

PO CH/GH/0181
PART. A.

PART. A

BUDGET OVERVIEW
AND BUDGET
PACKAGES.

1983

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THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM

FROM: E P KEMP
21 January 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 Ridley
- Sir Lawrence Airey IR
- Sir Douglas Lovelock C&E
- Mr Kerr

Keep Burns in budget file

BUDGET OVERVIEW MEETING NEXT TUESDAY

You are holding the first "overview" meeting next Tuesday morning.

2. The purpose of the meeting, as I see it, is twofold. Thus :-
 - a. To consider how the fiscal side of the Budget is starting to shape up, following the indications which emerged at Chevening; and
 - b. To consider in general terms the state of play on the detailed work towards the Budget, the preparation of important papers, timetabling, and the rest; not of course restricting this to the fiscal side, but generally.
3. On the question of how the fiscal side is shaping up you may like to refer to the table attached, which seeks broadly to reflect the indications given at Chevening. Points to note are :-
 - a. It is built around a fiscal adjustment £2 billion for 1983-84, as shown in the pre-Budget forecast being put to you this evening. As set out the costs actually come to a little less than £2 billion 1983-84, but there are risks (see paragraph 3e below).

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- b. The lion's share of the benefit is assumed to go to persons, by way of Rooker/Wise plus 8 per cent. This would give around $13\frac{1}{2}$ percentage points all in. It would restore allowances to roughly the same percentage of average earnings as in 1978-79. It is assumed it would be accompanied by a comparable increase in Child Benefit, subject to an adjustment for the current over-provision of 2 per cent.
- c. The 2 per cent reduction in the main rate of Corporation Tax is shown, and a further small reduction in the rate of the National Insurance Surcharge is kept alive.
- d. Specific Duties are in general revalorised, but a provision is made for something less than this in some cases. The provision shown would roughly allow for half revalorisation only petrol and derv.
- e. Separate notes will come forward before the meeting on packages and fiscal risks. As it stands at the moment the provision shown of £300 and £450 would be adequate to cover the lower end of where these might come out, but not the upper end. The packages and fiscal risks papers will cover amongst other things Oil Taxation, Mortgage Interest Relief ceiling, and the Capital Taxes.
- f. Making some heroic assumptions about how the specific duties and packages split between "industry" and "persons" the total revenue cost in 1983-84 of the Budget and Autumn taken together as shown (£3080 million) splits almost exactly evenly between the two classes.
- g. While (subject to risks) the figures are fairly comfortable for 1983-84, for 1984-85 the position is less so, and all other things being equal this pattern would lead to no positive fiscal adjustment (indeed a small negative one) being shown for that year in the next MIFS. This is a point that needs watching. It raises, of course, the

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question of the PSBR path after 1983-84, and particularly the figure to be shown for 1984-85 (currently £6½ billion or 2 per cent of GDP).

- h. The assumption is made that public expenditure costs involved (in Child Benefit and in certain package elements) can all be absorbed in the Reserve. This is a matter being looked at separately.

4. The meeting might like to note and perhaps discuss each of these points. Questions for discussion include :-

- a. Without final decisions being taken, is this the broad sort of pattern to be retained on the table?
- b. Are there any important elements omitted, on which further work ought to be done?
- c. Does the position as shown for 1984-85 give such concern that it should alter the pattern that would otherwise be desirable.
- d. For the next overview meeting is a note on the lines of the attached what is wanted, or would it be preferable to alter it in any way; specifically should alternative possible budgets be prepared and set out?

5. The second leg of the meeting might discuss the progress overall being made. In particular :-

- a. Papers on each of the main elements (specific duties, company sector taxes, and personal taxes) are in preparation or have been prepared, and meetings are being set up, to discuss them. A full note of main papers being prepared is attached.

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- b. The separate note coming forward on Monday on packages and risks will indicate the progress on each element here, and the meeting may like to take note of this - though it is assumed that Tuesday's meeting will not want to tackle individual items in the packages substantively; separate meetings as necessary would be better for this.

- c. On the non-fiscal side, work is in hand on the question of the different monetary aggregates, leading on towards drafting of the MFS and then the FSBR; and drafts of the Speech will start coming forward fairly soon. The meeting may like to glance at the outline timetable attached to Mr Norgrove's minute to Mr Kerr of 19 January; and Mr Kerr has, of course, got a more detailed note of some of the more specific meetings that need to be set up.

- d. Outside the Treasury, those who will need to be consulted are the Governor and the Secretary of State for Social Services, amongst others.



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BUDGET OVERVIEW

£m changes from indexed base

	<u>Revenue/Expenditure</u>		<u>PSBR</u>		<u>Comments</u>
	<u>1983-84</u>	<u>Full Year</u>	<u>1983-84</u>	<u>1984-85</u>	
<u>BUDGET PROPOSALS</u>					
1. <u>Specific Duties</u>	150	150	150	150	Assume revalorisation overall in general but provisional allowance for some under-revalorisations.
2. <u>Industry: direct</u>					
NIS	200	400	200	300	$\frac{1}{2}\%$ reduction from August, private sector only.
CT	130	250	120	170	Reduce main rate to 50%: 40% rate remain.
3. <u>Persons: direct</u>					
Allowances	1200	1500	1050	1100	Rooker/Wise plus 8%.
Child Benefits	[100]	[300]			Rooker/Wise + 8%. <u>Less 2%</u> current over-provision. Public Expenditure, assumed charged to the Reserve.
4. <u>Packages</u> (say)	300	450	300	450	Overall provision, separate notes to be submitted. PSBR cost taken as revenue cost. Any public expenditure elements assumed charged to reserve.
5. <u>Fiscal Risks</u> (say)	Nil	Nil	Nil	Nil	
A. TOTAL BUDGET	1980	2750	1820	2170	
Fiscal adjustment in Forecast			2000	2000	As in January 1983 pre-Budget forecast.
<u>AUTUMN MEASURES</u>					
NIS	700	700			1% reduction from April, private sector only
NIC	400	400			Under-increase in NIC compared with Fund balance
B. TOTAL AUTUMN	1100	1100			
TOTAL A + B	3080	3850			

Papers immediately in preparation

Subject	Date to be submitted
The main excise duties, paper by Customs and Excise (other consequential minor duties will be covered in papers to the EST).	On 24 January
NIS: summary note on options, drawing together material from earlier papers, by FP and others	In week of 24 January
Car tax: Treasury/DoI report	Early in week of 31 January
Personal tax thresholds, by IR	Before 1 February
Corporation Tax, main rates and Green Paper issues	Also before 1 February
Submission on social security and Mr Fowler's Budget representations	First week of February

Note: These are the main papers on the fiscal front. Other papers are of course also in preparation.



NOTE OF A MEETING ON MONDAY 24 JANUARY 1983 AT 12 NOON
IN NO 11 DOWNING STREET

Present: The Chancellor of the Exchequer (in the Chair)
 Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State (Revenue)
 Mr Bailey
 Mr Middleton
 Mr Monck
 Mr Odling-Smee
 Mr Willetts
 Mr Crawley - IR
 Mr Beighton - IR

TAX TREATMENT OF GILTS

The meeting had before it Mr Monck's submission of 11 January, the Financial Secretary's minute of 13 January, the Minister of State Revenue's Private Secretary's minute of 14 January and the Private Secretary to the Economic Secretary's minute of 17 January.

The Chancellor said that his natural predilection had been against tax exemption for gilts. No one would invent it if it did not exist already, but the papers showed a general lack of enthusiasm for its removal. Mr Middleton agreed that the CGT exemption should not have been introduced. But on macro-economic grounds removal would probably not have very much effect.

Mr Robson pointed out that the major problem was that the current favourable tax treatment of gilts created a distortion. It made no-risk investment more attractive. He believed that if we were moving to the ideal world of the Financial Secretary in a short time scale, then it could be justified to keep the favourable treatment. But that was not the situation. Mr Odling-Smee pointed out that although the aggregate effects might be broadly neutral the move would change decisions at the margin for the individual investor. If the costs



of the change were small as was suggested in the papers he thought it would be a good idea to do something that would improve the efficiency of the financial part of the supply side. Mr Middleton pointed out that the Government would have to achieve its funding target as before, and the change would mean that that would have to be done at higher interest rates. There was also a disadvantage that a change in the treatment of new stock would produce a windfall capital gain to all holders of existing stock. Summing up this part of the discussion the Chancellor said that although his intellectual preference was for the approach outlined by Mr Robson, he reluctantly agreed with the conclusion in Mr Monck's minute that there was not a sufficient case for reversing the privileges now.

There was a brief discussion of the question of disallowing the treatment as capital of uplift on low coupon gilts. Mr Beighton suggested that an effect similar to the removal of capital treatment for uplift could be achieved if the Government foreswore future issues of low coupon gilts and issued indexed debt instead. Mr Bailey said that this would have the beneficial impact of reducing gilts' attractiveness to higher rate taxpayers whose money the Government was trying to attract into the Business Expansion Scheme. Mr Willetts suggested that to refrain from issuing conventional low coupons and issue indexed gilts instead might look and be ineffective because the instruments offered similar attractions for the high income investor. Mr Monck said that to the extent that investors did find gilts less attractive, this would make funding more expensive.

Discussion then turned to the question of extending the capital route to corporate bonds. The question was discussed in the consultative document issued by the Inland Revenue. There was a danger though that comments would overstate potential enthusiasm, as it was more likely that brokers, rather than those who took industry's financial decisions, would comment. The Economic Secretary did not see that

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the change would make issue of deep discounted corporate bonds more attractive for the corporate borrower. It was not clear that there was a demand for borrowers for this sort of capital option.

The Minister of State (Revenue) was less convinced by the arguments on unattractiveness. The market would ensure that the benefit was shared between borrower and lender. But he did see potential problems with the conversion of income into capital. Mr Crawley said that granting capital treatment could increase the pressures to breach the firm line against asymmetry. Another significant problem was the fact that the Government could control the size of discount on its own stock, but not the private sector's. Summing up this part of the discussion the Chancellor did not see sufficient enthusiasm to proceed with this proposal at this stage. But he would like to reconsider this and the related issue of gilts once the response to the consultative document had become clear.

JCR

JILL RUTTER

Distribution:

Those Present

Sir Douglas Wass

Mr Burns

Mr Moore

Mr Lovell

Mr Turnbull

Mr Sedgwick

PS/IR

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FROM SIR DOUGLAS WASS
DATE 24 JANUARY 1983

CHANCELLOR

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

*Keep minute
Destiny Annex*

BUDGET PACKAGES

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

Handling of the packages

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

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

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

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

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

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

Packages, risks and the Budget arithmetic

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

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

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

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

Conclusion

I invite you:

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



DOUGLAS WASS

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DATE: 24 January 1983

£million revenue costs

BUDGET 1983 - PACKAGES ETC - SUMMARY

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

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

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

Notes:

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

CONFIDENTIALBUDGET PACKAGES: COSTS SUMMARY TABLE

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

TOTALS

340-540

577-938

830-855

of which public expenditure

107-108

200-201

197

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24 January 1983



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

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

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

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

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

BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: WIDER SHARE OWNERSHIP
DATE : 24 January 1983

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

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BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: WIDER SHARE OWNERSHIP

DATE : 24 January 1983

Minister in lead: FST
Official in lead: Mr Moore

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

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BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: TECHNOLOGY AND INNOVATION

DATE : 24 January 1983

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

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

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BUDGET PACKAGES
SUMMARY NOTE

PACKAGE: TECHNOLOGY AND INNOVATION
DATE : 24 January 1983

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

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BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: CONSTRUCTION

DATE : 24 January 1983

Minister in lead: CST

Official in lead: Mr Moore

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

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BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: CONSTRUCTION
DATE : 24 January 1983

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

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

BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: CONSTRUCTION
DATE : 24 January 1983

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

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BUDGET PACKAGES
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: OIL TAXATION

DATE : 19 January 1983

Minister in lead: MST(R)

Official in lead: Mr Middleton

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

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

BUDGET PACKAGES
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: OIL TAXATION
DATE : 19 January 1983

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

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BUDGET PACKAGES
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PACKAGE: OIL TAXATION
DATE: 19 January 1983

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

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

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

BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: AGRICULTURE

DATE : 24 January 1983

Minister in lead: FST

Official in lead: Mr Moore

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

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BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: BETTING AND BREEDING
DATE: 19 January 1983

Minister in lead: EST
Official in lead: Mr Moore

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

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BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: CARING AND CHARITIES
DATE : 19 January 1983
Minister in lead: CST
Official in lead: Mr Monger

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Extension of Widows' Bereavement Allowance for further year.	FST recommended (11.1.83) following Revenue (Mr Isaac) submission of 23.12.82. Chancellor (12.1.83) said that decision should be taken in context of this package, so decision pending	20-25	25-30	25-30
(b) Restoration of 5% abatement of invalidity benefit.) Neither currently included in package) emerging from MISC 88. But discussions) on small changes continuing: (c) a) possibility but (b) unlikely.)	(pe) 20	(pe 50)	60 (1985-86)
(c) Removal of invalidity benefit "trap".		(pe) 7	pe 16	17 (1985-86)
(continued/...)				

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

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

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

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

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

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

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

24 January 1983

OTHER FISCAL RISKS

£ million

Possible Public Expenditure

Unemployment. Two candidates may be proposed:-

i. Extension and modification of TSTWCS	115		100	
ii. Continuation of Enterprise Allowance Pilot Scheme	<u>2</u>	117	<u>3</u>	103

Coal Prices. There are preliminary discussions with Department of Energy on an idea that coal prices might be reduced to world level. The idea is unlikely to get very far before the Budget

250	500
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Petrochemicals. A review of current problems may lead to proposals to give assistance either by way of PRT modification or by public expenditure means

<u>100</u>	<u>100</u>
------------	------------

<u>467</u>	<u>703</u>
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Possible Tax

Industrial Rates. In theory ruled out, but a continuing candidate in many quarters. There would be practical problems, including a need for legislation. A notional 10 per cent reduction would cost

140	140
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Car Tax. Suggestions have been made that this tax (currently 10 per cent) should be reduced or abolished. A 2½ per cent reduction would cost.

<u>120</u>	<u>160</u>
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<u>260</u>	<u>300</u>
------------	------------

TOTAL

<u>727</u>	<u>1003</u>
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Scored at NIL as either not likely to proceed or charged to the Reserve.

Other risks

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

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



FROM: J O KERR

DATE: 24 January 1983

MR KEMP

cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State (C)
 Minister of State (R)
 Sir D Wass
 Sir A Rawlinson
~~Mr Burns~~
 Mr Littler
 Mr Bailey
 Mr Middleton
 Mr Cassell
 Mr Evans
 Mr Kemp
 Mr Lavelle
 Mr Monck
 Mr Moore
 Mr Mountfield
 Mr R Allen
 Mrs Lomax
 Mr Norgrove
 Mr Ridley
 Mr Harris
 Mr French
 PS/Inland Revenue
 PS/Customs and Excise

CABINET PAPER FOR 3 FEBRUARY

The Chancellor was grateful for the first draft of his "pre-Budget" Cabinet paper, which you submitted on 20 January. I now attach a copy of his revised version, which might be briefly discussed at tomorrow's "overview" meeting at 11.00am. I should be grateful if the following four points could be considered before then:-

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- a. First, the Chancellor would like the "world background" section - now paragraph 1 - to be expanded.
- b. Secondly, the paragraph dealing with packages - now paragraph 14 - ought he believes to include a general statement of intent on some relief on North Sea taxes.
- c. The reference to IMF views could perhaps be expanded by a quotation. (The Chancellor has in mind the desirability of defusing in advance criticism that the PSBR this year is masochistically low.)
- d. The Annexes strike the Chancellor as slightly too complex - and perhaps too numerous. He is particularly doubtful about Table 5.



J O KERR

SECRET

DRAFT CABINET PAPER FOR THE CHANCELLOR
FOR 3 FEBRUARY 1983

Background

1. The world background against which we shall present our 5th Budget on 15 March remains sombre, though the long-delayed recovery is expected to start in 1983. Its scale and speed will largely depend on the degree of determination with which the US Administration tackle the problem of the mounting Federal deficit. Elsewhere the need for prudent fiscal and monetary policies, as the foundation for rebuilding sustainable growth, is fully recognised; and some modest growth in the world economy is in prospect this year. [LL]

2. In the United Kingdom we can expect growth of real demand of around $3\frac{1}{2}$ per cent this year compared to $2\frac{1}{2}$ in 1982. Competitiveness has continued to improve, but not enough to prevent some of this "leaking" overseas. Thus the forecast is for growth of output of only 2 per cent this year. This is however slightly above the average of the major industrial economies - growth in Japan may be a little faster, whereas in

SECRET

Europe it may be rather slower. Here, as abroad, unemployment is likely to continue to increase, at least for some time, but improved growth should ensure that the rise is much slower than in 1982. Inflation, now at 5.4 per cent, is down to less than half the rate of a year ago, though sterling's recent fall will produce a slight upturn later this year. Interest rates also dropped steeply over the year, from 16 per cent in autumn 1981 to 9 per cent last autumn, 11 per cent now.

3. Annex 1 sets out some of the key figures. The 1983 column, being based on early forecasts, and taking no account of possible Budget measures, is of course subject to a number of uncertainties. There will be a further forecast at Budget time.

The strategy

4. Against this background the basic aims of the Budget must be:-

(a) to avoid risking the gains on inflation and interest rates - necessarily still fragile - which have resulted from past Budget restraint;

(b) to sustain and advance the domestic recovery, preferably by measures to encourage employment opportunities as well as output; and

SECRET

(c) to provide the maximum tax reductions consistent with (a), and targetted with (b) in mind.

Borrowing

5. In the 1982 Budget we envisaged a 1982/83 PSBR of 3½ per cent of GDP, or 9.5 billion, and we currently expect to undershoot this figure. For next year, the MTF§ suggests that we should aim for 2½ per cent of GDP, or £8 billion. The present forecast, which assumes that income tax thresholds and excise duties are increased in line with inflation, but takes no account of other possible Budget measures, is for a 1983/84 PSBR rather lower than was implied in the Autumn Statement, where we ^{indicated} ~~implied~~ that an £8 billion PSBR would permit a "fiscal adjustment" - ie higher spending or lower taxes - of £1 billion, over and above revalorisation.

6. As the difference between two very substantial figures (revenue and expenditure totals) the PSBR is of course particularly hard to forecast accurately. This year's likely shortfall partly reflects the fact that the real oil price, and hence North Sea revenues, has not dropped as steeply as was anticipated in 1982 Budget decisions. But the odds are that it will fall further. ^{However I at present} ~~But I~~ see no need for any significant tightening of our existing fiscal and monetary policies,

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which are strongly supported by the IMF. [L]

7. In coming to a final view of the PSBR for 1983/84 for which we should aim, I shall have to consider the trade-off between ~~direct~~ tax relief and action which would help to bring interest rates down further; and the effect that any given PSBR, or rather any deviation from the figures we have already published, might have on the markets and public opinion generally. In particular, we need to avoid encouraging further sterling depreciation, given its impact on inflation. Sterling's recent fall makes relaxation of fiscal and monetary conditions less justifiable to the markets; but also less necessary, for it will benefit industry, and hence output and employment.

8. My preliminary view is that it would be a mistake to publish a forecast 1983-84 PSBR above the £8 billion suggested in the MTF5 and the Autumn Statement.

Fiscal options

As noted above (para 5),
9. 2 The current forecast suggests however that, without risking the adverse market reactions which could follow an increase in forecast borrowing, we

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shall have more scope than the autumn statement suggested for tax reductions over and above revalorisation. As last year, the main issue is the balance to be struck between:-

i. measures which reduce income tax;
and

ii. measures which would directly assist companies.

10. We ought of course also to consider measures which would directly affect prices. But I should be inclined to give these a rather lower priority. Not to revalorise indirect taxes is expensive: Annex 2 shows that complete revalorisation would cost over £0.5 billion, substantially using up our room for manoeuvre. Moreover, since inflation is low, the effect of prices on revalorisation ~~is~~ is relatively small (less than 0.5 per cent on the RPI). It may be right to consider partial exemptions for individual duties, but the general presumption must I think be to go for revalorisation. Cuts in VAT would make little economic or political sense.

11. Annex 3 sets out some background on how personal and corporate taxation have moved. Points to consider include the following:-

SECRET

- i. the case for increasing income tax thresholds over and above Rooker/Wise is strong. Our record on personal taxation (taking National Insurance Contributions into account) is not good, as Annex 3 shows. A significant increase in thresholds could well bring benefits in wage bargaining, and would help alleviate the poverty and unemployment traps.

- ii. the most obvious ways of giving direct help to industry are a reduction in Corporation Tax - the only main tax rate which we have not reduced - or a further reduction in the National Insurance Surcharge. Clearly we want to help encourage improvements in competitiveness and the rebuilding of companies' profit margins. On the other hand, companies are already benefitting from the further percentage point cut in NIS, announced in the Autumn Statement, and from falls in both interest rates and the exchange rate.

12. Annex 4 shows the revenue effects of changes in the main taxes, while Annex 5 shows Treasury Model estimates which compare the different consequences of tax reductions given by different routes. It shows that in some respects it is over-simple to distinguish

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these routes too clearly, since when second round effects are taken into account the medium-term consequences of each may often be similar (eg for unemployment, GDP and company income). Nevertheless, the distinction is one which is much discussed.

13. I would welcome colleagues' views on the right balance between the two categories of possible general fiscal action.

14. The Budget will also include, as last year, packages of smaller measures targetted to help particular areas of industry or particularly deserving groups. [I] shall be in touch separately with individual colleagues concerned.

Summary and Conclusion

15. The recovery we expected last year has been delayed (though less here than in many countries abroad), but we expect real growth this year. We should maintain policies designed to combat inflation and improve competitiveness, and so faster growth and hence employment, on a secure and sustainable basis.

16. This approach is not inconsistent with real tax reductions, as the last Budget demonstrated.

SECRET

17. I would welcome colleagues' views, in particular on:-

a. The appropriate scale of borrowing (PSBR) in 1983/84 (paragraphs ~~5~~^{to} ~~and~~ 8 above), and

b. the appropriate mix of fiscal action (paragraphs 9 to ~~14~~ above).



RECORD OF THE FIRST BUDGET OVERVIEW MEETING AT 11.AM ON 25 JANUARY

Present:

All Ministers	Mr Middleton	Mr Cassell
Sir Anthony Rawlinson	Mr Bailey	Mr Evans
Sir Douglas Lovelock	Mr Kemp	Mr Kerr
Sir Lawrence Airey	Mr Moore	Mr Hall
Mr Burns	Mr Howard (C&E)	Mr Norgrove
Mr Littler	Mr Ridley	

Papers:

- i. The Forecast (Mr Evans' minute of 21 January)
- ii. The 1983-84 PSBR, and Fiscal Options (Mr Kemp's minute of 21 January)
- iii. Packages (Sir D Wass's minute of 24 January)
- iv. Draft Cabinet Paper (Mr Kerr's minute of 24 January).

Item 1: The Forecast

Introducing the January forecast, Mr Burns drew attention to the prospect of significant growth in both demand and output, with the latter forecast to revive at a rate faster than the average of the 1970s. Real interest rates were however expected to remain high. It was noted that the prospect for the balance of payments was rather better than in the Autumn Statement: surpluses of £1 billion in 1983 and £2 billion in 1984 were now foreseen. The long term inflation forecast caused concern, and would be further discussed in the light of further advice. Action: Mr Burns

1983-84 PSBR

2. The Chancellor said that the forecast suggested that a PSBR of £8 billion (2¼ per cent of GDP) would permit a fiscal adjustment of £2 billion. But this, on top of the measures announced in the Autumn Statement, might strike the markets as excessive. Mr Burns agreed that any move away from £8 billion should be downward. Mr Middleton thought that there was in fact a good case for a PSBR of £7.5 billion,



or 2½ per cent of GDP: the benefits of the move would be felt on interest rates. Sir A Rawlinson thought that there would be advantage, for market perceptions, in showing the PSBR declining not only as a proportion of GDP, but in absolute terms: this probably pointed to £7.5/£7.75 billion. The Economic Secretary thought that a fiscal adjustment of less than £2 billion would be helpful, in maintaining room for manoeuvre in 1984-85.

3. On the other hand, the Chief Secretary argued that a PSBR of £8 billion would be consistent with, and seen as, maintaining downward pressure on government borrowing, and would not be seen as any less prudent because it permitted a substantial fiscal adjustment. Moreover to go below £8 billion could be politically difficult. The Minister of State (C) argued that there was no reason to err on the side of caution in the PSBR judgement: the risks on both sides should be balanced. Mr Cassell, picking up the Economic Secretary's point, thought that the desirability of showing a positive fiscal adjustment for 1984/85 pointed to a higher, rather than a lower, PSBR in 1983-84. And Mr Evans thought that a substantial fiscal adjustment could on this occasion be plausibly presented as a prize won through success in restraining the growth of public expenditure.

4. The Chancellor concluded that it was too soon to decide the appropriate size of the fiscal adjustment. Work should proceed on both a £2 billion and a £1.5 billion module.

Fiscal options

5. The meeting then considered the table attached to Mr Kemp's minute of 21 January.

6. On the specific duties, it was noted that the Central Unit were assuming that it might be necessary to concede that the petrol and derv duties should be only half-revalorised. It was however strongly



argued that full revalorisation across the board would be right. The Chancellor agreed, though warning that pressure for a concession could build up. It was agreed that the possibility of a concession of some £150 million (£2 billion module)/£100 million (£1.5 billion module) should in future be shown under the "fiscal risks" category, rather than as a desirable fiscal option. It was noted that a separate and smaller meeting on the specific duties was being arranged for 28 January.

7. On assistance to industry, it was suggested that no reduction in NIS could be accommodated within the £1.5 billion module. The Chief Secretary and the Minister of State (C) however expressed a preference for reducing NIS rather than corporation tax. The Minister of State (R), Financial Secretary and Economic Secretary expressed the opposite view. The Chancellor asked for the preparation of a separate submission comparing the relative merits of NIS and CT reductions. Action: Mr Moore/MST(R).

8. On assistance to persons the Chancellor agreed that it would be sensible at this stage to envisage that the largest single component in both modules should be a substantial rise, over Rooker-Wise, in income tax thresholds. One might plan on 8 percentage points in the £2 billion module, and 6 points in the £1.5 billion module. Whether child benefit should be increased pro tanto should be further considered: the increase in the 1982 Budget had been in line with other benefits, not prices. A full submission was required. Action: Mr Monger/Mr Moore.

9. On North Sea Oil taxation, the Chancellor asked for a very early submission, with a view to his opening discussions with the Secretary of State for Energy before the Cabinet on 3 February. Action: Mr Middleton, MST(R).

Packages

10. The meeting reviewed the work described in Sir Douglas Wass's minute of 24 January, and agreed on the allocation of responsibilities



and dates set out in its Note B.

11. On small firms/enterprise, it was agreed that item (b) should be dropped, and ^{noted} that the Chancellor was considering a recommendation similarly to drop items (d) and (e). /Action: Private Office/.
12. On construction, the substantial costs of raising the mortgage interest relief ceiling were noted. The Minister of State (C), supported by the Chancellor, argued for some public expenditure boost to construction: eg home improvement grants; and the Chief Secretary said that he would be considering item (d) further. A further meeting was envisaged when further advice from the Chief Secretary was available /Action: Mr Moore/Chief Secretary/.
13. The Financial Secretary thought that the technology and innovation package looked over-blown. It was noted that it however represented only a scaled-down version of the DOI shopping-list, that the major item was SEFIS, and that a submission from IA was in preparation. /Action: Mr Bailey/Mr Lovell/.
14. The case for dropping the betting and breeding package altogether was strenuously pressed, but resisted. It was however agreed that the proposed concession on VAT on bloodstock should be dropped.
15. The Financial Secretary thought that items (d), (e) and (f) in the caring and charities package made a good package; and that the abolition of the dependent relatives allowance would not cause major difficulties if tax thresholds were being raised substantially in real terms. The Chancellor thought that there could however be some political difficulties. It was noted that the Family Policy Group could become an obstacle to decisions on the caring and charities package; and, conversely, that it might press for decisions, to be implemented in this Budget, which we would not want. The Chancellor said that the line must be that the work of the Family Policy Group might well be relevant to future Budgets, but was not relevant to the 1983 Budget.

BUDGET SECRET



Fiscal risks

16. The meeting then considered note (c) attached to Sir D Wass's minute of 24 January.

17. It was agreed that the Treasury at all levels should resist the idea of new subsidies to bring coal prices down. Pressure for early action on industrial rates ought to be easy to resist, on purely practical grounds. It should also be possible to resist the suggestion that the car tax should be reduced or abolished, since the case for such action was extremely weak. (A submission from FP was promised.) The case for abolition of the investment income surcharge was rather stronger: a note on it, and on the case for further changes in stamp duty, was also promised. /And the Chancellor asked for the preparation of a note to inform Cabinet colleagues about the introduction of MIRAS.
Action: FP7.

Budget Speech

18. It was noted that the Central Unit would circulate a first provisional outline of the Budget Speech, incorporating some initial suggestions from the Chancellor. Ministers were invited to suggest alternative themes and frameworks. /Action: Mr Kemp7.

JOK

J O KERR

26 January 1983

Distribution:

Those present
Sir Douglas Wass
Mr Lovell
Mr Monger
Mr Mountfield
Mr Robson
Mr Griffiths
Mr French
Mr Harris

BUDGET SECRET

BUDGET CONFIDENTIAL

FROM: E P KEMP
28 January 1983

A31

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 Norgrove
Mr Ridley
Mr Kerr
Sir Lawrence Airey (IR)
Sir Douglas Lovelock (C&E)

SECOND BUDGET OVERVIEW MEETING - TUESDAY 1 FEBRUARY

I attach for consideration at the second Budget Overview meeting next Tuesday two Budget overall summaries which have been prepared following the meeting last Tuesday, and in the light of subsequent discussion.

2. In particular :-

- a. Two Budgets are attached; Budget A based on a £2 billion fiscal adjustment for both 1983-84 and 1984-85, and Budget B based on a £1.5 billion fiscal adjustment for 1983-84 and £2 billion fiscal adjustment for 1984-85.
- b. Allowance is made in both Budgets for the cost of the decision taken on specific duties this morning.
- c. For Budget A action on both NIS and CT is retained, while for Budget B these are put as alternatives.
- d. On personal allowances an uprating of $8\frac{1}{2}$ percentage points over Rooker/Wise has been taken in Budget A, $8\frac{1}{2}$ per cent has been taken rather than 8 per cent because this is the figure being used by the Revenue

BUDGET CONFIDENTIAL

in a separate submission coming forward to you today as having marginal presentational advantages; while 6 per cent has been taken in Budget B. Child Benefit improvement is shown roughly in line with these assumptions, subject to a recovery of the 2 per cent current over-provision.

- e. Packages are scored as settled at Tuesday's meeting, but we have included an allowance for the fiscal risks and possibilities etc having regard to the fair chance of some of these materialising.

Separate papers are of course coming forward on NIS and CT, on personal allowances and child benefit, and (on Monday from Sir Douglas Wass) on packages etc.

3. The meeting on Tuesday may like to note the following features shown up by the two Budgets below :-

- a. In both cases, on the face of it both Budgets seem (for 1983-84) to show a reasonable amount of slack between the cost of the measures listed and the fiscal adjustment assumed. In Budget A the costs are put at £1770 million against a fiscal adjustment of £2 billion, and in Budget B they are put at £1210 million against a fiscal adjustment of £1.5 billion. But this should be regarded with caution at this stage. There are two particular risks. First, that the "packages" and fiscal risks etc (see lines 4 and 5) may not be capable of being contained within the figures that have been allowed in the overview. And second, that the public expenditure elements turn out not containable within the Contingency Reserve. To the extent that these risks do not materialise there is on the face of it room for doing more on Rooker/Wise, for instance, or elsewhere, on both Budgets. But it would be unwise to bank this yet.

BUDGET CONFIDENTIAL

- b. For 1984-85 Budget B shows a modest positive fiscal adjustment on the assumptions made, though this of course is subject to the risks and caveats just mentioned. On the other hand for that year Budget A is decidedly uncomfortable, with a small negative fiscal adjustment shown even now, before taking into account the possibility of the risks just mentioned.
- c. So far as the Autumn measures go I have retained in the Table the cost of the 1 per cent NIS reduction, but I have dropped the mention of the estimated £400 million cost of the under-increase in National Insurance Contributions for 1983-84 as compared with what would have been required to balance the National Insurance Fund. You may want to mention this in the Speech (and of course the actual increase that did take place is something to be borne in mind when discussing NIS reduction on the one hand and personal tax allowance increases on the other). But I think it is both sensible and right to drop mention of the actual figure. On the other hand for various reasons I think we have to keep in view the cost of the Autumn NIS reduction, though it may be possible to find ways not to put into orbit, so to speak, any figure which adds the Budget and the Autumn together and comes out at something which might be thought to look a bit too large.
4. At the meeting on Tuesday you may like to consider the attached Budgets and the points set out above, as the background against which further work in the various specific areas is carried forward.

EPK

E P KEMP

BUDGET CONFIDENTIAL

BUDGET OVERVIEW - BUDGET A - £2 billion fiscal adjustment 1983-84

	<u>Revenue/Expenditure</u>		<u>PSBR</u>		<u>Comments</u>
	<u>1983-84</u>	<u>Full year</u>	<u>1983-84</u>	<u>1984-85</u>	
<u>BUDGET PROPOSALS</u>					
1. <u>Specific Duties</u>	10	10	10	10	In general full revalorisation overall. Some exceptions settled.
2. <u>Industry: direct</u>					
NIS	220	400	200	300	Further 1% reduction from August, private sector only.
<u>and</u>					
CT	130	230	120	160	Reduce main rate to 50%: 40% rate remains.
3. <u>Persons: direct</u>					
Allowances	1150	1450	990	1040	Rooker/Wise (5.4%) plus 8½%.
Child Benefit	[100]	[290]			Rooker/Wise plus 8%, less 2% current over provision. Public expenditure, assumed charged to the Reserve.
4. <u>Packages</u> (say)	300	450	300	450	) Overall provisions - see separate note. PSBR) cost taken as revenue costs. Any public) expenditure element assumed charged to Reserve.
5. <u>Fiscal Risks etc</u> (say)	150	200	150	200	
TOTAL BUDGET	1960	2740	1770	2160	
Fiscal adjustment assumed			2000	2000	On basis of PSBR of £8 billion for 1983-84 and £6½ billion for 1984-85.
<u>AUTUMN MEASURES</u>					
NIS	700	700			1% reduction from April, private sector only. (Note NIC under-increase not scored).
Autumn plus Budget	2660	3440			Pro memore - figure need not emerge directly.

BUDGET OVERVIEW - BUDGET B - £1.5 billion fiscal adjustment 1983-84

	<u>Revenue/Expenditure</u>		PSBR		<u>Comments</u>
	<u>1983-84</u>	<u>Full year</u>	<u>1983-84</u>	<u>1984-85</u>	
<u>BUDGET PROPOSALS</u>					
1. <u>Specific Duties</u>	10	10	10	10	In general full revalorisation overall. Some exceptions settled.
2. <u>Industry:</u> direct					
<u>NIS</u>					Would permit either further 1% reduction in NIS from August (private sector only) or reduction of 2 percentage points plus in main Corporation Tax rate.
<u>or</u>	220	400	200	300	
<u>CT</u>					
3. <u>Persons:</u> direct					
Allowances	810	1030	700	730	Rooker/Wise (5.4%) plus 6%
Child Benefit	[80]	[220]			Rooker/Wise plus 6%, less 2% current over provision. Public expenditure, assumed charged to Reserve.
4. <u>Packages</u> (say)	250	350	200	350	Overall provisions - see separate note. PSBR cost taken as revenue costs. Any public expenditure element assumed charged to Reserve.
5. <u>Fiscal Risks etc</u> (say)	100	150	100	150	
TOTAL BUDGET	1390	1940	1210	1540	
Fiscal adjustment assumed			1500	2000	On basis of PSBR of £7½ billion for 1983-84 and £6½ billion for 1984-85
<u>AUTUMN MEASURES</u>					
NIS	700	700			1% reduction from April, private sector only. (Note NIC under-increase not scored).
Autumn plus Budget	2090	2640			Pro memore - figure need not emerge directly

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A31

NOTE OF A MEETING ON FRIDAY 28 JANUARY 1983 AT 11.AM IN THE CHANCELLOR'S ROOM, HM TREASURY

Present: Chancellor of the Exchequer - in the Chair
 Financial Secretary
 Economic Secretary
 Sir Douglas Wass
 Mr Burns
 Mr Middleton
 Mr Cassell
 Mr Kemp
 Mr Moore
 Mr Griffiths
 Mr Kerr
 Mr Ridley
 Mr French
 Mr Freedman - C&E
 Mr Howard - C&E
 Mr Walters - No 10

1 BUDGET 1983 EXCISE DUTY OPTIONS

Papers: Sir Douglas Lovelock's minute of 24 January
 Economic Secretary's Private Secretary's minute of 25 January
 Chief Secretary's Private Secretary's minute of 25 January
 Mr Freedman's minute of 27 January to the Economic Secretary

The following decisions were taken:

- i. the duty on a pint of beer would rise by 1p (5.9 per cent).
- ii. the duty on wine would increase by 5.9 per cent. It would be described in the Budget speech as an increase of about 5p.
- iii. the duty on a bottle of spirits would rise by 25p (5.0 per cent)
- iv. the duty on a packet of 20 king-size cigarettes would rise by 3p (4.8 per cent)
- v. the duty on a pint of cider would rise by the same amount as the duty on beer ie 1p. That was equivalent to an increase of 19 per cent.



vi. the Vehicle Excise Duty would rise by £5 (6.25 per cent).

2. It was agreed to defer decision on the increases in duty on petrol and derv. The Chancellor asked that in advance of consideration of these at an overview meeting a table be produced showing not only the RPI impact of the alternatives proposed, but also the effect of the variants in changing the RPI from its forecast path. It would be helpful to have this by 11 February.

2. "TECHNICAL" INCREASE IN AMOUNT OF DUTY ON SPIRITS

Papers: Mr Freedman to the Economic Secretary of 17 January
Economic Secretary to the Private Secretary's minute
of 21 January

3. After a brief discussion it was concluded that no further action need be taken on the question raised in Mr Freedman's minute.

3. VAT ANNUAL ACCOUNTING FOR SMALL BUSINESSES

Papers: Mr Fraser's minute to the Economic Secretary of 20 January
Economic Secretary's Private Secretary's minute of 24 January
Financial Secretary's Private Secretary's minute of 24 January

4. In a brief discussion it was pointed out that the poor state of compliance at the moment and the substantial cost in 1984-85 suggested that this might not be the right year to introduce this measure.

The Financial Secretary pointed to the cash flow benefit for small firms, and the help it would give in simplification of their dealings with the tax man. Summing up the Chancellor said that there had to be a presumption against action in this year's Budget, although he did not wish to reject the idea outright at this stage.

4 BETTING1. Racing

Papers: Mr Friedman's minute of 11 January to the Economic Secretary
Economic Secretary's Private Secretary's minute of 18 January.

5. It was agreed there was no case for change on this front.

2. Casinos

Papers: Mr Friedman's minute of 21 January
Economic Secretary's Private Secretary's minute of 25 January

6. There was a brief discussion of the merits of shifting the duty scale to alleviate some of the burden on smaller casinos and recouping from the larger casinos. It was decided not to proceed with any changes.

5 TOURISM

Papers: Secretary of State for Trade's letter of 29 October and subsequent comments.

7. Discussion focussed only on the possibility of some VAT relief for tourist-related activities. It was agreed that this was not a runner and should be dropped.

8. It was agreed that the Economic Secretary would take decisions on minor duties and VED on lorries.

9, The meeting closed at 12.15pm.

JKR

JILL RUTTER
28 January 1983

Those Present
PS/CST
MST(C)
Distribution: MST(R)

COVERING CONFIDENTIAL

A31

FROM: SIR DOUGLAS WASS
DATE: 31 JANUARY 1983

CHANCELLOR

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

Sir Lawrence Airey (Inland
Revenue)
Mr Angus Fraser (Customs
& Excise)

Mr Kerr

BUDGET PACKAGES

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

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

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

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

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


PP DOUGLAS WASS

CONFIDENTIAL

DATE: 31 January 1983

£million revenue costs

BUDGET 1983 - PACKAGES ETC - SUMMARY

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

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

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

Provided in overview in total

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

Notes:

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

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BUDGET PACKAGES: COSTS SUMMARY TABLE

31 January 1983

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

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

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

Miscellaneous unpackaged tax items	20-25	155-160	255-260
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PACKAGE: SMALL FIRMS AND ENTERPRISE

DATE : 31 January 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
(a) Business Start-Up Scheme (Business Expansion Scheme)	Ministers have decided in principle on major extension of scheme. Revenue (Mr Battishill) submission to FST on 17.1.83. FST meeting 27.1.83; FST reporting progress to Chancellor. Cannot be costed as yet; later year costs could be significant.	na	na	na
(b) Joint venture vehicles for institutional investment	FST meeting 20.1.83 requested FP/IR to sound out institutions on possible constraint on their investment in small firms.	na	na	na
(c) Equity linked subsidised loans.	} Discussed at Chancellor's meeting 25.1.83; } minute of 26.1.83 to FST confirmed that } dropped	-	-	-
(d) Debt-equity conversion		-	-	-
(Continued/..)				

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

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

CONFIDENTIALPACKAGE: SMALL FIRMS AND ENTERPRISE
DATE : 31 January 1983

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

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

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

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PACKAGE: WIDER SHARE OWNERSHIP

DATE : 31 January 1983

Minister in lead: FST

Official in lead: Mr Moore

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

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

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

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

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(c) Small Engineering Firms Investment Scheme.	Mr Jenkin's proposals of 12.1.83 involve total bids of £67 million for 1983-84, £128 million for 1984-85 and £145 million in 1985-86. IA submission (Mr Bailey/ Mr Lovell) to Chancellor of 24.1.83 recommends proposals involving expenditure of £45 million, £75 million and £75 million respectively.	(pe) 45	(pe) 75	(pe) 75 (1985-86)
(d) "Alvey" - support for research in advanced IT.				
(e) "Support for Innovation" programme.				
(f) Other expenditure items				
	TOTALS of which public expenditure	45 45	85 75	115 (1985-86) 75

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PACKAGE: CONSTRUCTION
DATE : 31 January 1983
Minister in lead: CST
Official in lead: Mr Moore

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

BUDGET PACKAGES
SUMMARY NOTE

CONFIDENTIAL

PACKAGE: CONSTRUCTION
DATE : 31 January 1983

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

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BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: CONSTRUCTION
DATE : 31 January 1983

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

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BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: OIL TAXATION

DATE : 31 January 1983

Minister in lead : MST(R)

Official in lead : Mr Middleton

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

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

BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: TOURISM
DATE : 31 January 1983

Minister in lead: EST
Official in lead: Mr Moore

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

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BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: TOURISM
DATE : 31 January 1983

18

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

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

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

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PAGE NUMBER

BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: BETTING AND BREEDING
DATE : 31 January 1983

Minister in lead: EST
Official in lead: Mr Moore

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

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BUDGET PACKAGES
SUMMARY NOTE

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PACKAGE: CARING AND CHARITIES
DATE : 31 January 1983

Minister in lead: CST
Official in lead: Mr Monger

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

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

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

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

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

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

(Continued/...)

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

BUDGET PACKAGES
SUMMARY NOTE

MISCELLANEOUS UNPACKAGED ITEMS

DATE : 31 January 1983

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Investment income surcharge - abolition	To be covered in further Revenue (Mr Blythe) submission on personal tax, week ending 4.2.83, as requested at Chancellor's Overview meeting 25.1.83.	15	150	250
(b) Stamp duty - selective reform package	To be covered in Revenue (Mr O'Leary) submission 1.2.83 to M&T(R).	5-10	5-10	5-10..
	TOTALS	20-25	155-160	255-260
	Note: There are in addition a number of unplaced "heritage" proposals. These are:-			

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BUDGET PACKAGES
SUMMARY NOTE

MISCELLANEOUS

UNPACKAGED ITEMS

DATE : 31 January 1983

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

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NOTE C

31 January 1983

OTHER FISCAL RISKS AND POSSIBILITIES

£ million

Possible Public Expenditure

Unemployment. Three candidates may be proposed:-

	<u>1983-84</u>	<u>1984-85</u>
i. Extension and modification of TSTWCS	115	100
ii. Continuation of Enterprise Allowance Pilot Scheme (will be announced before Budget)	2	3
iii. Early retirement: extension of existing scheme entitling people over 60 to leave labour market in exchange for long-term Supplementary Benefit rate. Largest DHSS option, say	<u>25</u>	<u>27</u>
	142	130
Petrochemicals. A review of current problems may lead to proposals to give assistance either by way of PRT modification or by public expenditure means	<u>100</u>	<u>100</u>
	<u>242</u>	<u>230</u>

Possible Tax

Empty Property Rates. Wide range of possible options for reductions with widely varying costs. Say	50	50
Specific Duties. Less than full revalorisation: say up to	100	100
Investment Income Surcharge. Cost of abolition	15	150
Stamp Duty. Various reforms, say up to	10	10
Car Tax. Suggestions have been made that this tax (currently 10 per cent) should be reduced or abolished. A 2½ per cent reduction would cost	<u>120</u>	<u>160</u>
	<u>295</u>	<u>470</u>
TOTAL	<u><u>537</u></u>	<u><u>700</u></u>

Note: Coal Prices and major action on Industrial Rates now effectively ruled out.

FROM: D J L MOORE
DATE: 31 January 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 Bailey
Mr Middleton
Mr Cassell
Mr Kemp
Mr Robson
Mr Wicks
Mr Hall
Mr Ridley
Mr French

Sir Lawrence Airey }
Mr Green } IR
Mr Battishill }
Mr Crawley }
Mr Fraser - C&E

2ND BUDGET OVERVIEW: SCORECARD FOR NS OIL, NIS AND
CORPORATION TAX

... I attach a scorecard showing various options as requested by
Mr Kerr today.

2. The figures came from MST(R)'s paper of 28 January on the
North Sea fiscal regime, from Mr Battishill's paper of 26 January
on Corporation Tax rates, and from my note of 27 January on NIS.



D J L MOORE

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B2

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FROM: C D HARRISON
DATE: 1 FEBRUARY 1983

PRINCIPAL PRIVATE SECRETARY

- cc PS/Chief Secretary
- PS/Financial Secretary
- Sir D Wass
- Mr Littler
- Mr Burns
- Mr Middleton
- Mr Monck
- Mr Mountfield
- Mr Shields
- Mr Stibbard
- Mr Turnbull
- Mr Grimstone
- Mrs Imber
- Mr Pickford
- Miss Roach
- Mr Patterson
- Dr Webb
- Mr Willetts
- Mr Ridley

DEFINITION OF THE PSBR AND STERLING M3

In your minute of 11 October to the Economic Secretary entitled "Classification of Public Sector Deposits", you said that the Chancellor would welcome the advice of the Economic Secretary about how to announce the proposed exclusion of public sector deposits from £M3, and the concomitant change to the definition of the PSBR. You said that he would also welcome the Economic Secretary's advice on the impact of these changes on perceptions of the combined fiscal and monetary position.

Mr Pickford's submission of 28 January, which was copied to the Chancellor, discusses these questions in detail. It also proposes a package of further small definitional changes.

The Economic Secretary agrees that the further definitional changes, discussed in paragraphs 3-5, make sense and should be implemented. He also agrees with Mr Pickford that all the changes should be announced in the Budget documents.

Of the two different possible bases for publication of the PSBR and CGBR statistics in the Budget documents which are outlined in Mr Pickford's paragraph 10, on balance the Economic Secretary would

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favour option (ii). In the Economic Secretary's opinion, the crucial/^{point}is that option (i) is expected to involve a downward revision to the 1982-83 PSBR by perhaps $\pounds\frac{1}{4}$ billion (and possibly as much as $\pounds\frac{1}{2}$ billion), according to Mr Pickford's paragraph 11; he fears that this would be misunderstood - particularly in the House of Commons.

CDH

C D HARRISON

53/2

Mr Burns



CH/EX REF NO B(83) 5

COPY NO 11 OF 33 COPIES

RECORD OF THE SECOND BUDGET OVERVIEW MEETING AT 11.45AM ON 1 FEBRUARY

Present:-

All Ministers	Mr Middleton	Mr Green IR	(CT/NSec only)
Sir Douglas Wass	Mr Bailey	Mr Battishill IR	(")
Sir Anthony Rawlinson	Mr Cassell	Mr Crawley IR	(")
Sir Lawrence Airey (IR)	Mr Kemp	Mr Wicks	(")
Mr Burns	Mr Moore	Mr Robson	(")
Mr Fraser (C&E)	Mr Howard (C&E)	Mr Kerr	
Professor Walters (No 10)	Mr Ridley	Mr Hall	

Papers:-

- i. Budget Packages (Sir Douglas Wass's minute of 31 January)
- ii. Progress Report (Mr Kemp's minute of 28 January)
- iii. NIS/Corporation Tax (minutes of 26 January from Mr Battishill, and of 27 and 31 January from Mr Moore)
- iv. North Sea Fiscal Regime (minute of 28 January from the Minister of State (Revenue)).

Budget Security

The Chancellor expressed concern at press speculation about the Budget. Some of the weekend (29/30 January) stories had been disconcertingly precise. Contacts with the press should be minimised until after the Budget, and Treasury Ministers and officials should decline to be drawn into discussion of its likely contents.

Budget Packages

2. Sir Douglas Wass drew attention to the references in various packages to possible changes in CTT. It was agreed that a meeting specifically on CTT would be arranged for 8 February. DHSS should also be asked to forward their Budget proposals very quickly.

(Action: Private Office)



3. The Chancellor said that he would also wish to hold meetings on each of the main packages immediately after his return from Washington. Ministers were asked to ensure that submissions on individual packages presented a range of options, in the recommended priority order, rather than a single, take it or leave it, proposal.

Capital Expenditure

4. The Chancellor said that he thought it would be presentationally important to draw attention, at Budget-time, not only to the additional capital expenditure element in particular packages (eg. the construction package) but also to the allowance made in the public expenditure plans for increased overall capital expenditure. Ideally, the presentation should specify particular projects which the increase would buy. The danger of appearing to revert to volume planning was noted; but it was agreed that the public expenditure section of the Budget speech should be made as project-specific as possible.

(Action: Sir A Rawlinson)

PSBR Cost of Budget Options

5. The Chancellor noted the references in minutes of 28 January from Mr Kemp and Mr Blythe (IR) to changes in the personal tax options, apparently resulting in part from a re-estimate of PSBR costs following a decision to revert to the assumption of fixed exchange rates, rather than a fixed money supply. He has not been aware of this decision, and was inclined to query it, though noting that the PSBR costs of 1982 Budget measures had been prepared on a fixed interest rate assumption, and that the Inland Revenue thought this the correct assumption to use again. It was agreed that a note should be prepared describing the options, and the case for each; assessing the significance of the choice; and making recommendations. (Action: Mr Middleton)

6. It was noted that the personal tax options, together with the options on child benefit, and on investment income surcharge, would



be considered at a separate meeting on 3 February; and that the main subject for discussion at the third overview meeting on 8 February would be the MTFs.

Corporation Tax

7. Four options for CT changes were identified:-

- (a) assistance to small companies, by increasing the lower profits limit to £120,000, raising the upper limit to £360,000 and reducing the marginal rate to 55 per cent. (Para 10 (d) of Mr Battishill's paper).
- (b) (a) plus a cut in the CT rate from 52 per cent to 50 per cent.
- (c) Lord Cockfield's proposal for a slice system, with the rate on the first slice reduced from 40 per cent to 35 per cent; and
- (d) a cheaper move to a simpler slice system, on the basis of the present 40 per cent rate and the first £100,000 of profits (para 13 of Mr Battishill's paper).

8. Sir Lawrence Airey argued for (c) - and against the alternative of a cut in NIS. The Chief Secretary, though strongly preferring a cut in NIS to action on CT, agreed that a move to a slice system would make better sense than a cut in the top rate from 52 per cent to 50 per cent. It was noted that both (c) and (d) were cheaper than reducing the rate to 50 per cent. The Minister of State (Revenue) pointed out that both (c) and (d) would reduce future scope for further measures specifically to benefit small business; and the Financial Secretary thought that the adoption of (d) would cause the small



business lobby to drop their campaign for the introduction of a slice system, and argue against the measure.

9. It was agreed that option (d) should be discarded. Further work should be done only on the other three options, though the Chancellor thought that (b) might in the end prove too expensive. (Action: IR)

NIS

10. Noting that the abolition of NIS would be too costly for this Budget, and that a cut of a full point would leave NIS at the absurdly low rate of $\frac{1}{2}$ per cent, the Chancellor thought that the only realistic options this year were a $\frac{1}{2}$ point cut, or no change. The analysis in Mr Moore's minute of 27 January had suggested that the economic effects, and the benefit to manufacturing industry, of a cut in NIS would exceed those of a comparable reduction in CT. Some scepticism was expressed about the MP table annexed to Mr Moore's paper, but the Financial Secretary pointed out that cuts in CT would benefit only profitable companies, while cuts in NIS would help all, including those now hard pressed, and fighting import penetration. The Minister of State (C) thought it important to show once again that the Government were making progress towards the abolition of the NIS "tax on jobs".

11. It was decided that the Budget should include a $\frac{1}{2}$ point cut in NIS. (Action: FP)

North Sea Fiscal Regime

12. The Minister of State (Revenue) described the three options set out in his paper of 28 January: all included the agreed measure of appraisal relief, and the difference in their costs arose from different methods of phasing out APRT. His own recommendation was for option (b), but he had envisaged that this would be combined with some CT relief. The Chancellor agreed that option (b) by itself would not be sufficient, and Mr Wicks pointed out that the Energy Secretary might press for the



(costly) phasing out of royalties on existing fields, but could perhaps instead be offered a doubling of the oil allowance on new fields - a concession which would be cost-free in the short term.

13. The Chief Secretary thought that there was little public sympathy for the oil companies. Concessions designed to encourage future development would be understood: concessions which merely improved current cash flow would not. Mr Crawley added that UKOA in fact appeared to be pressing more for incentives to future development than for assistance with current cash flow.

14. The Chancellor agreed that the proposition which he should put to the Energy Secretary on 2 February was option (b) plus the doubling of the oil allowance for future fields. He would not mention the possibility of a 2 per cent reduction in the CT rate.

A handwritten signature in dark ink, appearing to read 'J O Kerr'.

J O KERR

Distribution:

Those present
Mr Littler
Mr Mountfield
Mr Evans
Mr French
Mr Harris
Mr Norgrove

A31



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

- Present:
- Chancellor of the Exchequer
 - Chief Secretary
 - Financial Secretary
 - Minister of State (C)
 - Minister of State (R)
 - Sir Douglas Wass
 - Mr Burns
 - Mr Middleton
 - Mr Cassell
 - Mr Kemp
 - Mr Moore
 - Mr Monger
 - Mr Robson
 - Mr Kerr
 - Mr Ridley
 - Mr French
-
- Sir Lawrence Airey)
 - Mr Isaac)
 - Mr Blythe) Inland Revenue
 - Mr Spence)

PERSONAL TAXATION AND CHILD BENEFIT

Dependent relative allowance and other minor personal allowances

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

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

15/2

Child benefit

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

2. In discussion the following points were made:

- (i) Although increases in child benefit had to be seen alongside increases in income tax allowances it would be wrong to give the impression that they were linked in some mechanical way. That could lead to the worst of all situations whereby child benefit was linked to the tax allowance increase or the general benefit increase whichever was the greater.
- (ii) Mr Walters said there could be a case for raising child benefit and bringing it into tax. That would mitigate the problem of the large amount of dead weight. It was pointed out that this would mean a significant shift from the wallet to the purse and would raise the tax burden.
- (iii) It was pointed out that the poverty trap could be ameliorated by raising the child dependency addition for those on supplementary benefit in line with other benefits, and not linking it to the rise in child benefit.
- (iv) It was agreed that claiming a higher uprating and then adjusting for claw-back was not presentationally advantageous.

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



Personal taxation

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

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

The investment income surcharge and higher rates

Paper: Mr Spence of 2 February

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



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

6. The meeting closed at 4.45pm.

JLR

JILL RUTTER
4 February 1983

Distribution:

Those Present
PS/EST

A31

FROM: E P HEMP
7 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 Ridley
Sir Lawrence Airey (IR)
Mr Fraser (C&E)
Professor Walters (No 10)
Mr Hall

THIRD BUDGET PROGRESS MEETING TOMORROW

I attach summaries showing progress in narrowing the Budget decisions on the fiscal side. These are displayed in two different ways :-

- a. Table A, which shows the PSBR costs in detail of three possible Budgets, the possible fiscal adjustments that may be available, and how the revenue costs of each would look on an indexed and a non-indexed basis.
 - b. Table B, which shows in more detail the revenue as well as the PSBR costs which would arise in the various areas within the ranges that are currently being discussed.
2. You will note that Table A and Table B show precisely the same information; Table A merely translates the information in Table B into three Budgets, the least expensive of which reflects the lowest end of the ranges now under discussion and the most expensive the highest end of the ranges.
3. I think the meeting might find it most useful to concentrate on Table A, bearing in mind, of course, that a large number of further combinations are possible.

4. The overall conclusion drawn from Table A is that depending on :-

- a. How the forecast holds up, where the price of oil must be the most important risk,
- b. Decisions to be taken on the PSBR to be looked for 1983-84 and 1984-85, which will come up again during the discussion tomorrow on the MFFS, and
- c. Whether or not the "packages and risks" can be accommodated within the overall allowance made - and you will see from the tables attached to Sir Douglas Wass' separate note that this is now looking fairly hopeful, then

Budget C, which encompasses pretty well the top end of the various ranges you have been discussing in the various areas, could just about be workable, and show ^a small positive fiscal adjustment for 1984-85. But, of course, to the extent that the forecast does not hold up, lower PSBRs are looked for or the packages/risks (or other costs) take off, then you would have to look for something smaller, moving down through something like Budget B to Budget A. Decisions would then be needed as to what should be dropped out. You may feel, however, that at tomorrow morning's meeting all you need do is take note of the overall position, pending refinement of the various risks and possibilities I have just mentioned.

5. You may however just like to note the following points about the various broad areas set out in Table A :-

- a. On specific duties the main issues outstanding are petrol and derv and VED on lorries. The Customs deadline is 25 February. However there is a complicating factor in that, depending on whether it is decided to go for more or less than revalorisation of derv, it may be necessary to consult Mr Howell about the VED consequentials. Department of Transport will, in any event, for operational reasons need to be given by 15 February of more than four options to work up on VED on lorries on which the final

BUDGET SECRET

choice will have to be made. This points to narrowing before then the range within which a change in the deriv duty will lie. It is proposed, in fact, that the outstanding excise duty issues should be one of the matters which the progress meeting on 15 February should concentrate on.

- b. On industry, we are regarding the $\frac{1}{2}$ per cent NIS reduction of private sector only from August as firm. We had thought that oil was relatively firm, but we see from Mr Lawson's letter to you of 4 February that he wants something with the revenue cost of not less than £200 million for 1983-84, or rather more than we have provided. This will have to be resolved. Also to be resolved here is whether anything is done on Corporation Tax, and if so whether it is the reduction of 2 per cent in the main rate (plus some other reliefs) or Lord Cockfield's idea, or, just conceivably, some combination of the two. Also open here is a question of the ACT/DRT ideas set out in the MST(R) minute of 3 February.
- c. On persons, the ranges 6-10 per cent over Rooker/Wise have been retained for all bands and thresholds etc. You are awaiting a note from the Revenue looking at a variant which would restrict the percentage gain to higher rate tax payers. This point, coupled with possible action in other areas such as the IIS, Mortgage Interest Relief and (pointing in the other direction) the treatment of the over-provision on pensions and other social security benefits at November 1982, raises the issue of the balance of the Budget overall on the personal side, which is something you have in mind. It may be that for the Progress meeting on 15 February where it is intended to take up personal taxation issues unresolved we should provide a note pulling together so far as possible the likely main measures in the Budget which will affect persons, as to see how they, and their distributional effect, will look overall.

- d. Packages/risks. The Tables attached to Sir Douglas Wass' minute of today show the overall position. Broadly, it looks as though the amounts likely to arise can be catered for within the figures provided, as long as the public expenditure element can be charged to the Reserve.
- e. Fiscal adjustments/FSBRs. These depend very much on the forecast and on discussion of the MTFS later on in tomorrow's meeting.
- f. Revenue costs of Budgets. These figures seek to show the indexed and non-indexed costs of the Budget as they might appear in Table 1 of the FSBR. You will see that Budget C comes up to a total of £3745 million; this actually is not all that different from the parallel figure last year, which was £3485 million. But we need to keep an eye on the problems involved in creating such large numbers. The cost of the Autumn decision on NIS is recorded here so that it does not get overlooked; this need not appear as such in Table 1 in the FSBR, but some may seek to add it to the "Budget".

6. As I say, there is no need for any specific decisions to be taken in any of this tomorrow; the position is laid out in effect for information only.

7. I am afraid I have to add the usual warning that all the numbers remain necessarily uncertain at this stage.



E P KEMP

BUDGET SECRET

DATE: 7 February 1983

TABLE A

£m changes from indexed base PSBR cost

BUDGET PROGRESS REPORT

BUDGETS	Firm or Open	BUDGET A		BUDGET B		BUDGET C			
		1983-84	1984-85	1983-84	1984-85	1983-84	1984-85		
<u>Specific Duties</u>	Overall	F	10	10	10	10	10	Cigarettes and Cider	
	Petrol	O	-	-	-	-	50	50	Possible petrol
<u>Industry</u>	NIS	F	200	300	200	300	200	300	1/2 NIS from August, private sector only
	Oil	F	90	140	90	140	90	140	Oil - Package B) Note: Mr Lawson looking for £200 million in total
	Oil	O	-	-	-	-	15	(30)	Oil - PRT reliefs) 1983-84
	CT	O	-	-	130	180	130	180	Gockfield on CT or Reduce CT rate by 2% etc
	CT	O	-	-	-	-	-	150	ACT/DTR options
<u>Persons</u>	R/W	O	700	730	990	1040	1140	1200	R/W + 6-8 1/2-10% - all the little bits
	CB	O	[90]	[250]	[90]	[250]	[90]	[250]	C/B (P/Ex charged to the Reserve)
	IIS	O	-	-	-	-	5	35	Reduce IIS to 10%
<u>Packages/Risks</u>	Misc	O	300	450	300	500	400	600	(say) see separate notes
			<u>1300</u>	<u>1630</u>	<u>1720</u>	<u>2170</u>	<u>2040</u>	<u>2635</u>	
<u>Fiscal Adjustments/PSBRs</u>	O		1500/7500	2000/6500	2000/8000	2500/7000	2000/8000	3000/7500	Depending on decisions and forecast.
<u>Revenue costs of Budgets</u>									
<u>Indexed</u>			1430	2030	1915	2655	2255	3290	) These might appear in Table 1 of the FSBR
<u>Non-indexed</u>			1660	2485	2145	3110	2485	3745	
Pro-memore	NIS		700	700	700	700	700	700	Revenue cost of 1% reduction. Used not appear in Table 1.

BUDGET SECRET

TABLE B

DATE: 7 February 1983

£m changes from indexed base

BUDGET PROGRESS REPORT

	Firm or Open	Revenue/Expenditure		PSBR		
		1983-84	Full year	1983-84	1984-85	
1. <u>Specific Duties</u>	F	10	10	10	10	Cost of cigarette concession, less cider increase
	O	0- 50	0- 50	0- 50	0- 50	Petrol and Derv - possible concessions
.2. <u>Industry</u>	F	220	400	200	300	½% NIS reduction from August, private sector
	F	90	140	90	140	Oil - Package B) Mr Lawson looking for) £200 million in) 1983-84
	O	0- 15	(0- 30)	0- 15	(0- 30)	ditto - PRT reliefs (1984-85 saving)
	O	0- 145	0- 255	0- 130	0- 180	CT package 2% off + limits <u>or</u> Cockfield idea <u>or</u> nil
	O	-	0- 200	-	0- 150	ACT/DTR options
3. <u>Persons</u>	O	810-1320	1030-1680	700-1140	730-1200	6-10% over R/W on all allowances and thresholds: 8½% PSBR 990 and 1040. If basic allowance only: deduct 10% from revenue cost. £6.50 Child Benefit. P/Ex to Reserve.
	O	[90]	[250]			
	O	0- 5	0- 85	0- 5	0- 35	Reduce IIS to 10% <u>or</u> no change.
4. <u>Packages/Risks</u>	O	300- 400	450- 600	300- 400	450- 600	See separate notes.
	F	320	550	300	450	
	O	1110-1935	1480-2740	1000-1740	1180-2115	
TOTAL BUDGET		1430-2255	2030-3290	1300-2040	1630-2635	
<u>Fiscal Adjustments</u>	O			1500-2000	2000-3000	£7½-£8 billion. PSBR 1983-84: £6½-£7½ billion. PSBR 1984-85

Pro memore: Autumn NIS reduction (1% cost £700m).

A31

CONFIDENTIAL

FROM: DOUGLAS WASS
DATE: 7 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 Cassell
Mr Kemp
Mr Moore
Mr Hall
Mr Ridley
Sir Lawrence Airey IR
Mr Angus Fraser C&E
Mr Kerr

BUDGET PACKAGES

Attached are updated versions of the now familiar three notes on the arithmetic of the packages and the Budget, a listing of the package items, and fiscal risks and possibilities.

2. There is a full agenda for the overview tomorrow, and you will probably not wish to spend time on the packages. You will see that, as shown in Note A, the cost of the packages now begins to fit quite well into the overall Budget arithmetic, though there are still a number of uncertainties. (Some of the risks are beginning to fade away -car tax for example).

3. There are meetings with you lined up for next week on several of the packages. At this stage there are a few more detailed points I would draw to your attention.

(a) It may make sense for the next return to merge the proposals under wider share ownership with the small firms and enterprise package, as last year.

(b) Similarly the vestigial proposals under tourism might next week be merged into construction unless Mr Sproat puts forward some further ideas. (Your Private Office may like to enquire after these again.)

(c) Mr Fowler's letter has now arrived, though his ideas have not yet been taken into account in the caring package. We still await Mr Tebbit's proposals.

4. The fairness in taxation package will require careful handling. There are some connections with other packages (item g on payments on account for stock relief needs to be seen alongside the construction package for example) and we shall need to take into account the results of the consultation exercise on tax havens. The Financial Secretary and Minister of State (R) will be submitting notes to you on the items under their command, and I think it would be helpful if you were to hold a meeting before the end of next week. Generally, the proposals will need to be seen in the context of other Budget proposals affecting companies and the higher paid, and you may feel it would be right to inform the Prime Minister before you come to final decisions.

A handwritten signature in dark ink, appearing to be 'DW' with a stylized flourish.

DOUGLAS WASS

CONFIDENTIAL

NOTE A

DATE: 7 February 1983

£ million revenue costs

BUDGET 1983 - PACKAGES ETC - SUMMARY

	<u>1983-84</u>		<u>1984-85</u>	
	<u>Total</u>	<u>P/Ex element</u>	<u>Total</u>	<u>P/Ex element</u>
Packages (Note B below)	340-360	170	330-440	125
Other Risks and possibilities (Note C below)	0-470	0-290	0-500	0-275
Child Benefit (In main Progress Report)	90	90	250	250
	<u>430-920</u>	<u>260-550</u>	<u>580-1190</u>	<u>375-650</u>

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

	<u>1983-84</u>	<u>1984-85</u>
Total as above	430-920	580-1190
Less Public Expenditure	260-550	375-650
Net totals	<u>170-370</u>	<u>205-540</u>
Provided in Progress Report in total	<u>300-400</u>	<u>450-600</u>

Notes:

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

BUDGET PACKAGES: COSTS SUMMARY TABLE

7. February 1983

	<u>1983-84</u>	<u>1984-85</u>	£ million <u>Full year</u>
Enterprise and Small Firms*	50	100-200	125-225
of which public expenditure:	5	5	-
Wider Share Ownership	20	35	40-45
of which public expenditure:	-	-	-
Technology and Innovation	50	84	120(85-86)
of which public expenditure:	50	74	76
Construction	185-210	125-150	125-150
of which public expenditure:	100	-	-
Oil Taxation	Not counted in packages		
of which public expenditure			
Tourism	-	-	-
of which public expenditure:	-	-	-
Agriculture	-	-	-
of which public expenditure:	-	-	-
Betting and Breeding	Package dropped		
of which public expenditure			
Caring and Charities	38-43	73-78	74-79
of which public expenditure:	18	45	46
Fairness in Taxation <u>Yields</u>	2-10	90-105	225-235
of which public expenditure:	-	-	-

* Costs now include highly tentative estimates for Business Expansion Scheme.

7. February 1983

TOTALS	340-360	330-440	260-360
of which public expenditure	170	125	120
Miscellaneous unpackaged tax items	5-10	40-45	90-95
Covered elsewhere			

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

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Business Expansion Scheme	Meeting to discuss package arranged for 17.2.83. FST minuted Chancellor 31.1.83 with recommendations on main elements of scheme. <u>Costs highly tentative.</u>	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: meeting in week beginning 7.2.83.	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. Further Revenue (Mr Blythe) submissions on "net of tax" pay tables and Schedule E/D issues commissioned by FST minute 27.1.83; submission on former 8.2.83 and on latter in week ending 18.2.83.			

(Continued/..)

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. Detailed DOI proposals awaited: interim submission (Mr Bailey) to Chancellor 24.1.83.	(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.	-	-	-
(h) VAT registration etc thresholds	Customs submission 24.12.82. Ministerial decision reached.			
EST	<u>SETTLED</u>	5	10	10
(Continued/..)				

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 increase in limits to £100,000 and £250,000 shown opposite.	6	9	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: query in Chancellor's minute 1.2.83 on size of increase. (£750 or £1000)	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 of £150 each. Wider repercussions could increase costs.	under 1	2	5
(Continued/..)				

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 should be kept in line 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 <u>SETTLED</u>	under 1	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 <u>SETTLED</u>	under 1	under 1	under 1
(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.	-	-	-
(q) VAT - bad debts EST	Suggested in Lord Cockfield's letter of 12.1.83. Customs (Mrs Strachan) submission shortly: will advise against and costs therefore no included. Costs would be substantial if extensive relief granted.	-	-	-
TOTALS of which public expenditure		50 5	100-200 5	125-225 -

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PACKAGE: WIDER SHARE OWNERSHIP
DATE : 7 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) Reintroduction of relief for "top hat" schemes.	Mr Jenkin's proposal (Letter 6.12.82) rejected at Chancellor's meeting 12.1.83; meeting also discussed similar but more restricted Bank proposal (paper 10.1.83). FST minute to Chancellor (24.1.82) recommended that this should not be included in package. Cost of up to £20 million therefore <u>not</u> included.	-	-	-
(b) Changes to existing schemes.	FST's recommendations to Chancellor 24.1.83. Chancellor's response 3.2.83, <u>SETTLED</u> Parallel submission on related SAYE issues from HF (Mr Monck) to EST 24.1.83: meeting 1.2.83, EST decided not to pursue.	20	35	40-45
	TOTALS of which public expenditure	20 nil	35 nil	40-45 nil
	Note: Questionable whether there is sufficient content for free-standing package. Measure could alternatively form part of Small Firms and Enterprise package (as in previous Budgets)			

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ITEM	STATE OF PLAY	REVENUE COST. £m		
		1983-84	1984-85	Full Year
(a) Extension of transitional period for capital allowances on British films. FST	Financial Secretary agreed extension 12.1.83 following Revenue (Mr Battishill) submission 3.12.81. Announced on 19.1.83. <u>SETTLED</u>	nil	nil	- (30 in 1985-86, 65 over 1985-88 period)
(b) Extension of transitional period for capital allowances for rented teletext televisions. FST	Financial Secretary agreed extension 7.1.83 following Revenue (Mr Battishill) submission 23.12.82. <u>SETTLED</u>	nil	10	- (15 in 1985-86, 35 over 1984-87 period)
(c) Small Engineering Firms Investment Scheme.	Mr Jenkin's proposals of 12.1.83 involve total bids of £67 million for 1983-84, £128 million for 1984-85 and £145 million in 1985-86. IA submission (Mr Bailey/Mr Lovell) to Chancellor of 24.1.83 recommends proposals involving expenditure of £45 million, £75 million and £75 million respectively. Meeting with CST 3.2.83: CST to minute Chancellor.	(pe) 50	(pe) 74	(pe) 76 (1985-86)
(d) "Alvey". - support for research in advanced IT.				
(e) "Support for Innovation" programme.				
(f) Other expenditure items.				
	TOTALS of which public expenditure	50 50	84 74	120 (1985-86). 76

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PACKAGE: CONSTRUCTION
DATE : 7 February 1983
Minister in lead: CST
Official in lead: Mr Moore

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Mortgage interest relief ceiling (starter no 105)	FP (Mr Robson) submission on tax candidates and GE (Mr Kelly) submission on public expenditure aspects to CST 27.1.83. Discussed at CST's meeting 31.1.83; CST minuted Chancellor 4.2.83: meeting on 14.2.83. Inclination against at Chancellor's meeting 24.1.83. Further FP note (Mr Moore) 28.1.83. 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 response 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 agreed 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	-	-
(Continued/..)				

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ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(f) Extend capital allowances for assured tenancies to shared ownership properties.	Mr Heseltine's letter of 6.1.83. FST minuted Chancellor (19.1.83) advising against action. Dropped at CST's meeting 31.1.83.	-	-	-
(g) Minor items in Mr Hesletine's 6.1.83 letter including:				
(i) capital allowances for refurbishment of industrial and commercial buildings;	Dropped at CST's meeting 31.1.83.	-	-	-
(ii) increase proportion of office space qualifying for Industrial Building Allowance.	CST recommends increase to 25% in minute of 4.2.83.	5	10	25
(iii) Allow private landlords to offset repair costs against <u>all</u> income.	Revenue (Mr Kuczys) submission 24.1.83 recommend against. FST minute 28.1.83 to Chancellor endorsed recommendation; dropped at CST's meeting 31.1.83.	-	-	-
(Continued/..)				

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(h) Other capital allowances	<p>There are two items which have previously been candidates for tourism package which CST at 31.1.83 meeting considered should be examined in construction package:-</p> <p>(i) increase in allowance for hotels to 50%</p> <p>(ii) extension of 20% allowance to self-catering accommodation.</p> <p>CST's minute to Chancellor 4.2.83 recommends for (ii) in preference to (i).</p>	<p>nil</p> <p>up to 5</p>	<p>5</p> <p>up to 10</p>	<p>(around 10 after 4 yrs)</p> <p>up to 10</p>
	<p>TOTALS</p> <p>of which public expenditure</p>	<p>185-210</p> <p>100</p>	<p>125-150</p> <p>nil</p>	<p>125-150</p> <p>nil</p>

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) North Sea regime, phasing out APRT etc (starter no 109)	Chancellor's overview meeting 1.2.83 agreed that option B (plus doubling of oil allowance for future fields, which has no short-term cost) should be proposed to Mr Lawson at meeting 2.2.83.	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.	15 <u>cost</u>	30 <u>yield</u>	50 <u>yield</u>
(c) PRT. Minor provisions (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 roughly balancing mix of small costs and yields. <u>SETTLED</u>	-	-	-
(d) PRT. exempt gas and payback (starter no 166)	Inland Revenue awaiting details from company which may be affected. Submission from Mr Crawley next month. No costings possible until details received.	na	na	na
TOTALS		105	110	290
of which public expenditure		nil	nil	(1985-86) nil

ITEM	STATE OF PLAY	REVENUE COST. £m		
		1983-84	1984-85	Full Year
(a) Rating reliefs	EST's recommendations in minute to Chancellor 19.1.83. Chancellor's office has asked Mr Sproat to write with any proposals as soon as possible.			
(b) Capital allowances	EST's recommendation against, unless action on industrial/commercial rating relief. 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 <u>not</u> 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

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 <u>no</u> costs included at this stage.	-	-	-
	TOTALS of which public expenditure	nil nil	nil nil	nil nil
	<u>Note:</u> Questionable whether there is sufficient for free-standing package. CTT agricultural reliefs included in item (e) of small firms and enterprise package.			

ITEM	STATE OF PLAY	REVENUE COST, £m		
		1983-84	1984-85	Full Year
	Discussed at CST meeting 25.1.83; note by ST (Mr Monger) 1.2.83 sets out preliminary results, which are indicated below. CST to minute Chancellor; meeting fixed for 14.2.83. <u>Proposals in Mr Fowler's letter 4.1.83 not included as yet.</u>			
(a) Extension of Widow's Bereavement Allowance for further year.	FST recommended (11.1.83) following Revenue (Mr Isaac) submission of 23.12.83: CST in favour.	20-25	25-30	25-30
(b) Restoration of 5% abatement of invalidity benefit.	CST inclined against: costs <u>not</u> included.	-	-	-
(c) Removal of invalidity benefit "trap".	CST in favour	(pe) 7	(pe) 16	(pe) 17 (1985-86)
(d) Development of voluntary etc care service for elderly.	) Proposals in Mr Fowler's paper, for) discussion at Family Policy Group (9.2.83),) on care of the elderly. CST inclined to (d)) but not (e) at 31.1.83 meeting. Since (f)) considered unlikely, yields not counted.)))	(pe) 2	(pe) 2	(pe) 2 (1985-86)
(e) Extension of Invalid Care Allowance.		(pe) 4	(pe) 12	(pe) 12 (1985-86)
(f) Abolition of Dependent Relatives Allowance.		-	-	-

(Continued/..)

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(g) Abolition of £250,000 ceiling for CTT exemption on gifts to charities	CST in favour.	under 1	under 1	under 1
(h) Deeds of covenant: increase in ceiling for higher rate relief to £5,000.	CST in favour.	nil	3	3
(i) Other fiscal measures:				
(i) relief for payroll giving;	CST inclined against.	-	-	-
(ii) relief for individual donations;	CST inclined against.	-	-	-
(iii) relief for company donations;	CST inclined against.	-	-	-
(iv) relief for seconded staff;	CST in favour.	under 1	under 1	under 1
(v) covenanted payments gross	CST inclined against.	-	-	-
(Continued/..)				

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(j) Other public expenditure measures:				
(i) investment grants to voluntary sector;	) CST inclined against.	-	-	-
(ii) central grant to National Association of Councils of Voluntary Service.		-	-	-
	<u>Notes:</u>			
	1. Opposite is additional provision as a contingency margin against bids by Mr Fowler: letter received 4.2.83.	(pe) 5	(pe) 15	(pe) 15 (1985-86)
	2. Mr Heseltine's letter of 6.1.83 also proposed that charitable status should be extended to sport and recreational bodies. CST ruled out at 25.1.83 meeting.			
	3. NCVO shopping list forwarded 21.1.83. Preliminary comment in ST note of 1.2.83.			
	4. CST office to ask Mr Whitelaw to forward any proposals on charities side.			
	TOTALS of which public expenditure	38-43 18	73-78 45	74-79 46

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(a) Fringe benefits: scholarships (starter no 197)	Chancellor's meeting 22.12.82 agreed on legislation. <u>SETTLED</u>	1-10 <u>yield</u>	1-10 <u>yield</u>	1-10 <u>yield</u>
(b) Fringe benefits: others (starter nos 133 and 134)	Budget will contain announcement about uprated car and car fuel benefit scales for 1984-85. Revenue (Mr Driscoll) submission on this and other benefits 31.1.83. Yield of 20% increase in car scales opposite. (Revenue (Mr Corlett) submission 2.2.83 to FST on potentially related issue of capital allowances for company cars.)	na	45	45
(c) CGT: capital loss buying: groups of companies (starter no 142)	) Revenue submission (Messrs Battishill and Bryce) 27.1.83: discussed at MST(R) meeting 2.2.83. MST minuted Chancellor 4.2.83, recommending (d) but against (c).	Nil	5 <u>yield</u>	30 <u>yeild</u>
(d) Group relief: avoidance (BL). (starters no 119)		na	30 <u>yield</u>	30 <u>yield</u>
(Continued/...)				

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(e) Life assurance: chargeable events: secondhand bonds (starters no 110)	Announcement of intention to legislate 24.6.82. <u>SETTLED</u>	under 1 <u>yield</u>	under 1 <u>yield</u>	under 1 <u>yield</u>
(f) DLT: disposals by non-residents (starters no 149)	Revenue (Mr Beighton) submission on 5.11.82. Discussions being held with Law Society and RICS.	1 <u>yield</u>	2 <u>yield</u>	2 <u>yield</u>
(g) Stock relief: payments on account (Starters no 154)	Revenue (Mr Battishill) submission 2.12.82. MST(R) authorised drafting (19.1.83); item to be reviewed in light of other measures affecting construction industry though inclination against at starters mtg 27.1.83.	under 1 <u>yield</u>	10-15 <u>yield</u>	15 <u>yield</u>
(h) Stock relief: deny to commodity/bullion dealers (Starters no 153)	Revenue (Mr McConnell) submission 4.2.83. MST(R) minute to Chancellor 7.2.83 recommends against for this year.	-	-	-

(Continued/...)

ITEM	STATE OF PLAY	REVENUE COST £m		
		1983-84	1984-85	Full Year
(i) Taxation of international business (starters 157)	Draft legislation published December 1982; comments requested by mid February.	-	-	-
		under 1 <u>yield</u>	under 1 <u>yield</u>	100 <u>yield</u>
	TOTAL <u>YIELDS</u>	2-10 <u>yield</u>	90-105 <u>yield</u>	225-235 <u>yield</u>

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. which requested further submission on options. Figures are for reduction to 10%	5	35	85
(b) Stamp duty - selective reform package.	MST(R) note to Chancellor 4.2.83.	5-10	5-10	5-10
TOTALS		10-15	40-45	90-95
<p><u>Note:</u> There are in addition a number of unplaced "heritage" proposals. These are:-</p> <p><u>Mr Heseltine, 6.1.83</u></p> <p>(i) VAT exemption for works of art accepted in lieu of tax; Customs (Mr Knox) submission 4.2.83.</p> <p>(ii) tax relief for business contributions to preservation and environmental trusts; Revenue (Mr Lusk) submission 4.2.83 recommended against.</p> <p><u>Lord Bellwin, 18.1.83</u></p> <p>(iii) tax allowances for repairs to listed buildings: Revenue (Mr Lusk) submission against 4.2.83 recommended against.</p>		na	na	na
		na	na	na

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NOTE C

7 February 1983

OTHER FISCAL RISKS AND POSSIBILITIES

£ million

1983-841984-85

Possible Public Expenditure

Unemployment. Mr Tebbit putting proposals to Prime Minister. Three candidates may be proposed:-

i. Extension and modification of TSTWCS	115	100
ii. Continuation and extension of Enterprise Allowance Pilot Scheme.	50	48
iii. Early retirement: extension of existing scheme entitling people over 60 to leave labour market in exchange for long-term Supplementary Benefit rate. Largest DHSS option, say	<u>25</u>	<u>27</u>
	190	175

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 to Chief Secretary next week

<u>100</u>	<u>100</u>
<u>290</u>	<u>275</u>

Possible Tax

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

50 50

Stamp Duty. Various reforms, say up to

10 10

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

120 160180 220**TOTAL**470 495

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RECORD OF THE THIRD BUDGET OVERVIEW MEETING AT 11AM ON 8 FEBRUARY

Present:

Chancellor	Mr Burns	Sir L Airey (IR))	) Item 1
Chief Secretary	Professor Walters (No 10)	Mr Fraser (C&E)		) only
Economic Secretary	Mr Middleton	Mr Moore)
Minister of State (C)	Mr Kemp	Mr Evans)
Minister of State (R)	Mr Cassell	Mr Monck	) Item 2
Sir Douglas Wass	Mr Ridley	Mr Odling-Smee)	only
Sir Anthony Rawlinson	Mr Kerr	Mrs Lomax)

Papers:

- i. Budget: Public Expenditure (Sir A Rawlinson's minute of 7 February)
- ii. Economic Effects of Lower Oil Prices (Mr Kerr's minute of 7 February)
- iii. Budget Packages (Sir D Wass's minute of 7 February)
- iv. Progress Report (Mr Kemp's minute of 7 February)
- v. Medium Term Financial Strategy (Mr Burns' minute of 3 February)
- vi. Monetary Targets in 1983/84: M1 (Mr Monck's minute of 26 January)

 ITEM 1: Progress Report
Public Expenditure

The Chancellor noted that the Chief Secretary and Sir A Rawlinson envisaged that Budgetary proposals for public expenditure could be charged to the Contingency Reserve up to a maximum of £350 million. It was also noted that any excess over £100 million should reduce the fiscal adjustment pro tanto.

Oil

2. Noting that the uncertainties about the future oil price were if anything greater than in the run up to the 1982 Budget, the Chancellor asked that consideration be given to the case for not only making clear at Budget time the oil price assumption underlying fiscal plans, but also taking powers to adjust these plans in mid year if the assumption proved unfounded. A sophisticated version of the regulator might be appropriate. If the



oil price fell more sharply than anticipated, excise duties on petrol and derv might rise. Alternatively, if the price stayed higher than expected, some fiscal relaxation - eg a further move on NIS - might be feasible. It was suggested that action to raise the duty on petrol and derv would be readily understood, but that action to lower NIS would be harder to explain. It was also noted that the effect on inflation and on monetary growth of a sharp decline in the oil price would be fairly small. A short study on what form of regulator would be most appropriate, and whether and how it should be announced, was nevertheless commissioned. (Action: Mr Middleton).

Packages

3. It was agreed that Lord Cockfield should be asked to put forward, by 14 February, any proposals he might have for a tourism package. (Action: Chief Secretary). The "fairness in taxation" package should be ready - with the other packages - for meetings in the week of 14 February. (Action: FST/MST(R)).

Budget balance

4. The Chancellor reported that the balance of opinion in Cabinet on 3 February had been in favour of a Budget along the lines so far emerging, ie weighted more towards tax reliefs for persons than for industry. He nevertheless wished to test the arguments once again. In a tour de table, it was pointed out that the proposed balance of the 1983 Budget would only partially offset that of recent Budgets, which had been tilted heavily in favour of industry; that business was pressing for action on the income tax thresholds; and that the balance was in fact pretty even, if the Autumn Statement measures were taken into account. It was also noted that action on thresholds would be beneficial to industries' costs, in that it should encourage further pay moderation. On the other hand, it was argued that public opinion would be surprised if tax thresholds were raised by as much as 8½ percentage points above revalorisation.

5. It was agreed that the balance of Budgets A and B in Table A of Mr Kemp's minute of 7 February was probably about right; that of Budget C



was however perhaps tilted too heavily in favour of the personal sector. The Chancellor asked that for the overview meeting on 15 February the progress report should present an assessment of the balance of the alternatives then on offer. (Action: Mr Kemp).

ITEM II: MTFs

MTFs: objectives

6. It was agreed that the MTFs should again open with a general statement of the Government's medium term objectives. It should be along the lines of the formula in paragraph 5 of the MP paper attached to Mr Burns' minute, though the second sentence should be revised to read: "The objective over the medium term is to continue reducing inflation, so providing the foundation for the sustainable growth of output and employment".

MTFs: treatment of the exchange rate

7. It was agreed that the MTFs text should be prepared on the basis of no major change in the 1982 exchange rate formula.

MTFs: monetary ranges

8. It was suggested that a reduction in the monetary ranges - to 6/10, 5/9, and 4/8 - for the three years 1983-84 to 1985-86 might be appropriate, taking account of the progress already made, and as an encouragement to more. It was also noted that such a reduction would be helpful as a way of increasing the credibility of the inflation forecast, should an optimistic variant of it be chosen. On the other hand, it was argued that the best course would be to hold to the 7/11, 6/10, 5/9 ranges, both on the grounds of prudence, and because further reductions might create new fears. The Chancellor, noting that a final decision was not an immediate requirement, asked that text should be prepared on the basis of last year's guidelines for 1983-84 and 1984-85 (ie 7/11 and 6/10) and a further 1 per cent deceleration in 1985-86 (ie to 5/9). (Action: MP).

1983-84 PSBR

9. It was argued that the options for the 1983-84 PSBR were not only £8 billion or £7.5 billion: there was a case, particularly in terms of output,



for considering £8.5 billion. It was however noted that this would probably mean a substantial increase on the 1982/83 outturn; and that recent exchange rate movements had both provided a boost to output and increased the arguments for caution over the 1983-84 PSBR. The Chancellor concluded that a 1983-84 PSBR of above £8 billion need not be excluded. He however regarded £8 billion as the central case. If in the end it became clear that £8 billion would permit a fiscal adjustment of only £1 billion or less, he would wish to look again at £8.5 billion: conversely, if it became clear that it would permit a fiscal adjustment of £2 billion or more, he would wish to look again at £7.5 billion. For the moment, the MTFs drafts should be prepared on the basis of £8 billion. (Action: MP).

PSBR: 1984/5 and 1985/6

10. The Chief Secretary suggested that, given a 1983-84 PSBR of £8 billion, the MTFs should show £7 billion in 1984-85 and £6 billion in 1985-86. This would demonstrate downward pressure rather more convincingly than did variant A in Table 5 of the MP paper, but would be less harsh than variant B. Mr Burns and Mr Cassell saw advantage in variant A - £8 billion again in 1984-85, and £7 billion in 1985-86. The Chancellor asked that MP work to a path showing 2½ per cent of GDP in 1983-84, 2¼ per cent in 1984-85, and 1¾ per cent in 1985-86. The final choice would probably be between this path, and that at variant A. (Action:MP).

MTFS: economic assumptions

11. It was agreed that work should proceed on the basis of the assumptions set out at column A in Table 9 of the MP paper (Action: MP).

12. It was agreed that texts of the key MTFs passages should be available for consideration by the Chancellor early in the week of 14 February. A meeting with the Governor would then be arranged, either later that week, or early in the following week.

Jim Rutter

PP J O KERR

