possible to change the Budget speech until the evening before Budget day.

7. On the question of public expenditure options Sir Anthony Rawlinson thought that there was little to be gained in trying to reduce particular porgrammes because of the oil price fall: It would not be obvious what adjustments should be made because departments did not buy crude oil and it would undermine the cash planning system. The effect would be hard to disentangle from, say, exchange rate effects on MOD programmes. He thought if the position deteriorated substantially it might be possible to decree a general crisis and ask for across the board cuts. He would conduct an in-house exercise. The Chancellor thought that this might be a runner if the oil price went down to $20, but was not an option if it stuck at $25.

8. It was also agreed different options on the Budget should be examined. It was pointed out that one of the more logical candidates for removal from the Budget might be the cut in the National Insurance surcharge since industry would benefit from lower energy costs and lower exchange rate. Mr Cassell pointed out that changes might not necessarily need to be one for one with the change in expected oil revenue.

9. The meeting finished at 12.45pm.

JKR

JILL RUTTER
8 March 1983

Distribution:

Those present

PS/CST
PS/FST
PS/EST
PS/MST(R)
PS/MST(C)
Mr Bailey
Mr Evans
Mrs Lomax
Mr Bottrill
Mr Powell
Mr Horton
Miss Cund
Mr Ridley
Mr Crawley - IR

Copy No. 3

FROM: J O KERR
DATE: 24 January 1983

MR KEMP

cc Chief Secretary
Sir Douglas Wass
Mr Burns
Mr Middleton

The Chancellor has worked over the week-end on the draft of the minute to the Prime Minister which would cover the draft of his Cabinet paper, and must issue on 26 January. I attach a copy of the latest version, which may need some amendment after tomorrow's "overview" meeting, and certainly should not be finalized before it. But I should be most grateful if copy addresses could let you and me know of any major problems they see in this draft.

JOK.

J O KERR

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DRAFT

PRIME MINISTER

THE 1983 BUDGET

We spoke on 20 January about the 3 February Cabinet, and I now enclose the paper which I plan to circulate.

2. I am sure that we should resist any pressure for changes in the monetary and fiscal framework which we have established. Sustaining present policy is right, both economically and politically.

3. My present thinking therefore is that:-

a. for the monetary aggregates we should, as envisaged in last year's Red Book, reduce the target range from this year's 8-12 per cent to 7-11 per cent for 1983-84. Our policy in respect of the exchange rate should remain unchanged.

b. the 1983-84 PSBR should certainly not be much higher than the estimated 1982-83 outturn, now put at £8 billion: indeed we have spoken of the case for showing a lower figure next year. We of course published a figure of £8 billion (2¾ per cent of GDP) for 1983-84 in the Autumn Statement. Our latest forecast (before any changes beyond revalorisation) is some £6 billion. My provisional conclusion is that we should hold to the published £8 billion.

4. This would give us room for tax cuts of up to £2 billion. But it is of course important to stress that we are still at an early stage: the picture, and the figures, may change a lot before 15 March. In order to retain freedom of manoeuvre, my Cabinet paper does not mention the £6 billion and £2 billion figures.

5. I should prefer that colleagues concentrate their advice on how best we should target our fiscal measures. As the draft Cabinet paper says, the fall in the exchange rate has to some extent changed the balance of claims for relief as between persons and companies. Given the fall in interest rates over the last year, and the reductions in NIS which we announced in the autumn, it could be argued that the bulk of tax reductions in March should go to raising income tax thresholds. There may be scope for raising them some 8 percentage points over the Rooker-Wise revalorisation, giving around 13½ percentage points in all. This would restore allowances to roughly the same percentage of average earnings as in 1978-79. (I am inclined to think that child benefit should rise in line with personal allowances, and I shall be discussing this with Norman Fowler.)

6. But there are also strong pressures for further help for companies; and it is of course true that substantial problems of profitability and competitiveness remain. And we do want to encourage output, as well as demand. Moreover, a Budget that contained major tax reductions, but none for companies, would be out of line with what we have tried to do in recent years, and could be misconstrued as electorally-motivated.

7. I am at present inclined to helping both individuals <u>and</u> companies. Action on industrial rates is ruled out for the present largely on the grounds of practicality. A further

reduction in NIS, or indeed its abolition, is widely sought; and if there is room some small move - say a further half per cent reduction - would certainly be desirable. There may be a stronger case for a reduction in the Corporation Tax rate, from 52 per cent to, say, 50 per cent. This would have structural economic benefits.

8. The indirect taxes ought I believe to be revalorised in line with inflation in most cases. However I shall want to look carefully at the individual components; and, as you have asked, will look in particular at the petrol and derv duties. But the real price of petrol at the pumps has in fact dropped in the last [ ] months/years; OPEC prices are more likely to fall than rise in the year ahead; and a failure to revalorise these duties would cost [ ].

9. I am also working on a range of possible measures to promote enterprise and small firms, to encourage wider share ownership, and to stimulate technology and innovation. I envisage further concessions on oil taxation as an encouragement to North Sea development. And I am looking again at the ceiling on mortgage interest relief.

10. The questions posed in my Cabinet paper are designed to give colleagues an opportunity to express their views on the broad strategic issues, and on the right blend of fiscal change. What we must of course avoid on 3 February is any attempt to reach precise quantified decisions: the whole picture could change sharply before 15 March, eg if the oil price, or sterling, again tumbled sharply. I wish to keep you in the picture throughout; but I would not want to have to go back to Cabinet to seek the reversal of decisions reached too soon, ~~and~~ too precisely, and too collectively.

11. We might perhaps discuss this and the draft paper at our meeting on 27 January. The paper is very similar to the one I circulated last year - C(82)1 - which produced a rather successful discussion on 28 January.

GH