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BUDGET SPEECH 1984

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PO -CH /NL/0004
PART F

Budget Speech
1984
PO/CH/NL
Part ~~E~~
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B(84)571

BUDGET SECRET

ECONOMIC SECRETARY TO THE TREASURY

FROM: A M ELLIS
DATE: 9 March 1984

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Monger
Mr Lord
PS/IR
Mr Isaac - IR
Mr Hall
Mr Battishill

BUDGET SPEECH

The Economic Secretary has read Mr Isaac's minute of 8 March, and agrees with his recommendation that there should be mention of the Friendly Society in the Budget Speech, but suggests a re-draft as follows:

> I am also proposing to withdraw the special - but unfortunately widely abused - privileges for what are known as 'tax exempt' Friendly Societies and bring them into line with the normal rules for Friendly Societies doing 'mixed' business. However the limits within which in future all Friendly Societies will be able to write assurance on a tax exempt basis will be increased from £500 to £750 and I am also proposing to increase existing limits of £50,000 up to which Friendly Societies may write assurance policies to £60,000, This is the current maximum level for Building Society mortgages outside the Special Advances category.

AE

A M ELLIS

B(84) 1022

BUDGET - SECRET

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

From: B H KNOX
9 March 1984

(PWT)

MR KERR

BUDGET SPEECH

... I attach an alternative draft of paragraph 142 and a consequential amendment to paragraph 143 in order to cover the possibility that the Italian Government will give a written assurance by tonight that they will reduce their VAT rate on imported spirits by ten percentage points forthwith and abolish the differential completely in 1985. We agree with the Foreign Office that you would have substantially achieved your objective if such a written assurance is received.

Bryce Knox

B H KNOX

Fortes ✓ Call in Pandolfi 6pm (5pm)

142. ~~I have accordingly~~ We have thus complied ~~fully~~ ~~in full~~ with the Court's Judgment. ~~I should also tell the House that with my agreement my RH Friend the Secretary of State for Foreign and Commonwealth Affairs has had discussions with the Italian Government about their compliance with an earlier Court ruling to do away with discriminatory taxation of imported spirits. He has secured an undertaking from them to reduce the VAT rate on Scotch whisky by 10 percentage points forthwith and to completely abolish the VAT discrimination in 1985.~~

~~I am sure the House will welcome this as being a substantial benefit to a leading United Kingdom export industry.~~

Paragraph 143, last two lines, delete ", except the vermouth surcharge,".

And I am happy to be able to tell the House that the Italian Government have, after discussions, given us an undertaking that they will ~~and~~ comply with ~~the similar~~ an earlier Court ruling on discrimination against Scotch whisky.

B (84) 608

Arrvd 7·30

BUDGET: SECRET

E 3

FROM: ADAM RIDLEY
9 March 1984

CHANCELLOR

cc CST
FST
MST EST.
Mr Lord
Mr Portillo

BUDGET SPEECH: UNINCORPORATED BUSINESSES

There is possibly a tricky issue here which I should stress even at this late stage. It could be that the bulk of your listeners will not at first fully realise that the withdrawal of allowances and stock relief extends to all businesses; certainly the section of the speech dealing with it does not bring the point out that much, even if you take the amendments proposed by Mr Monck. Most listeners in the house and outside will not think twice about the matter. But some of the more intelligent listeners will be curious. If so, you or a colleague will be asked shortly afterwards if the self-employed are covered - e.g. by Grylls at the Backbenchers Finance Committee - or IDT will be pressed by specialist journalists. You will then, of course, say that they are. The bulk of ordinary chaps will then be a bit worried; and you could just be accused of a degree of lack of frankness in your speech. One could even imagine this turning into a fuss such as the one which engulfed your predecessor after the '81 Autumn Statement when he allegedly did not confess overtly that NICs on employers were being indexed. I therefore wonder whether you should not look for one or two more phrases - no more - which cut down that risk further without rubbing home the point blatantly.

2. A second and related problem could arise in the weeks that follow and in the Finance Bill. I cannot at present banish the anxiety that you will encounter some very heavy criticism from the unincorporated community before long and, possibly, some very heavy pressures during the Finance Bill as a result. Though it may be difficult for us here to compute what the loss of stock relief and allowances will mean to unincorporated business as a whole, the individual businessman can work out pretty quickly what is at stake simply by looking at his accounts, as can the Barry Baldwins of this world for the SBB'.

AR

A N RIDLEY

B(84)582

j20

BUDGET SECRET

From: J ODLING-SMEE
9th March 1984

MISS O'MARA

cc Mr Battishill
Mr Folger
Mr Ridley

BUDGET SPEECH: INTRODUCTION

I have one comment on this, which Mr Battishill suggested I passed directly on to you since he has already sent his comments.

2. The first of the two themes mentioned in paragraph 5 is the further reduction of inflation. I think that this could create difficulties, for two reasons: first, because little is made of the reduction in inflation later in the speech (compared, say, with most other pronouncements by the Chancellor); secondly, because we are only reducing inflation to 3 per cent after five years in the Red Book numbers, which is not obviously something to boast about.

3. I therefore suggest that the first theme should be "setting out the financial framework for the whole of this Parliament". The speech makes quite a bit of the MTFS and the financial framework in general, and it also dwells a little on the five year aspect of it. Furthermore, this year's Budget is original in this respect. If this alternative theme were to be adopted, little or no re-writing would be required later. The concluding parararagraphs, however, would presumably make some reference to it.

J ODLING-SMEE

BUDGET-SECRET

B(84) 1023

FROM: A M W BATTISHILL
DATE: 9 March 1984

MISS O'MARA

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Mr Folger
Mr Odling-Smee
Mr Ridley
Mr Lord
PS/Inland Revenue

BUDGET SPEECH: INTRODUCTION

We have only one suggestion to offer on this Section.

2. In paragraph 3 the reference to "four years of falling inflation" looks, on reflection, to raise problems. Looking at quarterly figures year on year the path of inflation can be seen to have started falling in the middle of 1980. If we say "nearly four years" this looks rather precise and raises the question how we regard the temporary rise in the autumn. In Section B, on the economic background, we actually use calendar year on calendar year figures. On that basis we can either say "three years of falling inflation" or "over three years of falling inflation", counting in the good January 1984 figure. But there is then a slight risk if the February figure should happen to move upwards again. My preference would be to say "three years" - meaning the three calendar years 1981, 1982 and 1983.

AMB

A M W BATTISHILL

BUDGET-SECRET

B(84) 1024

BUDGET SECRET

FROM: T LANKESTER
DATE: 9 March 1984

MISS O'MARA

PWY

cc Economic Secretary
Mr Cassell
Mr Battishill
Mr Evans
Mr Odling-Smee
Mrs Lomax
Mr Ridley
Mr Lord

BUDGET SPEECH: PUBLIC SECTOR BORROWING ETC AND MTFS

On the public sector borrowing section, the square bracketted phrase in paragraph 45 needs to be deleted. The November Statement took into account the public expenditure decisions and the July measures.

2. The following sentence in paragraph 45 should be amended to read as follows:- "Bringing the PSBR down to £7 billion will not, on our latest forecasts, require such an increase in taxation."

3. In paragraph 42, second sentence: "The US situation" might be replaced by "The influences of the US".

4. We have no comments of substance on the MTFS section. In paragraph 22, "driven to stagger" sounds a bit forced. "Staggered" or "forced to stagger" might sound better.

T LANKESTER

BUDGET SECRET

B (82,) 1025

FROM: M C SCHOLAR
9 March 1984

PS/CHANCELLOR

cc: Chief Secretary
Mr Bailey
Mr Anson
Mr Battishill
Mr Odling-Smee
Mr Pestell
Mr Watson
Mr Monger
Ms Seammen
Mr N J King
Mr Ridley
Mr Lord

BUDGET SPEECH: PUBLIC EXPENDITURE

1. You asked for me to co-ordinate comments on the public expenditure part of the Budget speech.

2. On paragraph 51, we suggest in the penultimate line, after "individual" insert "and the benefits for the economy".

3. In paragraph 52, line 5, delete "does not rise" and substitute "is broadly stable".

4. On the new figuring for the tax burden which has gone into the Green Paper, it would be possible to get back to the tax burden of the early 1970s with something less than a 1 per cent real annual growth rate in expenditure. The "broadly stable" wording is in line with the revised wording of the Green Paper.

5. At the end of paragraph 52 Mr Ridley suggests expanding the last sentence to read, "..since excessive taxation slows the whole economy, the slower the reduction in today's tax burden, the less the growth of GDP, and the firmer the grip of the vicious circle of rising tax burdens and falling growth."

6. We are not showing in the FSBR any charge at all on the Reserve. It is, therefore, rather awkward having in the Budget speech a loud and clear assertion that we are accepting a claim on the Reserve of £2m for Calke Abbey. If the reference to Calke Abbey is to stay in I would prefer the deletion of the last sentence in paragraph 55. The alternative, of including something in the FSBR, is unattractive: it would look silly to charge £2m against a Reserve of £2.75b.

7. In the third line of paragraph 56, delete "on Budget Day" and substitute "at Budget time". In the past social security upratings were announced, not in the Budget, but afterwards, by the Secretary of State.

8. In the 6th line of paragraph 57, delete "That target has been achieved." and substitute "That target will be achieved". We are confident that it will be achieved, but, as of Budget Day, it will not yet have been achieved.

MCS

M C SCHOLAR

B(84) 1026

Arrived 7.20!

BUDGET CONFIDENTIAL

FROM: G W MONGER
DATE: 9 March 1984

MR KERR

cc Mr Scholar
Mr Aaronson

BUDGET SPEECH: PUBLIC EXPENDITURE

There is a small inaccuracy in paragraph 48. The sentence which now reads

> "...as recently as 1983-84 no married man had to pay a penny of income tax unless his taxable income was at least 45%....

should read:

> "...as recently as 1983-84 no married wage-earner had to pay a penny of income tax unless his earnings were at least 45%....

2. The main point is that "taxable income" is after deducting allowances so the statement as it now appears is circular. While this is being corrected it is also worth replacing "married man" by "married wage-earner", since the calculations are different for unearned income.

G W MONGER

B(84) 1027

FROM: T LANKESTER
DATE: 9 March 1984

MISS O'MARA

cc Economic Secretary
Mr Cassell
Mr Battishill
Mr Evans
Mr Odling-Smee
Mrs Lomax
Mr Ridley
Mr Lord

BUDGET SPEECH: MONETARY POLICY

We have the following comments on the latest redraft of the section.

2. We suggest the last two sentences of paragraph 31 and paragraph 32 should be amended as follows:-

> ".....growth of liquidity. But they do not measure money immediately available for current spending. In defining policy it is therefore helpful also to make specific reference to narrower measures of money which do provide such a guide.
>
> 32. M1 was for this reason introduced as a target aggregate, but it has not proved entirely satisfactory for that purpose. With the rapid growth of interest-bearing sight deposits, M1 has become an increasingly poor measure of money held to finance current spending. The signs are that this will continue."

3. The main change here is the deletion of the distinction between narrow and broad money in terms of whether or not they earn interest. M2 has a very large interest-bearing component. In the MTFS, we make the distinction purely in terms of whether it is money held immediately for spending, and I think the speech should follow that. The phrase - "with the introduction of new, interest-bearing checking accounts " - at the end of paragraph 32 has been deleted because this development would actually make M1, as compared with say NIBM1, a better guide to money held for transactions purposes.

4. In paragraph 33, we suggest that "the pace of change has not diminished its value as an indicator of financial conditions" should be replaced by "I believe it is likely to be a better indicator of financial conditions than M1." The point here is that the pace of innovation affecting MO has arguably been just as fast if not faster than for M1. The velocity trend has of course been relatively stable, which is partly why we are going for MO; but this is a rather arcane thing to say in the speech. Hence the more general formulation.

5. In paragraph 36, we would prefer the last sentence to read as follows: "As in the past, we shall seek to influence monetary conditions by an appropriate combination of fiscal policy, funding and short-term interest rates."

6. The phrase "operations in the money market" in the existing draft is rather cryptic and will not be widely understood; it has slight overtones of monetary base control; and it may draw attention to overfunding/money market assistance problems. It seems much better to stick to the formulation in the Mansion House speech - <u>including</u> the reference to fiscal policy; any other will raise unnecessary questions.

7. The first word - "Precise" - of paragraph 38 could be deleted.

8. Finally, I suggest the last sentence of paragraph 29 should finish at "decline".

TL

T LANKESTER

CHANCELLOR OF THE EXCHEQUER

Enclose copies

Sir PEM

Mr Cassell.

B(84)612

cc. Sir P. Middleton
Mr Cassell

SPARE.

BUDGET SECRET

CHANCELLOR OF THE EXCHEQUER

Treasury Chambers. Parliament Street. SWIP 3AG
01-233 3000

10 March 1984

John Bartlett Esq
Private Secretary to the
Governor
Bank of England

Dear John,

BUDGET SPEECH

I attach, for the Governor's information, the (very nearly final) text of the Budget Speech. I know that you and he will ensure that it is very carefully handled.

Yours ever,
John Kerr
J O KERR

B(84) 611

BUDGET SECRET

SPARE

PWT

CHANCELLOR OF THE EXCHEQUER

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

10 March 1984

Andrew Turnbull Esq
10 Downing Street

Dear Andrew,

BUDGET SPEECH

.. I enclose the latest, and very nearly final, text of the Budget Speech. You will see that the Chancellor has taken considerable account of the points which you mentioned to me last night.

Yours ever,

John K

J O KERR

BUDGET SECRET

Margaret

John

~~This incorporates the amendments below, plus some given by telephone~~

M.

CH/EX REF NO B(84) 614

PMP

FROM: J O KERR
DATE: 10 March 1984

SIR PETER MIDDLETON

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir T Burns
Mr Fraser (C&E)
Mr Battishill
Mr Monger
Mr Ridley
Mr Lord
Mr Portillo
Mr Norgrove
Mr Knox: C&E
Mr Folger

BUDGET SPEECH

I attach the near-final text of the Speech. It reflects further work by the Chancellor on 9/10 March.

2. In preparing this version, the Chancellor considered all amendments offered to the previous version. Any further suggested amendments should reach me by 1pm on 12 March: this is I fear a real deadline. But there is of course no need for copy addressees to repeat suggestions previously made, unless an inaccuracy has [inadvertently] not been corrected.

J O KERR

INTRODUCTION

This Budget will set the Government's course for this Parliament. There will be no letting up in our determination to defeat inflation. This Budget will continue the policies that we have followed consistently since 1979. Those policies provide the only way to achieve our ultimate objective of stable prices. To let them go would be to risk renewed inflation, and much higher unemployment. As a result of our determined efforts, inflation is at its lowest level since the 'sixties. Growth in the economy is strong. Employment is growing.

2. Those achievements are a tribute to the courage and foresight of the five Budgets presented by my distinguished predecessor, whose duties sadly keep him in Brussels today.

DN – could backfire?

/My Budget

3. I SHALL DO NOTHING TODAY TO COMPROMISE THOSE SUCCESSES. BUT THERE IS MUCH THAT I CAN DO TO BUILD UPON THEM.

4. MY BUDGET TODAY HAS TWO THEMES.

5. FIRST, THE FURTHER REDUCTION OF INFLATION. AND SECOND, A SERIES OF TAX REFORMS DESIGNED TO ENABLE THE ECONOMY TO WORK BETTER. REFORMS TO STIMULATE ENTERPRISE AND SET BRITISH BUSINESS ON THE ROAD TO PROFITABLE EXPANSION. REFORMS THAT WILL HELP TO BRING NEW JOBS.

6. I SHALL BEGIN BY REVIEWING THE ECONOMIC BACKGROUND TO THE BUDGET. I SHALL THEN DEAL WITH THE MEDIUM TERM FINANCIAL STRATEGY; WITH MONETARY POLICY AND THE MONETARY TARGETS FOR NEXT YEAR; AND WITH PUBLIC BORROWING AND THE APPROPRIATE PSBR FOR THE COMING YEAR. I SHALL THEN TURN TO PUBLIC EXPENDITURE, INCLUDING THE PROSPECTS FOR THE LONGER

/TERM.

TERM. FINALLY I SHALL DEAL WITH TAXATION, AND THE CHANGES IN THE STRUCTURE OF TAXATION WHICH WILL PAVE THE WAY FOR CUTS IN TAXES IN SUBSEQUENT YEARS.

7. AS USUAL, A NUMBER OF PRESS RELEASES, FILLING OUT THE DETAILS OF MY TAX PROPOSALS, WILL BE AVAILABLE FROM THE VOTE OFFICE AS SOON AS I HAVE SAT DOWN.

THE ECONOMIC BACKGROUND

8. I START WITH THE ECONOMIC BACKGROUND.

Compares a point with an average.

9. SINCE 1980, INFLATION HAS FALLEN STEADILY FROM A PEAK OF OVER 20 PER CENT. for LAST YEAR as a whole IT WAS DOWN TO ABOUT 4½ PER CENT, THE LOWEST FIGURE SINCE THE SIXTIES. AND WITH LOWER INFLATION HAVE COME LOWER INTEREST RATES.

10. THIS IN TURN HAS LED TO AN ECONOMIC RECOVERY WHOSE UNDERLYING STRENGTH IS NOW BEYOND DISPUTE. WHEREAS IN SOME PREVIOUS CYCLES RECOVERY HAS COME FROM A SELF-DEFEATING STIMULUS TO MONETARY DEMAND, THIS TIME IT HAS SPRUNG FROM SOUND FINANCE AND HONEST MONEY. LOWER INFLATION AND LOWER INTEREST RATES BENEFIT INDUSTRY, BUSINESS, AND CONSUMER CONFIDENCE ALIKE.

/ACROSS THE

Actually 8½ but TB [illegible] we can keep

11. Across the economy, total money incomes grew in 1983 by about 8 per cent, of which 3 per cent represented real growth in output. Although there is still room for improvement, this is a very much healthier division between inflation and real growth than the nation experienced in the 1970s. Output in the second half of 1983 is now reckoned to have exceeded the previous peak, before the world recession set in, and is still rising strongly.

12. Productivity too has continued to improve rapidly. Just as over the past year many have wrongly predicted an end to the recovery, so some have tried to dismiss the sharp rise in productivity as a flash in the pan. Yet [during] in 1983 manufacturing productivity grew by 6 per cent for the [with second year in succession no sign of slowing down.] (TB) Unit labour costs across the whole economy are likely to show the smallest annual increase since the 1960s. This has allowed a welcome and necessary recovery in real levels of profitability.

/Higher profits

13. Higher profits lead to more jobs. The number of people in work increased by about 80,000 between March and September last year. The loss of jobs in manufacturing has slowed down sharply, while jobs in services increased by (ALMOST) APPROACHING [200,000 in the first nine months of last year.

TB - about to be revised down

14. But further progress is needed: although our unit wage costs in manufacturing rose by under 3 per cent last year, [our three biggest] THREE OF OUR BIG competitors, the US, Japan and Germany, did better. The employment prospect would be significantly improved if a bigger contribution to improved cost performance were to come from lower pay rises.

TB/MF

15. Demand, output, profits and employment all rose last year. Home demand has played the major part in the recovery so far. Lower inflation reduced people's need to save, and real incomes rose. Personal consumption increased by over 3½ per

/CENT COMPARED

cent compared with 1982. Fixed investment rose rather faster than consumption, with investment in housing and services particularly strong.

16. Our rate of economic growth last year was the highest in the European Community. For much of 1983 our export performance was affected by weak demand in many of our overseas markets, while imports rose slightly faster than home demand. But by the end of last year world trade was clearly moving ahead again, and in the three months to January manufacturing exports increased very substantially. The balance of payments on current account last year is estimated to have been in surplus by about £2 billion.

17. Our critics have been confounded by this combination of recovery and low inflation. Even the pessimists have been forced to acknowledge the durability of the recovery. It is set to continue

/THROUGHOUT

THROUGHOUT THIS YEAR AT AN ANNUAL RATE OF 3 PER CENT. INFLATION IS EXPECTED TO REMAIN LOW, EDGING BACK DOWN TO 4½ PER CENT BY THE END OF THIS YEAR. WITH RISING INCOMES AND LOW INFLATION, CONSUMPTION WILL CONTINUE TO GROW. AND, ENCOURAGED BY IMPROVED PROFITABILITY AND BETTER LONG-TERM GROWTH PROSPECTS, INVESTMENT IS EXPECTED TO RISE BY A GOOD 6 PER CENT THIS YEAR.

18. LOOKING ABROAD, TOO, ECONOMIC PROSPECTS ARE MORE FAVOURABLE THAN FOR SOME TIME. OUTPUT IN THE UNITED STATES SHOULD CONTINUE TO GROW STRONGLY THIS YEAR. AND RECOVERY IS SPREADING TO THE REST OF THE WORLD.

19. OF COURSE, THERE ARE INEVITABLE RISKS AND UNCERTAINTIES. THE SIZE AND CONTINUED GROWTH OF THE UNITED STATES BUDGET DEFICIT IS A CAUSE OF WIDESPREAD CONCERN AND KEEPS INTEREST RATES HIGH, EXACERBATING THE PROBLEMS OF THE DEBTOR COUNTRIES.

/AND THE NEED

AND THE NEED TO FINANCE THE US DEFICIT BY INFLOWS OF FOREIGN CAPITAL HAS KEPT THE DOLLAR ARTIFICIALLY HIGH AND LED TO A MASSIVE AND GROWING TRADE DEFICIT, GREATLY INCREASING THE PRESSURES FOR PROTECTIONISM WITHIN THE UNITED STATES.

20. A SECOND POTENTIAL RISK IS DISRUPTION IN THE OIL MARKET. THE UNITED KINGDOM, AND INDEED THE WORLD ECONOMY, INEVITABLY REMAIN VULNERABLE TO ANY MAJOR DISTURBANCES IN THIS MARKET.

21. BUT DESPITE THESE RISKS THERE IS A GROWING SENSE THROUGHOUT THE INDUSTRIALISED WORLD THAT THE RECOVERY THIS TIME IS ONE WHICH CAN BE SUSTAINED. THE ESSENTIAL REQUIREMENT IS THE CONTINUED PURSUIT OF PRUDENT MONETARY AND FISCAL POLICIES.

THE MTFS MEDIUM TERM FINANCIAL STRATEGY (PEM)

22. For the United Kingdom, the Medium Term Financial Strategy has been the cornerstone of such policies. It will continue to play that role; to provide a framework and discipline for Government and to set out clearly, to industry and the financial markets, the guidelines of policy. Too often in the past Governments abandoned financial discipline whenever the going got rough, and staggered from one short-term policy expedient to another. The temptation to accommodate inflationary pressures proved irresistible, and the nation's longer-term economic performance was progressively undermined.

/The MTFS was

23. THE MTFS WAS DESIGNED TO REMEDY THIS, BY IMPOSING A DISCIPLINED FINANCIAL FRAMEWORK WHICH WOULD ALSO ENSURE CONSISTENCY BETWEEN MONETARY AND FISCAL POLICIES, AND A PROPER BALANCE IN THE ECONOMY. IT IS SO DESIGNED TO ENSURE THAT THE MORE INFLATION AND INFLATIONARY EXPECTATIONS COME DOWN, THE MORE ROOM IS AVAILABLE FOR OUTPUT AND EMPLOYMENT TO GROW.

24. PEOPLE NOW KNOW THAT THE GOVERNMENT INTENDS TO STICK TO ITS MEDIUM TERM OBJECTIVES. THEY UNDERSTAND THAT THE FASTER INFLATION COMES DOWN, THE FASTER OUTPUT AND EMPLOYMENT ARE LIKELY TO RECOVER. THE INCREASING DEGREE OF REALISM AND FLEXIBILITY IN THE ECONOMY OWES MUCH TO THE PURSUIT OF FIRM AND CONSISTENT POLICIES WITHIN THE MTFS FRAMEWORK.

25. ORIGINALLY THE MTFS COVERED FOUR YEARS. IN THIS FIRST BUDGET OF A NEW PARLIAMENT IT IS

/APPROPRIATE TO

appropriate to carry it forward for five years. So the MTFS published today in the Financial Statement and Budget Report -the Red Book - shows a continuing downward path for the monetary target ranges over the next five years, and a path for public borrowing consistent with that reduction. It takes full account of important influences such as the pattern of North Sea oil revenues, and the level of asset sales arising from the privatisation programme. For (AB) × the ~~last~~ final two years of the new MTFS, which lie beyond × the period covered in last year's Public Expenditure Survey and last month's White Paper, the Government has not yet made firm plans for public spending. But the MTFS assumption - and at present it is no more than an assumption - is that the level of public spending in 1987-88 and 1988-89 will be the same in real terms as that currently planned for 1986-87.

/The precise

26. THE PRECISE FIGURES SET OUT IN THE MTFS ARE NOT OF COURSE A RIGID FRAMEWORK, LACKING ALL FLEXIBILITY. AS IN THE PAST, THERE MAY ~~WELL~~ (PGM) NEED TO BE ADJUSTMENTS TO TAKE ACCOUNT OF CHANGING CIRCUMSTANCES. BUT NO CHANGES WILL BE MADE THAT MIGHT JEOPARDISE THE CONSISTENT PURSUIT OF THE GOVERNMENT'S OBJECTIVES.

MONETARY POLICY

27. Monetary policy will continue to play a central role. Further reductions in monetary growth are needed to achieve still lower inflation.

28. Over the twelve months to mid-February the growth of £M3 has been well within the 7-11 per cent target range, with M1 and PSL2 at or a little above the top of it. While in the early months of the target period most measures of money showed signs of accelerating, since the summer growth in all the target aggregates has been comfortably within the range. And nominal interest rates have continued to decline in line with falling inflation.

/Other evidence

29. OTHER EVIDENCE CONFIRMS THAT MONETARY CONDITIONS ARE SATISFACTORY. THE EFFECTIVE EXCHANGE RATE HAS REMAINED FAIRLY STABLE, DESPITE THE INTERNATIONAL UNCERTAINTIES WHICH I HAVE DESCRIBED.

30. IF MONETARY POLICY IS TO STAY ON TRACK ITS PRACTICAL IMPLEMENTATION MUST ADAPT TO CHANGES IN THE FINANCIAL SYSTEM AND IN THE SIGNIFICANCE OF DIFFERENT MEASURES OF MONEY. THERE IS NOTHING NEW IN THIS. OVER THE YEARS WE HAVE MORE THAN ONCE ALTERED THE TARGET RANGES AND AGGREGATES TO TAKE ACCOUNT OF SUCH CHANGES. BUT THE THRUST OF THE STRATEGY HAS BEEN MAINTAINED.

31. ONE IMPORTANT DEVELOPMENT HAS BEEN THE ATTEMPT TO GIVE A MORE EXPLICIT ROLE TO THE NARROW MEASURES OF MONEY. £M3 AND THE OTHER BROAD AGGREGATES GIVE A GOOD INDICATION OF THE GROWTH OF LIQUIDITY. BUT A LARGE PROPORTION OF THIS MONEY IS IN REALITY A FORM

/OF SAVINGS,

OF SAVINGS, INVESTED FOR THE INTEREST IT CAN EARN. IN DEFINING POLICY IT IS HELPFUL ALSO TO MAKE SPECIFIC REFERENCE TO MEASURES OF MONEY WHICH RELATE MORE NARROWLY TO BALANCES HELD FOR CURRENT SPENDING.

32. IT WAS FOR THIS REASON THAT M1 WAS INTRODUCED AS A TARGET AGGREGATE, BUT IT HAS NOT PROVED ENTIRELY SATISFACTORY FOR THAT PURPOSE. WITH THE RAPID GROWTH OF INTEREST-BEARING SIGHT DEPOSITS, M1 HAS BECOME AN INCREASINGLY POOR MEASURE OF MONEY HELD TO FINANCE CURRENT SPENDING. THE SIGNS ARE THAT THIS WILL CONTINUE.

33. OTHER MEASURES OF NARROW MONEY HAVE NOT BEEN DISTORTED TO THE SAME EXTENT. IN PARTICULAR, M0, WHICH CONSISTS MAINLY OF CURRENCY, IS LIKELY TO BE A BETTER INDICATOR ~~OF FINANCIAL CONDITIONS~~ THAN M1. THERE IS ALSO THE NEW AGGREGATE M2, WHICH WAS SPECIFICALLY DEVISED TO PROVIDE A COMPREHENSIVE MEASURE OF TRANSACTIONS BALANCES. THIS MAY ALSO BE

(PEM – it's really an indicator of narrow money – see ¶31)

/A USEFUL GUIDE

A USEFUL GUIDE BUT, BEING NEW, STILL NEEDS TO BE INTERPRETED WITH PARTICULAR CARE.

34. IN THE PAST TWO YEARS, IT HAS BEEN POSSIBLE TO SET A SINGLE TARGET RANGE FOR BOTH BROAD AND NARROW MEASURES OF MONEY. BUT THIS WILL NOT NORMALLY BE THE CASE; FOR NARROW MONETARY AGGREGATES TEND IN THE LONG RUN TO GROW MORE SLOWLY THAN BROADER MEASURES. THUS THIS YEAR'S RED BOOK SETS OUT TWO SEPARATE fc-omit [(THOUGH OVERLAPPING)] RANGES.

35. THE TARGET RANGE FOR BROAD MONEY WILL CONTINUE TO APPLY TO £M3, AND FOR THE COMING YEAR WILL BE SET AT 6-10 PER CENT, AS INDICATED IN LAST YEAR'S MTFS. THE TARGET RANGE FOR NARROW MONEY WILL APPLY TO M0 AND FOR NEXT YEAR WILL BE SET AT 4-8 PER CENT. TO AVOID ANY POSSIBLE MISUNDERSTANDING, LET ME STRESS THAT THE USE OF M0 AS A TARGET AGGREGATE WILL NOT INVOLVE ANY CHANGE IN METHODS OF MONETARY CONTROL.

/THE TWO TARGET

36. THE TWO TARGET AGGREGATES WILL HAVE EQUAL IMPORTANCE IN THE CONDUCT OF POLICY. AND THE AUTHORITIES WILL CONTINUE TO TAKE INTO ACCOUNT OTHER MEASURES OF MONEY, ESPECIALLY M2 AND PSL2, WHICH INCLUDE BUILDING SOCIETY LIABILITIES, AS WELL AS WIDER EVIDENCE OF FINANCIAL CONDITIONS, INCLUDING THE EXCHANGE RATE. AS IN THE PAST, MONETARY CONDITIONS WILL BE KEPT UNDER CONTROL BY AN FC APPROPRIATE COMBINATION OF fiscal policy FUNDING AND OPERATIONS IN THE MONEY MARKET.

37. SO FAR AS FUNDING IS CONCERNED, THE PUBLIC SECTOR'S BORROWING REQUIREMENT, AS I SHALL SHORTLY EXPLAIN, WILL BE SIGNIFICANTLY LOWER IN THE COMING (AB) YEAR. IN FINANCING IT, THE ROLE OF ~~THE~~ NATIONAL SAVINGS WILL REMAIN IMPORTANT. THIS YEAR'S NATIONAL SAVING'S TARGET OF £3 BILLION IS LIKELY TO BE ACHIEVED: THE TARGET FOR THE COMING YEAR WILL AGAIN BE £3 BILLION.

/PRECISE MONETARY

38. PRECISE MONETARY TARGETS FOR THE LATER YEARS WILL BE DECIDED NEARER THE TIME. BUT TO GIVE A BROAD INDICATION OF THE OBJECTIVES OF MONETARY POLICY, THE NEW MTFS, LIKE PREVIOUS VERSIONS, SHOWS MONETARY RANGES FOR A NUMBER OF YEARS AHEAD. THESE RANGES ARE CONSISTENT WITH A CONTINUING DOWNWARD TREND IN INFLATION: THEY DEMONSTRATE THE GOVERNMENT'S INTENTION TO MAKE FURTHER PROGRESS TOWARDS STABLE PRICES.

PUBLIC SECTOR BORROWING

39. I TURN NOW TO PUBLIC BORROWING. JUST AS THE CLASSICAL FORMULA FOR FINANCIAL DISCIPLINE -THE GOLD STANDARD AND THE BALANCED BUDGET - HAD BOTH A MONETARY AND A FISCAL COMPONENT, SO DOES THE MEDIUM TERM FINANCIAL STRATEGY.

40. THE MTFS HAS ALWAYS ENVISAGED THAT THE PUBLIC SECTOR BORROWING REQUIREMENT WOULD FALL AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT OVER THE MEDIUM TERM. BY 1981-82 WE HAD BROUGHT IT DOWN TO 3½ PER CENT OF GDP.

41. SINCE THEN THERE HAS BEEN LITTLE FURTHER FALL. THE LATEST ESTIMATE OF THE PSBR FOR THE CURRENT YEAR, 1983-84, REMAINS WHAT IT WAS IN NOVEMBER:

/AROUND £10 BILLION

AROUND £10 BILLION, EQUIVALENT TO 3¼ PER CENT OF GDP. THIS IS SIGNIFICANTLY ABOVE WHAT WAS INTENDED AT THE TIME OF LAST YEAR'S BUDGET, AND WOULD OF COURSE HAVE BEEN HIGHER STILL HAD IT NOT BEEN FOR THE JULY MEASURES.

42. WE NOW NEED A FURTHER SUBSTANTIAL REDUCTION IN BORROWING, IN ORDER TO HELP BRING INTEREST RATES DOWN FURTHER AS MONETARY GROWTH SLOWS DOWN. STERLING INTEREST RATES ARE, OF COURSE, ALSO INFLUENCED BY DOLLAR INTEREST RATES; BUT THAT MAKES IT ALL THE MORE IMPORTANT TO CURB DOMESTIC PRESSURES. IN CONTRAST TO VIRTUALLY THE WHOLE OF THE POST-WAR PERIOD, UK LONGER-TERM RATES ARE NOW FL ~~LONGER~~ LOWER THAN AMERICAN RATES. AS LONG AS AMERICAN RATES REMAIN NEAR THEIR CURRENT LEVEL, IT IS HIGHLY DESIRABLE THAT THIS ADVANTAGE BE MAINTAINED.

43. THE HIGHER LEVEL OF ASSET SALES WE ARE PLANNING AS THE PRIVATISATION PROGRAMME GATHERS PACE IS A

/FURTHER REASON

FURTHER REASON FOR REDUCING THE PSBR SIGNIFICANTLY IN THE COMING YEAR. ASSET SALES REDUCE THE GOVERNMENT'S NEED TO BORROW. BUT THEIR EFFECT ON INTEREST RATES MAY BE LESS THAN THE EFFECT OF MOST OTHER REDUCTIONS IN GOVERNMENT SPENDING PROGRAMMES.

44. LAST YEAR'S MTFS SHOWED AN ILLUSTRATIVE PSBR FOR 1984-85 OF 2½ PER CENT OF GDP, EQUIVALENT TO (DN) AROUND £8 B~~M~~ILLION. BUT I BELIEVE THAT IT IS POSSIBLE, AND INDEED PRUDENT, TO AIM FOR A SOMEWHAT LOWER FIGURE. I AM THEREFORE PROVIDING FOR A PSBR NEXT YEAR OF 2¼ PER CENT OF GDP, OR £7¼ BILLION.

45. THE HOUSE WILL RECALL THAT IN NOVEMBER I WARNED THAT ON CONVENTIONAL ASSUMPTIONS, INCLUDING THE 1983 RED BOOK'S PSBR FIGURE OF £8 BILLION FOR NEXT YEAR, I MIGHT HAVE TO INCREASE TAXES SLIGHTLY IN THE BUDGET. I AM GLAD TO REPORT THAT THE LATEST, AND MORE BUOYANT, FORECASTS OF TAX REVENUE IN THE COMING YEAR HAVE IMPROVED THE PICTURE. A PSBR OF

/£7¼ BILLION

£7¼ BILLION WILL REQUIRE NO OVERALL NET INCREASE IN (AB) TAXATION.

46. MOREOVER, WHILE THE MEASURES I SHALL SHORTLY ANNOUNCE WILL, AFTER INDEXATION, BE BROADLY NEUTRAL IN THEIR EFFECTS ON REVENUE IN 1984-85, THEY WILL REDUCE TAXATION IN 1985-86 BY WELL OVER £1¾ BILLION. AND THE MTFS PUBLISHED TODAY SHOWS THAT THERE SHOULD BE ROOM FOR FURTHER TAX CUTS NOT ONLY IN 1985-86, BUT THROUGHOUT THE REMAINDER OF THIS PARLIAMENT, PROVIDED THAT WE STICK FIRMLY TO OUR PUBLISHED PLANS FOR PUBLIC EXPENDITURE TO 1986-87, AND MAINTAIN AN EQUALLY FIRM CONTROL OF PUBLIC SPENDING THEREAFTER.

as the PSBR falls as a proportion of GDP (PEM)

PUBLIC EXPENDITURE

47. THE PUBLIC EXPENDITURE WHITE PAPER SETTING OUT OUR SPENDING PLANS FOR THE NEXT THREE YEARS WAS APPROVED BY THE HOUSE LAST WEEK. TODAY I WANT TO CONSIDER THE IMPORTANT ISSUE OF GOVERNMENT SPENDING IN A RATHER WIDER PERSPECTIVE.

48. FOR FAR TOO LONG, PUBLIC SPENDING HAS GROWN FASTER THAN THE ECONOMY AS A WHOLE. AS A RESULT, THE TAX BURDEN HAS STEADILY INCREASED AND INCOME TAX HAS EXTENDED STEADILY LOWER DOWN THE ~~WAGE~~ INCOME SCALE. (AB)

49. WE HAVE SEEN A MASSIVE ENLARGEMENT IN THE ROLE OF THE STATE, AT THE EXPENSE OF THE INDIVIDUAL, AND A CORRESPONDING INCREASE IN THE DEAD WEIGHT OF TAXATION HOLDING BACK OUR ECONOMIC PROGRESS AS A NATION.

/THIS PROCESS

(AB) 50. THIS PROCESS ~~HAS~~ HAD TO STOP. BUT IT HAS ARISEN BECAUSE MUCH PUBLIC SPENDING IS DIRECTED TO EMINENTLY DESIRABLE ENDS. THIS RAISES DIFFICULT ISSUES WHICH DESERVE THE WIDEST POSSIBLE CONSIDERATION AND DEBATE.

51. THE GOVERNMENT IS THEREFORE PUBLISHING TODAY, IN ADDITION TO THE CUSTOMARY BUDGET DOCUMENTS, A GREEN PAPER ON THE PROSPECTS FOR PUBLIC SPENDING AND TAXATION OVER THE NEXT TEN YEARS. IT EXAMINES PAST TRENDS; DISCUSSES THE PRESSURES FOR STILL HIGHER SPENDING; AND EXAMINES THE REWARDS FOR THE INDIVIDUAL AND THE BENEFITS FOR THE ECONOMY IF THESE PRESSURES CAN BE CONTAINED.

Proper title? (AB)

52. THE GREEN PAPER CONCLUDES THAT, WITHOUT FIRM CONTROL OVER PUBLIC SPENDING, THERE CAN BE NO PROSPECT OF BRINGING THE BURDEN OF TAX BACK TO MORE REASONABLE LEVELS. ON THE ASSUMPTIONS MADE IN THE GREEN PAPER, THE BURDEN OF TAXATION WILL BE REDUCED

/TO THE LEVELS

TO THE LEVELS OF THE EARLY 1970s ONLY IF PUBLIC SPENDING IS KEPT BROADLY STABLE IN REAL TERMS OVER THE NEXT TEN YEARS.

53. THE GOVERNMENT BELIEVES THAT THE ISSUES DISCUSSED IN THE GREEN PAPER MERIT THE ATTENTION OF THE HOUSE AND THE COUNTRY.

54. IN CONTRAST TO PREVIOUS YEARS, I HAVE NO PACKAGE OF PUBLIC EXPENDITURE MEASURES TO ANNOUNCE IN THIS BUDGET. THE WHITE PAPER PLANS STAND.

55. I CAN HOWEVER MAKE ONE ANNOUNCEMENT, WHICH I THINK THE HOUSE WILL WELCOME. WITHIN THE PUBLISHED PLANS THE GOVERNMENT HAVE BEEN ABLE TO PROVIDE THE NATIONAL HERITAGE MEMORIAL FUND WITH ADDITIONAL RESOURCES WHICH WILL ENABLE THEM AMONG OTHER THINGS TO SECURE THE FUTURE OF CALKE ABBEY. MY RT HON FRIEND THE SECRETARY OF STATE FOR THE ENVIRONMENT WILL BE ANNOUNCING THE DETAILS SHORTLY.

/THE HOUSE WILL

56. The House will recall that proposals for the new rates of social security benefit to come into force in November are not now made at the time of the Budget. Following last year's legislation to return to the historic method of uprating, price protection is measured by reference to the Retail Price Index for May. My Rt Hon Friend the Secretary of State for Social Services will be announcing the new rates of social security benefits, including Child Benefit, when the May RPI is known.

57. Before leaving Government spending, I should add a word on public sector manpower. At the beginning of the last Parliament, the Government set itself the target of reducing the size of the Civil Service from 732,000 in April 1979 to 630,000 by April of this year. That target will be achieved. We have now set ourselves the further target of 593,000 by April 1988. I am confident that a

/smaller Civil

smaller Civil Service will continue to improve its efficiency. The tax changes I shall be announcing today will reduce manpower requirements by at least 1,000 in my own Departments, which will help towards meeting the 1988 target.

TAX REFORM

58. I MENTIONED AT THE OUTSET THAT THIS WILL BE A RADICAL, TAX-REFORMING, BUDGET. IT WILL ALSO SIGNIFICANTLY REDUCE THE OVERALL BURDEN OF TAX OVER THE NEXT TWO YEARS TAKEN TOGETHER. AND I HOPE TO HAVE SCOPE FOR FURTHER REDUCTIONS IN ~~SUBSEQUENT~~ FUTURE (AB) BUDGETS.

59. MY PROPOSALS FOR REFORM ARE GUIDED BY TWO BASIC PRINCIPLES. FIRST, THE NEED TO MAKE CHANGES THAT WILL IMPROVE OUR ECONOMIC PERFORMANCE OVER THE LONGER TERM. SECOND, THE DESIRE TO MAKE LIFE A LITTLE SIMPLER FOR THE TAXPAYER.

60. BUT I AM WELL AWARE THAT THE TAX REFORMER'S PATH IS A STONY ONE. ANY CHANGE IN THE SYSTEM IS BOUND, AT LEAST IN THE SHORT TERM, TO BRING BENEFITS

/TO SOME AND

TO SOME AND DISADVANTAGES TO OTHERS. AND THE DISAPPROVAL OF THE LATTER GROUP TENDS TO BE RATHER MORE AUDIBLE THAN THE MURMURINGS OF SATISFACTION FROM THE FORMER.

61. SOME COMMENTATORS HAVE SUGGESTED THAT OUR ENTIRE INCOME-BASED TAX SYSTEM SHOULD BE REPLACED WITH AN EXPENDITURE-BASED SYSTEM. EVEN IF A ROOT-AND-BRANCH CHANGE OF THIS KIND WERE DESIRABLE, IT WOULD, I BELIEVE, BE WHOLLY IMPRACTICAL AND UNREALISTIC.

62. BUT I DO NOT BELIEVE WE CAN AFFORD TO OPT FOR THE QUIET LIFE AND DO NOTHING. SO I HAVE CHOSEN THE MIDDLE WAY: TO INTRODUCE REFORMS, SOME OF THEM OF A MAJOR NATURE, WITHIN THE FRAMEWORK OF OUR EXISTING INCOME-BASED SYSTEM. I SHALL ALSO BE PROPOSING TRANSITIONAL ARRANGEMENTS WHERE I BELIEVE IT FAIR AND APPROPRIATE TO DO SO.

/THE CHANGES

63. THE CHANGES I SHALL BE PROPOSING TODAY FALL INTO THREE BROAD CATEGORIES. THESE ARE THE TAXATION OF SAVINGS AND INVESTMENT, BUSINESS TAXATION, AND THE TAXATION OF PERSONAL INCOME AND SPENDING.

SAVINGS AND INVESTMENT

64. First, the taxation of savings and investment. The proposals I am about to make should improve the direction and quality of both. And they will contribute further to the creation of a property-owning and share-owing democracy, in which more decisions are made by individuals rather than by intermediary institutions.

65. I start with stamp duty. This was doubled from its long-standing 1 per cent by the post-war Labour Government in 1947, reduced by the Macmillan Government in 1963, and once again doubled to 2 per cent by Labour in the first Budget presented by the Rt Hon member for Leeds East in 1974. At its present level it is an impediment to mobility and

INCOMPATIBLE WITH THE FORCES OF COMPETITION NOW AT WORK IN THE CITY, FOLLOWING THE WITHDRAWAL OF THE STOCK EXCHANGE CASE FROM THE RESTRICTIVE PRACTICES COURT.

66. I THEREFORE PROPOSE TO HALVE THE RATE OF STAMP DUTY TO 1 PER CENT. [WITH THE EXCEPTION OF THOSE × DOCUMENTS WHICH HAVE TO BE STAMPED BEFORE 20 MARCH, or which relate to Stock Exchange deals within the last trading account (IR) × THE CHANGE WILL ~~TAKE~~ HAVE (IR) EFFECT FROM TODAY.]

67. FOR THE HOME BUYER, THE NEW FLAT RATE 1 PER CENT STAMP DUTY WILL START AT £30,000. BELOW THIS LEVEL NO DUTY WILL BE PAYABLE. AS A RESULT OF THIS £5,000 INCREASE IN THE THRESHOLD, 90 PER CENT OF FIRST TIME HOME BUYERS WILL NOT HAVE TO PAY STAMP DUTY AT ALL.

68. REDUCING THE RATE OF DUTY ON SHARE TRANSFERS (IR) × WILL REMOVE AN IMPORTAN~~CE~~T DISINCENTIVE TO INVESTMENT IN EQUITIES AND INCREASE THE

/INTERNATIONAL

The new rate can apply straightaway to Stock Exchange deals. It will also apply from today to other transactions where documents are stamped on or after 20 March. (IR's revised version)

INTERNATIONAL COMPETITIVENESS OF OUR STOCK MARKET. IT SHOULD ALSO HELP BRITISH COMPANIES TO RAISE EQUITY FINANCE.

(~~[illegible]~~ with consequential changes

69. IN ADDITION, I HAVE ~~THREE~~ FOUR (GM) PROPOSALS TO ENCOURAGE THE ISSUE OF CORPORATE BONDS. I SHALL GO AHEAD WITH THE NEW ARRANGEMENTS FOR DEEP DISCOUNT STOCK AND THE RELIEFS FOR COMPANIES ISSUING EUROBONDS AND CONVERTIBLE LOAN STOCK WHICH WERE ANNOUNCED BUT NOT ENACTED LAST YEAR. AND I PROPOSE TO EXEMPT FROM CAPITAL GAINS TAX MOST CORPORATE FIXED INTEREST SECURITIES PROVIDED THEY ARE HELD FOR MORE THAN A YEAR. SINCE SUCH SECURITIES ARE ALREADY EXEMPT FROM STAMP DUTY THIS MEANS THAT THE TAX CONCESSIONS FOR PRIVATE SECTOR BORROWING IN THE CORPORATE BOND MARKET WILL NOW BE VIRTUALLY THE SAME AS FOR GOVERNMENT BORROWING IN THE GILT-EDGED MARKET.

/THE REDUCTIONS

70. The reductions in stamp duty will cost £450 million in 1984-85, of which £160 million is the cost of the relief on share transfers, and £290 million the cost of the relief on transfers of houses and other buildings and land.

71. Next, life assurance. The main effect of Life Assurance Premium Relief today is unduly to favour institutional rather than direct investment. It has also spawned a multiplicity of well-advertised tax management schemes. I therefore propose to withdraw the relief on all new contracts made after today. I stress that this change will apply only to new (or newly enhanced) policies, taken out or increased after today. Existing policies will not be affected at all. The change is estimated to yield about £90 million in 1984-85.

There are less than 20 pages of statute to provide for the relief and 50 to deal with its abuse.

IR

72. I am also proposing to withdraw the special - but unfortunately widely abused - privileges for

/what are known

WHAT ARE KNOWN AS 'TAX EXEMPT' FRIENDLY SOCIETIES, AND BRING THEM INTO LINE WITH THE NORMAL RULES FOR FRIENDLY SOCIETIES DOING 'MIXED' BUSINESS. HOWEVER THE LIMITS WITHIN WHICH IN FUTURE ALL FRIENDLY SOCIETIES WILL BE ABLE TO WRITE ASSURANCE ON A TAX EXEMPT BASIS WILL BE INCREASED FROM £500 TO £750.

73. I HAVE ALSO REVIEWED THE TAX TREATMENT OF DIRECT PERSONAL INVESTMENT. THE INVESTMENT INCOME SURCHARGE IS AN UNFAIR AND ANOMALOUS TAX ON SAVINGS AND ON THE REWARDS OF SUCCESSFUL ENTERPRISE. IT HITS THE SMALL BUSINESSMAN WHO REACHES RETIREMENT WITHOUT THE CUSHION OF A COMPANY PENSION SCHEME, AND IMPEDES THE CREATION OF FARM TENANCIES. IN THE VAST MAJORITY OF CASES IT IS A TAX ON SAVINGS MADE OUT OF HARD-EARNED AND FULLY-TAXED INCOME. MORE THAN HALF OF THOSE WHO PAY THE INVESTMENT INCOME SURCHARGE ARE OVER 65, AND OF THESE HALF WOULD OTHERWISE BE LIABLE TO TAX AT ONLY THE BASIC RATE.

/I HAVE THEREFORE

74. I HAVE THEREFORE DECIDED THAT THE INVESTMENT INCOME SURCHARGE SHOULD BE ABOLISHED. THE COST IN 1984-85 WILL BE SOME £25 MILLION, BUILDING UP TO £360 MILLION IN A FULL YEAR.

(IR) around £350

75. FINALLY, I PROPOSE TO DRAW MORE CLOSELY TOGETHER THE TAX TREATMENT OF DEPOSITORS IN BANKS AND BUILDING SOCIETIES. THESE INSTITUTIONS COMPETE IN THE SAME MARKET FOR PERSONAL DEPOSITS. I BELIEVE THAT THEY SHOULD BE ABLE TO DO SO ON MORE EQUAL TERMS AS FAR AS TAX IS CONCERNED. ONE SOURCE OF UNEQUAL TREATMENT HAS ALREADY BEEN REMOVED, WITH THE RECENT CHANGE MADE ON LEGAL ADVICE IN THE TAX TREATMENT OF BUILDING SOCIETIES' PROFITS FROM GILT-EDGED SECURITIES. THEY ARE NOW TREATED IN THE SAME WAY AS THOSE OF THE BANKS HAVE ALWAYS BEEN.

/BUT THE MAJOR

76. BUT THE MAJOR SOURCE OF UNEQUAL TREATMENT, AGAINST WHICH THE BANKS IN PARTICULAR HAVE FREQUENTLY COMPLAINED, IS THE SPECIAL ARRANGEMENT FOR INTEREST PAID BY BUILDING SOCIETIES. THE SOCIETIES PAY TAX AT A SPECIAL RATE - THE "COMPOSITE RATE" -ON THE INTEREST PAID TO THE DEPOSITOR, WHO RECEIVES CREDIT FOR INCOME TAX AT THE FULL BASIC RATE.

77. THIS SYSTEM, WHICH HAS WORKED WELL FOR THE PAST 90 YEARS, HAS BOTH AN ADVANTAGE AND A DISADVANTAGE. THE DISADVANTAGE IS THAT A MINORITY OF DEPOSITORS, WHO ARE BELOW THE INCOME TAX THRESHOLD, STILL ~~HAVE~~ PAY TAX ~~DEDUCTED~~ AT THE COMPOSITE RATE. IT HAS NOT HOWEVER STOPPED MANY OF THEM USING BUILDING SOCIETIES BECAUSE OF THE COMPETITIVE RATES THEY HAVE OFFERED. THE ADVANTAGE OF THE SCHEME IS ITS EXTREME SIMPLICITY, PARTICULARLY FOR THE TAXPAYER; MOST TAXPAYERS ARE SPARED THE BOTHER OF PAYING TAX ON INTEREST THROUGH PAYE OR INDIVIDUAL ASSESSMENT,

(GR)

/WHILE THE REVENUE

WHILE THE REVENUE ARE SPARED THE NEED TO RECRUIT UP TO 2000 EXTRA STAFF TO COLLECT THE TAX DUE ON INTEREST PAID WITHOUT DEDUCTION.

78. IN COMMON WITH MY PREDECESSORS OF ALL PARTIES OVER THE PAST 90 YEARS, I AM SATISFIED THAT THE ADVANTAGE OF THE COMPOSITE RATE ARRANGEMENT OUTWEIGHS THE DISADVANTAGE. IT FOLLOWS THAT EQUAL TREATMENT OF BUILDING SOCIETIES AND BANKS SHOULD BE ACHIEVED, NOT BY REMOVING THE COMPOSITE RATE FROM THE SOCIETIES, BUT BY EXTENDING IT TO THE BANKS AND OTHER LICENSED DEPOSIT TAKERS.

79. NON-TAXPAYERS WILL CONTINUE TO BE ABLE TO RECEIVE INTEREST GROSS, SHOULD THEY WISH TO DO SO, BY PUTTING THEIR MONEY INTO APPROPRIATE NATIONAL SAVINGS FACILITIES. BUT THE PURPOSE OF THE MOVE IS NOT, OF COURSE, TO ATTRACT SAVINGS INTO GOVERNMENT HANDS: AS I HAVE ALREADY ANNOUNCED, NEXT YEAR'S TARGET FOR NATIONAL SAVINGS WILL BE THE SAME AS THIS

So noone need receive interest on his or her
savings on less favourable terms
than at present (PEM)

/YEAR'S AND

YEAR'S AND LAST YEAR'S; AND THE TOTAL GOVERNMENT APPETITE FOR SAVINGS, WHICH IS MEASURED BY THE SIZE OF THE PUBLIC SECTOR BORROWING REQUIREMENT, IS BEING SIGNIFICANTLY REDUCED. (IR queried dropping reduction in limits)

80. THE TRUE PURPOSE OF THE MOVE IS SIMPLE: FAIRER COMPETITION AND SIMPLICITY ITSELF. GM ~~UNLESS THEY ARE~~ THE GREAT MAJORITY OF ~~HIGHER RATE~~ TAXPAYERS, INDIVIDUAL BANK CUSTOMERS WILL, WHEN IT COMES TO TAX, BE ABLE TO FORGET ABOUT BANK INTEREST ALTOGETHER, FOR ALL THE TAX DUE ON IT WILL ALREADY HAVE BEEN PAID. AND IT WILL BE EASIER FOR PEOPLE TO COMPARE THE TERMS OFFERED FOR THEIR SAVINGS BY BANKS AND BUILDING SOCIETIES. [THERE WILL BE NO DIRECT GAIN TO THE EXCHEQUER. HOWEVER,] THE INLAND REVENUE WILL BE ABLE TO MAKE STAFF SAVINGS OF UP TO AN ~~EXTRA~~ 1000 CIVIL SERVANTS. MOREOVER, THIS FIGURE TAKES NO ACCOUNT OF THE SUBSTANTIAL NUMBERS OF ADDITIONAL INLAND REVENUE STAFF WHO WOULD HAVE BEEN REQUIRED TO OPERATE THE PRESENT SYSTEM AS THE TREND TOWARDS THE PAYMENT OF INTEREST ON CURRENT ACCOUNTS DEVELOPS.

(IR)

/MOST

or keep to original but insert "most" before individual (GM)

– IR – not true & inconsistent with FSBR so omit

AB

/ACCORDINGLY,

81. Accordingly, I propose to extend the composite rate arrangements to interest received by UK resident individuals from banks and other licensed deposit takers with effect from 1985-86. The composite rate will not apply either to non-residents or to the corporate sector. Arrangements will also be made to exclude from the scheme Certificates of Deposit and Time Deposits of £50,000 or more.

82. Taken together, the major proposals I have just announced on stamp duty, life assurance premium relief, the investment income surcharge, and the composite rate, coupled with other minor proposals, will provide a simpler and more straightforward tax system for savings and investment. They will remove biases which have discouraged the individual saver from investing directly in industry. And they will reinforce the Government's policy of encouraging competition in the financial sector, as in the economy as a whole. And they are part of a package of measures designed to enable interest rates to fall and reduce the cost of borrowing (PEM)

BUSINESS TAXATION

83. I NOW TURN TO BUSINESS TAXATION. HERE, GOVERNMENT HAS TWO RESPONSIBILITIES TOWARDS BRITISH BUSINESS AND INDUSTRY. THE FIRST IS TO ENSURE THAT THEY DO NOT HAVE TO BEAR AN EXCESSIVE BURDEN OF TAXATION. THE SECOND IS TO ENSURE THAT, GIVEN A PARTICULAR BURDEN, IT IS STRUCTURED IN THE WAY THAT DOES LEAST DAMAGE TO THE NATION'S ECONOMIC PERFORMANCE.

84. THE MEASURES I AM ANNOUNCING TODAY WILL, TAKING THE NEXT TWO YEARS TOGETHER, RESULT IN A SUBSTANTIAL REDUCTION IN THE BURDEN OF TAXATION ON BRITISH BUSINESS. AND IN ADDITION I SHALL BE PROPOSING A FAR-REACHING REFORM OF ~~THE STRUCTURE~~ OF COMPANY TAXATION.

(IR attach imptce
- see note)

/RESPONSES TO THE

85. Responses to the Corporation Tax Green Paper in 1982 showed a strong general desire to retain the imputation system. I accept that. But other changes are needed.

86. The current rates of Corporation Tax are far too high, penalising profit and success, and blunting the cutting edge of enterprise. They are the product of too many special reliefs, indiscriminately applied and of diminishing relevance to the conditions of today. Some of these reliefs reflect economic priorities or circumstances which have long vanished, and now serve only to distort investment decisions and choices about finance. Others were introduced to meet short-term pressures, notably the upward surge of inflation. With inflation down to today's low levels, this is clearly the time to take a fresh look. And with unemployment as high as it is today, it is particularly difficult to justify a tax system

/which encourages

WHICH ENCOURAGES LOW-YIELDING OR EVEN LOSS-MAKING INVESTMENT AT THE EXPENSE OF JOBS.

87. MY PURPOSE THEREFORE IS TO PHASE OUT SOME UNNECESSARY RELIEFS, IN ORDER TO BRING ABOUT, OVER TIME, A MARKEDLY LOWER RATE OF TAX ON COMPANY PROFITS.

88. FIRST, CAPITAL ALLOWANCES. OVER VIRTUALLY THE WHOLE OF THE POST-WAR PERIOD THERE HAVE BEEN INCENTIVES FOR INVESTMENT IN BOTH PLANT AND MACHINERY AND INDUSTRIAL (THOUGH NOT COMMERCIAL) BUILDINGS. BUT THERE IS LITTLE EVIDENCE THAT THESE INCENTIVES HAVE STRENGTHENED THE ECONOMY OR IMPROVED THE QUALITY OF INVESTMENT. QUITE THE CONTRARY: THE EVIDENCE SUGGESTS THAT BUSINESSES HAVE INVESTED SUBSTANTIALLY IN ASSETS YIELDING A LOWER RATE OF RETURN THAN THE INVESTMENTS MADE BY OUR PRINCIPAL COMPETITORS. TOO MUCH OF BRITISH INVESTMENT HAS BEEN MADE BECAUSE THE TAX ALLOWANCES

/MAKE IT LOOK

MAKE IT LOOK PROFITABLE, RATHER THAN BECAUSE IT WOULD BE TRULY PRODUCTIVE. WE NEED INVESTMENT DECISIONS BASED ON FUTURE MARKET ASSESSMENTS, NOT FUTURE TAX ASSESSMENTS.

89. I PROPOSE TO RESTRUCTURE THE CAPITAL ALLOWANCES IN THREE ANNUAL STAGES. IN THE CASE OF PLANT AND MACHINERY, AND ASSETS WHOSE ALLOWANCES ARE LINKED WITH THEM, THE FIRST YEAR ALLOWANCE WILL BE REDUCED FROM 100 PER CENT TO 75 PER CENT FOR ALL SUCH EXPENDITURE INCURRED AFTER TODAY, AND TO 50 PER CENT FOR EXPENDITURE INCURRED AFTER 31 MARCH NEXT YEAR. AFTER 31 MARCH 1986 THERE WILL BE NO FIRST YEAR ALLOWANCES, AND ALL EXPENDITURE ON PLANT AND MACHINERY WILL QUALIFY FOR ANNUAL ALLOWANCES ON A 25 PER CENT REDUCING BALANCE BASIS.

1985 GM/IR

90. IN ADDITION, FROM [NEXT YEAR] ANNUAL ALLOWANCES WILL BE GIVEN AS SOON AS THE EXPENDITURE IS INCURRED, AND NOT, AS THEY ARE TODAY, WHEN THE ASSET

/COMES INTO USE.

COMES INTO USE. THIS WILL BRING FORWARD THE ENTITLEMENT TO ANNUAL ALLOWANCES FOR THOSE ASSETS, SUCH AS SHIPS AND OIL RIGS, FOR WHICH SOME PAYMENT IS NORMALLY MADE WELL BEFORE THEY ARE BROUGHT INTO USE.

~~91.~~ FOR INDUSTRIAL BUILDINGS, I PROPOSE THAT THE INITIAL ALLOWANCE SHOULD FALL FROM 75 PER CENT TO 50 PER CENT FROM TONIGHT, AND BE FURTHER REDUCED TO 25 PER CENT FROM 31 MARCH NEXT YEAR. AFTER 31 MARCH 1986 THE INITIAL ALLOWANCE WILL BE ABOLISHED, AND EXPENDITURE WILL BE WRITTEN OFF ON AN ANNUAL 4 PER CENT STRAIGHT LINE BASIS. I SHOULD ADD THAT, WHEN THESE CHANGES HAVE ALL TAKEN PLACE, TAX ALLOWANCES FOR BOTH PLANT AND MACHINERY AND INDUSTRIAL BUILDINGS WILL STILL ON AVERAGE BE RATHER MORE GENEROUS THAN WOULD BE PROVIDED BY A STRICT SYSTEM OF [ECONOMIC] DEPRECIATION.

commercial — IR feel strongly. economic depreciation implies replacement cost.. on that basis, sentence is <u>wrong</u>

/THE CHANGES

92. THE CHANGES IN THE RATES OF ALLOWANCES WILL NOT APPLY TO PAYMENTS UNDER BINDING CONTRACTS ENTERED INTO ON OR BEFORE TODAY, PROVIDED THAT THE EXPENDITURE IS INCURRED WITHIN THE NEXT THREE YEARS.

93. THERE WILL BE TRANSITIONAL TAX ARRANGEMENTS FOR CERTAIN INVESTMENT PROJECTS IN THE DEVELOPMENT AREAS AND SPECIAL DEVELOPMENT AREAS. WHEN A PROJECT IN THOSE AREAS HAS HAD AN OFFER OF INDUSTRY ACT SELECTIVE FINANCIAL ASSISTANCE AND ALSO ATTRACTS REGIONAL DEVELOPMENT GRANTS, THE EXISTING CAPITAL ALLOWANCES WILL CONTINUE TO APPLY TO THE EXPENDITURE TO WHICH THE SELECTIVE ASSISTANCE IS RELATED. THESE ARRANGEMENTS WILL COVER PROJECTS FOR WHICH OFFERS HAVE ALREADY BEEN MADE BETWEEN 1 APRIL 1980 AND TODAY. SIMILAR ARRANGEMENTS FOR REGIONAL DEVELOPMENT GRANTS WERE ANNOUNCED BY MY RT. HON. FRIEND THE SECRETARY OF STATE FOR TRADE AND INDUSTRY IN HIS WHITE PAPER LAST DECEMBER.

/OVER THE SAME

94. OVER THE SAME PERIOD TO 31 MARCH 1986 MOST OTHER CAPITAL ALLOWANCES WILL BE BROUGHT INTO LINE WITH THE MAIN CHANGES I HAVE ANNOUNCED. THE INLAND REVENUE WILL BE ISSUING A PRESS NOTICE TONIGHT GIVING FULL DETAILS OF THESE PROPOSALS.

95. NEXT, STOCK RELIEF. AS THE HOUSE WILL RECALL, THIS WAS INTRODUCED BY THE LAST LABOUR GOVERNMENT AS A FORM OF EMERGENCY HELP TO BUSINESSES FACING THE RAVAGES OF HIGH INFLATION. THOSE DAYS ARE PAST; AND THE RELIEF IS NO LONGER NECESSARY. ~~COMPANY~~ (IR) non-incorporated business has LIQUIDITY HAS IMPROVED AND, ABOVE ALL, INFLATION HAS FALLEN SHARPLY. ACCORDINGLY, I PROPOSE TO ABOLISH STOCK RELIEF FROM THIS MONTH.

96. THE CHANGES I HAVE JUST ANNOUNCED, IN CAPITAL ALLOWANCES AND STOCK RELIEF, ENABLE ME TO EMBARK ON A MAJOR PROGRAMME OF PROGRESSIVE REDUCTIONS IN THE MAIN RATE OF CORPORATION TAX. FOR PROFITS EARNED IN THE YEAR JUST ENDING, ON WHICH TAX IS GENERALLY

/PAYABLE IN

PAYABLE IN 1984-85, THE RATE WILL BE CUT FROM 52 PER CENT TO 50 PER CENT. FOR PROFITS EARNED IN 1984-85 THE RATE WILL BE FURTHER CUT TO 45 PER CENT. LOOKING FURTHER AHEAD, TO PROFITS EARNED IN 1985-86, THE RATE WILL GO DOWN TO 40 PER CENT; AND FOR PROFITS EARNED IN 1986-87 THE MAIN RATE OF CORPORATION TAX WILL BE 35 PER CENT - NO LESS THAN 17 PERCENTAGE POINTS BELOW THE CURRENT RATE.

97. ALL THESE RATES FOR THE YEARS AHEAD WILL BE INCLUDED IN THIS YEAR'S FINANCE BILL. AND WHEN THESE CHANGES ARE COMPLETE, OUR RATES OF CAPITAL ALLOWANCES FOR THE GENERALITY OF PLANT AND MACHINERY WILL BE COMPARABLE WITH THOSE IN MOST OTHER COUNTRIES, WHILE THE RATE OF TAX WILL BE SIGNIFICANTLY LOWER.

98. THE SUBSTANTIAL REDUCTION IN THE RATE OF CORPORATION TAX WILL BRING A FURTHER BENEFIT. OUR

/IMPUTATION SYSTEM

imputation system allows a company to offset in full all interest paid. But only a partial offset for dividends is allowed. Companies thus have a clear incentive to finance themselves through borrowing, in particular bank borrowing, rather than by raising equity capital. The closer the Corporation Tax rate comes to the basic rate of income tax, the smaller this undesirable distortion becomes.

99. Of course, the majority of companies are not liable to pay the main rate of Corporation Tax at all. For them it is the small companies' rate, at present 38 per cent, which applies. I propose to reduce this rate forthwith to 30 per cent, for profits earned in 1983-84 and thereafter. A tax regime for small companies which is already generous by international standards will thus become markedly more generous.

/The Corporation

100. The Corporation Tax measures I have just announced will cost £280 million in 1984-85. In 1985-86 the cost will be £450 million - made up of £1,100 million by way of reductions in the rates, only partially offset by a £650 million reduction in the value of the reliefs. During the transitional period as a whole, these measures should have a broadly neutral effect on the financial position of companies. But when the changes have fully worked through, companies will enjoy very substantial reductions in the tax they pay.

101. Business and industry can go ahead confidently on the basis of the Corporation Tax rates I have announced today, which set the framework of company taxation for the rest of this Parliament.

102. Over the next two years, these changes will cause some investment to be brought forward, to take advantage of high first year capital allowances

/ - A PROSPECT MADE

- A PROSPECT MADE ALL THE MORE ALLURING FOR BUSINESS SINCE THE PROFITS EARNED WILL BE TAXED AT THE NEW, LOWER, RATES. BUT THE MORE IMPORTANT AND LASTING EFFECT WILL BE TO ENCOURAGE THE SEARCH FOR INVESTMENT PROJECTS WITH A GENUINELY WORTHWHILE RETURN, AND TO DISCOURAGE UNECONOMIC INVESTMENT.

103. IT IS DOUBTFUL WHETHER IT WAS EVER REALLY SENSIBLE TO SUBSIDISE CAPITAL INVESTMENT IRRESPECTIVE OF THE TRUE RATE OF RETURN. CERTAINLY, WITH OVER THREE MILLION UNEMPLOYED IT CANNOT MAKE SENSE TO DO SO.

104. THESE CHANGES HOLD OUT AN EXCITING OPPORTUNITY FOR BRITISH INDUSTRY AS A WHOLE: AN OPPORTUNITY FURTHER TO IMPROVE ITS PROFITABILITY, AND TO EXPAND, BUILDING ON THE RECOVERY THAT IS ALREADY WELL UNDER WAY. HIGHER PROFITS AFTER TAX WILL ENCOURAGE AND REWARD ENTERPRISE, STIMULATE INNOVATION IN ALL ITS FORMS, AND CREATE MORE JOBS.

/I NOW TURN

105. I now turn to some more detailed measures affecting business.

106. The Business Expansion Scheme, introduced last year as a successor to the Business Start Up Scheme, has been widely welcomed as a highly imaginative scheme for encouraging individuals to invest in small companies. It is already proving a considerable success. It now needs time to settle down, and I have only one change to propose this year.

107. The scheme was designed to offer generous incentives for investment by new or expanding companies in high risk areas. The ownership of farmland cannot be said to fall within this category, and I therefore propose that from ~~today~~ tomorrow (IR) farming should cease to be treated as a qualifying trade under the scheme.

/Next, in keeping

108. Next, in keeping with what I have said about removing distortions, I propose to abolish two reliefs in the personal tax field which were introduced at a time when this country suffered from excessively high rates of income tax. As we have reduced those rates, the reliefs are no longer justified.

109. The first distortion is the 50 per cent tax relief (falling after 9 years to 25 per cent) applied to the emoluments of foreign-domiciled employees working here for foreign employers. These employees are often paying much less tax here than they would either in their own country or in most other European countries. At present income tax rates, the need for this relief has clearly disappeared. Moreover, it is open to widespread abuse. It is, for example, possible for the son of an immigrant, working here for a foreign company, to enjoy this relief even if he has lived in this

/country all his

COUNTRY ALL HIS LIFE. I THEREFORE PROPOSE TO WITHDRAW THE RELIEF FOR ALL NEW CASES FROM TODAY. FOR EXISTING BENEFICIARIES, THE 25 PER CENT RELIEF WILL CEASE ON 6 APRIL, AND THE 50 PER CENT RELIEF WILL BE PHASED OUT OVER THE NEXT FIVE YEARS.

110. I ALSO PROPOSE TO WITHDRAW THE FOREIGN EARNINGS RELIEF FOR UNITED KINGDOM RESIDENTS WHO WORK AT LEAST 30 DAYS ABROAD IN A TAX YEAR. THIS RELIEF TOO HARKS BACK TO THE DAYS OF PENALLY HIGH INCOME TAX RATES. IT TOO HAS BEEN EXPLOITED, IN PARTICULAR BY THOSE WHO PROLONG THEIR OVERSEAS VISITS PURELY IN ORDER TO GAIN A TAX ADVANTAGE. I PROPOSE TO WITHDRAW THE MATCHING RELIEF FOR THE SELF-EMPLOYED WHO SPEND 30 DAYS ABROAD, AND FOR THOSE RESIDENT IN THE UK WHO HAVE SEPARATE EMPLOYMENTS OR SEPARATE TRADES CARRIED ON WHOLLY ABROAD. THE RELIEF WILL BE HALVED TO 12½ PER CENT IN 1984- 85 AND REMOVED ENTIRELY FROM 6 APRIL 1985. HOWEVER, I AM NOT MAKING ANY CHANGE TO THE 100 PER

/CENT REDUCTION

CENT DEDUCTION GIVEN FOR ABSENCES ABROAD OF 365 DAYS OR MORE. IN ADDITION, I HAVE AUTHORISED CONSULTATIONS BY THE INLAND REVENUE ABOUT A POSSIBLE RELAXATION IN THE RULES GOVERNING THE TAXATION OF EXPENSES REIMBURSED TO EMPLOYEES FOR TRAVEL OVERSEAS.

111. THE ABOLITION OF THESE RELIEFS WILL EVENTUALLY YIELD REVENUE SAVINGS OF OVER £150 MILLION; AND REPRESENTS ANOTHER USEFUL STEP IN THE REMOVAL OF COMPLEXITY AND DISTORTIONS IN THE TAX SYSTEM.

112. I NEED TO SET THE CAR BENEFIT SCALES FOR 1985-86 FOR THOSE PROVIDED WITH THE USE OF A CAR BY THEIR EMPLOYER. DESPITE THE INCREASES OVER RECENT YEARS, THE LEVELS STILL FALL SHORT OF ANY REALISTIC MEASURE OF THE TRUE BENEFIT. I AM PROPOSING AN INCREASE OF 10 PER CENT IN BOTH THE CAR AND CAR FUEL SCALES WITH EFFECT FROM APRIL 1985.

/UNNECESSARILY

113. Unnecessarily high rates of tax discourage enterprise and risk taking. This is true of the capital taxes, just as it is of the corporation and income taxes. It is a matter of particular concern to those involved in running unquoted family businesses. The highest rates of capital transfer tax are far too high and badly out of line with comparable rates abroad. I propose therefore, in addition to statutory indexation, to reduce the highest rate of capital transfer tax from 75 per cent to 60 per cent. For lifetime gifts I propose to simplify the scale so that the rate is always one-half of that on death.

114. For capital gains tax I will, as promised, bring forward in the Finance Bill proposals to double the limit for retirement relief to a figure of £100,000, backdated to April 1983. A consultative document on other possible changes in this relief is being issued next week. I am

PROPOSING NO OTHER CHANGES THIS YEAR IN CAPITAL GAINS TAX BEYOND THE STATUTORY INDEXATION OF THE EXEMPT AMOUNT FROM £5,300 TO £5,600. HOWEVER, THE TAX CONTINUES TO ATTRACT CRITICISM -NOT LEAST FOR ITS COMPLEXITY - AND THAT IS A MATTER TO WHICH I HOPE TO RETURN IN A LATER YEAR.

115. WE HAVE DONE MUCH TO IMPROVE THE DEVELOPMENT LAND TAX. EARLY IN THE LAST PARLIAMENT, MY PREDECESSOR INCREASED THE THRESHOLD FROM £10,000 TO £50,000. I NOW PROPOSE A FURTHER INCREASE TO £75,000, WHICH WILL REDUCE THE NUMBER OF CASES LIABLE TO THE TAX BY MORE THAN ONE-THIRD.

116. NEXT SHARE OPTIONS. THE MEASURES INTRODUCED IN THE LAST PARLIAMENT TO IMPROVE EMPLOYEE INVOLVEMENT THROUGH PROFIT-SHARING AND SAVINGS-RELATED SHARE OPTIONS SCHEMES HAVE BEEN A NOTABLE SUCCESS. THE (IR) NUMBER OF THESE ~~EMPLOYEE~~ SCHEMES OPEN TO ALL EMPLOYEES HAS INCREASED FROM ABOUT 30 IN 1979 TO

/OVER 670 NOW,

OVER 670 NOW, BENEFITING SOME HALF A MILLION EMPLOYEES. TO MAINTAIN AND BUILD ON THIS PROGRESS I PROPOSE TO INCREASE THE MONTHLY LIMIT ON CONTRIBUTIONS TO SAVINGS-RELATED SHARE OPTION SCHEMES FROM £50 TO £100. I HAVE ALSO AUTHORISED THE INLAND REVENUE TO DOUBLE THE TAX-FREE LIMITS UNDER THE CONCESSION ON LONG SERVICE AWARDS, AND TO INCLUDE WITHIN THESE LIMITS THE GIFT OF SHARES IN THE EMPLOYEE'S COMPANY.

117. BUT BEYOND THIS, I AM CONVINCED THAT WE NEED TO DO MORE TO ATTRACT TOP CALIBRE COMPANY MANAGEMENT AND TO INCREASE THE INCENTIVES AND MOTIVATION OF EXISTING EXECUTIVES AND KEY PERSONNEL BY LINKING THEIR REWARDS TO PERFORMANCE. I PROPOSE THEREFORE THAT, SUBJECT TO CERTAIN NECESSARY LIMITS AND CONDITIONS, SHARE OPTIONS GENERALLY WILL BE TAKEN OUT OF INCOME TAX, LEAVING ANY GAIN TO BE CHARGED TO CAPITAL GAINS TAX ON ULTIMATE DISPOSAL OF THE SHARES. THE NEW RULES WILL APPLY TO OPTIONS MEETING (IR) THE NECESSARY CONDITIONS WHICH ARE GRANTED FROM 6 APRIL.

/I AM SURE

118. I AM SURE THAT ALL THESE CHANGES WILL BE WELCOMED AS MEASURES TO ENCOURAGE THE COMMITMENT OF EMPLOYEES TO THE SUCCESS OF THEIR COMPANIES AND TO IMPROVE THE PERFORMANCE, COMPETITIVENESS AND PROFITABILITY OF BRITISH INDUSTRY.

119. AS THE HOUSE KNOWS, THE GOVERNMENT IS DEEPLY CONCERNED AT THE THREAT WHICH THE SPREAD OF UNITARY TAXATION IN CERTAIN US STATES HAS POSED TO THE US SUBSIDIARIES OF BRITISH FIRMS. WITH OUR EUROPEAN PARTNERS WE ARE MONITORING THE SITUATION CLOSELY, AND AWAIT WITH KEEN INTEREST THE IMMINENT REPORT OF US TREASURY SECRETARY REGAN'S WORKING GROUP. IT IS ESSENTIAL THAT A SATISFACTORY SOLUTION IS FOUND AND SPEEDILY IMPLEMENTED.

120. US FIRMS OPERATING IN THIS COUNTRY ARE NOT OF COURSE TAXED ON A UNITARY BASIS.

/I NOW TURN

121. I NOW TURN TO OIL TAXATION. LAST YEAR'S NORTH SEA TAX CHANGES WERE WELL RECEIVED, AND THERE HAS BEEN A SUBSTANTIAL INCREASE IN THE NUMBER OF DEVELOPMENT PROJECTS COMING FORWARD, AND A NEW SURGE IN EXPLORATION. THE GOVERNMENT IS ALREADY COMMITTED TO A STUDY OF THE ECONOMICS OF INVESTMENT IN INCREMENTAL DEVELOPMENT IN EXISTING FIELDS. THIS IS OF INCREASING IMPORTANCE, AND IN CONSULTATION WITH MY RT HON FRIEND THE SECRETARY OF STATE FOR ENERGY I THEREFORE PROPOSE TO REVIEW THIS AREA WITH THE INDUSTRY, AND TO LEGISLATE AS APPROPRIATE NEXT YEAR TO IMPROVE THE POSITION. TO PREVENT PROJECTS BEING DEFERRED PENDING THIS REVIEW, ANY CHANGES WILL APPLY TO ALL PROJECTS WHICH RECEIVE DEVELOPMENT CONSENT AFTER TODAY.

122. MEANWHILE, I AM TAKING TWO MEASURES TO PREVENT AN UNJUSTIFIED LOSS OF TAX IN THE NORTH SEA. FIRST, IN ADDITION TO THE PRT MEASURES ON FARMOUTS WHICH I ANNOUNCED LAST SEPTEMBER, I AM LIMITING THE

/POTENTIAL

POTENTIAL CORPORATION TAX COST OF SUCH DEALS. SECOND, I PROPOSE TO REPEAL THE PROVISION WHICH ALLOWS ADVANCE CORPORATION TAX TO BE REPAID WHERE CORPORATION TAX IS REDUCED BY PRT. I HAVE ALSO REVIEWED THE CASE FOR EXTENDING LAST YEAR'S FUTURE FIELD CONCESSIONS TO THE SOUTHERN BASIN, BUT HAVE CONCLUDED THAT ADDITIONAL INCENTIVES HERE ARE NOT NEEDED.

123. I HAVE JUST TWO FURTHER CHANGES AFFECTING BUSINESS TO PROPOSE, BOTH OF WHICH WILL COME INTO FORCE ON 1 OCTOBER.

124. EVER SINCE VAT WAS INTRODUCED IN THIS COUNTRY, WE HAVE TREATED IMPORTS DIFFERENTLY FROM THE WAY OUR MAIN EUROPEAN COMMUNITY COMPETITORS TREAT THEM. WHILE THEY REQUIRE VAT ON IMPORTED GOODS TO BE PAID IN THE SAME WAY AS CUSTOMS DUTIES, WE DO NOT. UNDER OUR SYSTEM AN IMPORTER DOES NOT HAVE TO ACCOUNT FOR VAT ON HIS IMPORTS UNTIL HE MAKES HIS NORMAL VAT

/RETURN,

RETURN, ON AVERAGE SOME 11 WEEKS LATER. DURING THIS TIME THE IMPORTER ENJOYS FREE CREDIT AT THE TAXPAYER'S EXPENSE. BUT BUSINESSES BUYING FROM UK SUPPLIERS HAVE TO PAY VAT [STRAIGHT AWAY.] (AB) as soon as they pay their suppliers (GM/CAE)

125. THE EUROPEAN COMMISSION HAS FOR SOME YEARS NOW BEEN SEEKING, WITH OUR FULL SUPPORT, TO GET A SYSTEM LIKE OURS ADOPTED THROUGHOUT THE COMMUNITY. BUT THE PLAIN FACT IS THAT IN ALL THAT TIME THE COMMISSION HAS MADE NO PROGRESS WHATEVER.

126. I MUST TELL THE HOUSE ~~HAVE~~ THAT I AM NOT PREPARED TO PUT BRITISH INDUSTRY AT A COMPETITIVE DISADVANTAGE [IN THE HOME MARKET] GM ANY LONGER. SHOULD OUR EUROPEAN PARTNERS AT ANY TIME UNDERGO A DAMASCENE CONVERSION, AND AGREE THAT THE COMMISSION'S PROPOSAL SHOULD BE ACCEPTED AFTER ALL, THEN OF COURSE WE WOULD REVERT TO THE PRESENT SYSTEM. BUT IN THE MEANTIME I PROPOSE TO MOVE TO THE SYSTEM USED BY OUR EUROPEAN COMPETITORS. WE SHALL PROVIDE THE SAME FACILITIES

/FOR PAYMENT

for payment of VAT on imports as apply to customs duties. That means that most importers will be able to defer payment of VAT by on average one month from the date of importation. But that is all.

~~127~~. As I have said, this change will apply from 1 October. By bringing forward VAT receipts, it will bring in an extra £1.2 billion in 1984-85, some of which will be borne by foreign producers and manufacturers. There will of course be no increased revenue in subsequent years. (AB)

~~128~~. The second change I propose to make on 1 October concerns the National Insurance Surcharge. This tax on jobs was introduced by the Labour Government in 1977 at the rate of 2 per cent, and further increased by The Rt. Hon. Member for Leeds East in 1978 to 3½ per cent. During the last Parliament, this Government reduced it to 1 per cent, and we are pledged to abolish it during the lifetime of this Parliament.

/Given the impact

129. GIVEN THE IMPACT THAT THIS TAX HAS, NOT ONLY ON INDUSTRIAL COSTS BUT ALSO - AT A TIME OF HIGH UNEMPLOYMENT - ON JOBS, I HAVE DECIDED TO TAKE THE OPPORTUNITY OF THIS MY FIRST BUDGET TO FULFIL THAT PLEDGE. ABOLITION OF THE NATIONAL INSURANCE SURCHARGE FROM OCTOBER WILL REDUCE PRIVATE SECTOR EMPLOYERS' COSTS BY ALMOST £350 MILLION IN 1984-85, AND OVER £850 MILLION IN A FULL YEAR. IT WILL THUS BE OF CONTINUING HELP TO BRITISH INDUSTRY. AS BEFORE, THE BENEFIT WILL BE CONFINED TO THE PRIVATE SECTOR.

130. THE HOUSE WILL I AM SURE AGREE THAT A BUDGET WHICH ABOLISHES THE NATIONAL INSURANCE SURCHARGE, AND CUTS THE RATES AND SIMPLIFIES THE STRUCTURE OF CORPORATION TAX, IS A BUDGET FOR JOBS AND FOR ENTERPRISE. IT OFFERS BRITISH INDUSTRY AN OPPORTUNITY WHICH I AM CONFIDENT IT WILL SEIZE.

- and substantially reduces the Government's demands on the financial system -. (PEM)

/HAVING

INDIRECT TAXES

131. Having announced major reforms of both the taxation of savings and investment and the taxation of business, I turn now to the third and final area in which I propose to make progress on tax reform. This is the taxation of personal income and spending.

132. The broad principle was clearly set out in the Manifesto on which we were first elected in 1979. This emphasised the need for a switch from taxes on earnings to taxes on spending. My predecessor made an important move in this direction in HIS first budget, and the time has come to make a further move today. To reduce direct taxation by this means is important in two ways. It improves incentives and makes it more worthwhile to work, and it increases the freedom of choice of the individual.

/Having regard

133. Having regard to the representations I have received on health grounds, I therefore propose an increase in the tobacco duty which, including VAT, will put 10p on the price of a packet of cigarettes, with corresponding increases for hand-rolling tobacco and cigars. This will do no more than restore the tax on tobacco to its 1965 level. These changes will take effect from midnight on Thursday. I do not propose any increase in the duty on pipe tobacco.

134. I propose to raise most of the other excise duties broadly in line with inflation, so as to maintain their real value: not to do so would run counter to the philosophy I outlined a moment ago. But with inflation as low as it now is, the necessary increases are on the whole mercifully modest.

/I propose to

135. I PROPOSE TO INCREASE THE duty [DUTIES] ON PETROL [AND DERV] BY an AMOUNT~~S~~ WHICH, INCLUDING VAT, WILL RAISE THE PRICE AT THE PUMPS BY 4½P [AND 3½P] A GALLON [RESPECTIVELY.] THIS DOES NO MORE THAN KEEP PACE WITH INFLATION. (For derv the increase will be slightly less than indexation at 3½p a gallon. THE CHANGES WILL TAKE EFFECT FOR OIL DELIVERED FROM REFINERIES AND WAREHOUSES FROM SIX O'CLOCK THIS EVENING. I DO NOT PROPOSE TO INCREASE THE DUTY ON HEAVY FUEL OIL, WHICH IS OF PARTICULAR IMPORTANCE TO INDUSTRIAL COSTS.

GM

136. THERE IS ONE EXCISE DUTY WHICH I PROPOSE TO DO AWAY WITH ALTOGETHER. MANY OF THOSE WHO FIND IT HARDEST TO MAKE ENDS MEET, INCLUDING IN PARTICULAR MANY PENSIONERS, USE PARAFFIN STOVES TO HEAT THEIR HOMES, AND IT IS WITH THEM IN MIND THAT I PROPOSE TO ABOLISH THE DUTY ON KEROSENE FROM SIX O'CLOCK TONIGHT. I AM SURE THAT THIS WILL BE WELCOMED ON ALL SIDES OF THE HOUSE.

I propose to increase the duty on petrol,

/THE VARIOUS RATES

137. The various rates of Vehicle Excise Duty will, once again, go up roughly in line with prices. Thus the duty for cars and light vans will be increased by £5, from £85 to £90 a year. However, in the light of the reassessment by my Rt Hon Friend the Secretary of State for Transport of the wear and tear that various types of vehicle cause to the roads, there will be reductions in duty for the lightest lorries, offset by higher increases for some heavier lorries. All these changes in Vehicle Excise Duty will take effect from tomorrow.

138. However, I propose to exempt from Vehicle Excise Duty all recipients of the War Pensioners' Mobility Supplement. In addition, the existing VAT relief for motor vehicles designed or adapted for use by the handicapped will be extended, and matched by a new Car Tax relief. The effect will be that neither VAT nor car tax will apply to family cars designed for disabled people or substantially adapted for their use.

/I now come

139. I now come to the most difficult decision I have to take in the excise duty field. As the House will be aware, the rules of the European Community, so far as alcoholic drinks are concerned, are designed to prevent a Member state from protecting its own domestic product by imposing a significantly higher duty on competing imports. In pursuit of this, the Commission has taken a number of countries to the European Court of Justice.

140. In our case, the Commission contended that we were protecting beer by under-taxing it in relation to wine. We fought the case, but lost; and I am now implementing the judgement handed down by the Court last year. Accordingly, I propose to increase the duty on beer by the minimum amount needed to comply with the judgement and maintain revenue: 2p on a typical pint of beer, including VAT. At the same time, the duty on table wine will be reduced by the equivalent of about 18p a bottle, again including VAT.

141. We have thus complied with the Court's judgement. And I am happy to be able to tell the House that the Italian Government have, after discussions, given us an undertaking that they will comply with an earlier Court ruling on discrimination against Scotch whisky and other imported spirits.

142. As for the rest of the alcoholic drinks, cider, which increasingly competes with beer but attracts a lower duty, will go up by 3p a pint. The duties on made-wine will be aligned with those on other wine. And I propose to increase the duty on sparkling wine, fortified wine and spirits by about 10p a bottle, including VAT. All these changes will take effect from midnight tonight.

143. These changes in excise duties will, all told, bring in some £840 million in 1984-85, some £200m more than is required to keep pace with inflation.

/The addition

THE ADDITION IS OF COURSE DUE TO THE INCREASE IN TOBACCO DUTY.

144. THE REMAINDER OF THE EXTRA REVENUE I NEED TO MAKE A SUBSTANTIAL SWITCH THIS YEAR FROM TAXES ON EARNINGS TO TAXES ON SPENDING WILL COME FROM VAT. I PROPOSE NO CHANGE IN THE RATE OF VAT. INSTEAD, I INTEND TO BROADEN THE BASE OF THE TAX BY EXTENDING THE 15 PER CENT RATE TO TWO AREAS OF EXPENDITURE THAT HAVE HITHERTO BEEN ZERO-RATED.

145. FIRST, ALTERATIONS TO BUILDINGS. AT PRESENT REPAIRS AND MAINTENANCE ARE TAXED, BUT ALTERATIONS ARE NOT. THE BORDERLINE BETWEEN THESE TWO CATEGORIES IS THE MOST CONFUSED IN THE WHOLE FIELD OF VAT. I PROPOSE TO END THIS CONFUSION AND ILLOGICALITY BY BRINGING ALL ALTERATIONS INTO TAX. I RECOGNISE THAT THIS WILL BE UNWELCOME NEWS FOR THE CONSTRUCTION INDUSTRY, BUT CONSTRUCTION WILL OF COURSE BENEFIT GREATLY FROM THE REDUCTION IN THE

/RATE OF STAMP

RATE OF STAMP DUTY WHICH I HAVE ALREADY ANNOUNCED. £290 MILLION OF THE COST OF THAT REDUCTION IN 1984-85 RELATES TO TRANSFERS OF LAND AND BUILDINGS, AND OF THAT £290 MILLION SOME 90 PER CENT RELATES TO BUILDINGS AND BUILDING LAND. NEVERTHELESS, TO ALLOW A REASONABLE TIME FOR EXISTING COMMITMENTS TO BE COMPLETED OR ADJUSTED, THE VAT CHANGE WILL BE DEFERRED UNTIL 1 JUNE.

146. SECONDLY, FOOD. MOST FOOD IS ZERO-RATED. BUT FOOD SERVED IN RESTAURANTS IS TAXED, TOGETHER WITH A MISCELLANEOUS RANGE OF ITEMS INCLUDING ICE-CREAM, CONFECTIONIONERY, SOFT DRINKS AND CRISPS, WHICH WERE BROUGHT INTO TAX BY THE RT HON MEMBER FOR LEEDS EAST. TAKE-AWAY FOOD CLEARLY COMPETES WITH OTHER FORMS OF CATERING, AND I THEREFORE INTEND TO BRING INTO TAX HOT TAKE-AWAY FOOD AND DRINKS, WITH EFFECT FROM 1 MAY.

/THE TOTAL EFFECT

147. The total effect of the extensions of the VAT coverage which I have proposed will be to increase the yield of the tax by £375 million in 1984-85 and by £650 million in a full year.

148 The total impact effect on the Retail Price Index of the VAT changes and excise duty changes taken together will be less than three-quarters of one per cent. This has already been taken into account in the forecast which I have given to the House of a decline in inflation to 4½ per cent by the end of the year.

149. The extra revenue raised in this way will enable me, within the overall framework of a neutral Budget, to lighten the burden of income tax.

GM - why exclude VAT registration threshold? an attractive lollipop.

No.

INCOME TAX

151. SINCE WE TOOK OFFICE IN 1979, WE HAVE CUT THE BASIC RATE OF INCOME TAX FROM 33 PER CENT TO 30 PER CENT AND SHARPLY REDUCED THE CONFISCATORY HIGHER RATES INHERITED FROM THE LAST LABOUR GOVERNMENT. WE HAVE INCREASED THE MAIN TAX ALLOWANCES NOT SIMPLY IN LINE WITH PRICES BUT BY AROUND 8 PER CENT IN REAL TERMS. IT IS A GOOD RECORD. BUT IT IS NOT ENOUGH. THE BURDEN OF INCOME TAX IS STILL TOO HEAVY.

152. DURING THE LIFETIME OF THIS PARLIAMENT, I INTEND TO CARRY FORWARD THE PROGRESS WE HAVE ALREADY MADE. FOR THE MOST PART, THIS WILL HAVE TO WAIT FOR FUTURE BUDGETS, PARTICULARLY SINCE I HAVE THOUGHT IT RIGHT THIS YEAR TO CONCENTRATE ON SETTING A NEW REGIME OF BUSINESS TAXATION FOR THE LIFETIME OF A PARLIAMENT - AND BEYOND. BUT AS A RESULT OF THE CHANGES TO TAXES ON SPENDING WHICH I HAVE JUST ANNOUNCED, I CAN TAKE A FURTHER STEP IN THIS BUDGET.

/I PROPOSE

153. I propose to make no change this year in the rates of income tax. So far as the allowances and thresholds are concerned, I must clearly increase these by the amounts set out in the statutory indexation formula, based on the 5.3 per cent increase in the Retail Price Index to December. The question is how much more I can do, and how to direct it.

154. I have decided that, this year, the right course is to use every penny I have in hand, within the framework of a revenue neutral Budget, to lift the level of the basic tax thresholds, for the married and single alike. It makes very little sense to be collecting income tax from people who are at the same time receiving means-tested benefits. Moreover low tax thresholds worsen the poverty and unemployment traps, so that there is little if any financial incentive to find a better job or even any job at all. There is, alas, no

/quick or cheap

QUICK OR CHEAP SOLUTION TO THESE PROBLEMS. BUT THAT IS ALL THE MORE REASON TO MAKE A FURTHER MOVE TOWARDS SOLVING THEM NOW.

155. I PROPOSE TO INCREASE THE OTHER THRESHOLDS IN LINE WITH THE STATUTORY INDEXATION REQUIREMENT, AND BY NO MORE. THE FIRST HIGHER RATE OF 40 PER CENT WILL APPLY WHEN TAXABLE INCOME REACHES £15,400 A YEAR AND THE TOP RATE OF 60 PER CENT TO TAXABLE (IR) INCOME ~~OF~~ OVER £38,100 ~~OR MORE.~~ THE SINGLE AGE ALLOWANCE WILL RISE FROM £2,360 TO £2,490 AND THE MARRIED AGE ALLOWANCE FROM £3,755 TO £3,955.

156. FOR THE BASIC THRESHOLDS, STATUTORY INDEXATION WOULD MEAN PUTTING THE SINGLE AND MARRIED ALLOWANCES UP BY £100 AND £150 RESPECTIVELY. I AM GLAD TO SAY THAT I CAN DO CONSIDERABLY BETTER THAN THAT. I PROPOSE TO INCREASE THE BASIC THRESHOLDS BY WELL OVER DOUBLE WHAT IS REQUIRED BY INDEXATION. THE (IR) SINGLE PERSON'S ~~THRESHOLD~~ ALLOWANCE WILL BE INCREASED BY £220,

/FROM £1,785

MAN'S ALLOWANCE

FROM £1,785 TO £2,005; AND THE MARRIED THRESHOLD BY £360, FROM £2,795 TO £3,155. (IR)

157. THIS IS AN INCREASE OF AROUND 12½ PER CENT, OR SOME 7 PER CENT IN REAL TERMS. IT BRINGS THE MARRIED MAN'S TAX ALLOWANCE THRESHOLD FOR 1984-85 TO ITS HIGHEST LEVEL IN REAL TERMS SINCE THE WAR. IT MEANS THAT THE GREAT MAJORITY OF MARRIED COUPLES WILL ENJOY AN INCOME TAX CUT OF AT LEAST £2 A WEEK. AND IT MEANS THAT A LARGE NUMBER OF PEOPLE, THOSE WITH THE SMALLEST INCOMES OF ALL, ARE TAKEN OUT OF INCOME TAX ALTOGETHER. SOME 850,000 PEOPLE - OVER 100,000 OF THEM WIDOWS - WHO WOULD HAVE PAID TAX IF THRESHOLDS HAD NOT BEEN INCREASED, WILL PAY NO TAX IN 1984-85. THAT IS 400,000 FEWER TAXPAYERS THAN IF THE ALLOWANCES HAD MERELY BEEN INDEXED. (IR)

x IR content with Chancellor's pen amendment.

158. ALL THESE CHANGES WILL TAKE EFFECT UNDER PAYE ON THE FIRST PAY DAY AFTER 10 MAY. THEIR COST IS CONSIDERABLE: SOME £1.8 BILLION IN 1984-85, OF

/WHICH ROUGHLY

WHICH ROUGHLY HALF REPRESENTS THE COST OF INDEXATION.

159. THIS IS AS FAR AS I CAN GO ON INCOME TAX THIS YEAR, WITHIN A BROADLY REVENUE-NEUTRAL BUDGET FOR 1984-85. BUT AS I HAVE ALREADY SAID, SO LONG AS WE HOLD TO OUR PUBLISHED PLANNED LEVELS OF PUBLIC SPENDING, THERE IS AN EXCELLENT PROSPECT OF FURTHER CUTS IN INCOME TAX IN NEXT YEAR'S BUDGET. THESE WOULD BE ON TOP OF THE MEASURES I HAVE ANNOUNCED IN THIS BUDGET WHICH, AS I HAVE ALREADY TOLD THE HOUSE, WILL REDUCE TAXATION IN 1985-86 BY WELL OVER £1¾ BILLION, WITH BUSINESS TAKING THE LION'S SHARE.

Personal Taxation : Income Tax

INCOME TAX

~~151~~. SINCE WE TOOK OFFICE IN 1979, WE HAVE CUT THE BASIC RATE OF INCOME TAX FROM 33 PER CENT TO 30 PER CENT AND SHARPLY REDUCED THE CONFISCATORY HIGHER RATES INHERITED FROM THE LAST LABOUR GOVERNMENT. WE HAVE INCREASED THE MAIN TAX ALLOWANCES NOT SIMPLY IN LINE WITH PRICES BUT BY AROUND 8 PER CENT IN REAL TERMS. IT IS A GOOD RECORD. BUT IT IS NOT ENOUGH. THE BURDEN OF INCOME TAX IS STILL TOO HEAVY.

~~152~~. DURING THE LIFETIME OF THIS PARLIAMENT, I INTEND TO CARRY FORWARD THE PROGRESS WE HAVE ALREADY MADE. FOR THE MOST PART, THIS WILL HAVE TO WAIT FOR FUTURE BUDGETS, PARTICULARLY SINCE I HAVE THOUGHT IT RIGHT THIS YEAR TO CONCENTRATE ON SETTING A NEW REGIME OF BUSINESS TAXATION FOR THE LIFETIME OF A PARLIAMENT - AND BEYOND. BUT AS A RESULT OF THE CHANGES TO TAXES ON SPENDING WHICH I HAVE JUST ANNOUNCED, I CAN TAKE A FURTHER STEP IN THIS BUDGET.

/I PROPOSE

~~153~~. I PROPOSE TO MAKE NO CHANGE THIS YEAR IN THE RATES OF INCOME TAX. SO FAR AS THE ALLOWANCES AND THRESHOLDS ARE CONCERNED, I MUST CLEARLY INCREASE THESE BY THE AMOUNTS SET OUT IN THE STATUTORY INDEXATION FORMULA, BASED ON THE 5.3 PER CENT INCREASE IN THE RETAIL PRICE INDEX TO DECEMBER. THE QUESTION IS HOW MUCH MORE I CAN DO, AND HOW TO DIRECT IT.

~~154~~. I HAVE DECIDED THAT, THIS YEAR, THE RIGHT COURSE IS TO USE EVERY PENNY I HAVE IN HAND, WITHIN THE FRAMEWORK OF A REVENUE NEUTRAL BUDGET, TO LIFT THE LEVEL OF THE BASIC TAX THRESHOLDS, FOR THE MARRIED AND SINGLE ALIKE. IT MAKES VERY LITTLE SENSE TO BE COLLECTING INCOME TAX FROM PEOPLE WHO ARE AT THE SAME TIME RECEIVING MEANS-TESTED BENEFITS. MOREOVER LOW TAX THRESHOLDS WORSEN THE POVERTY AND UNEMPLOYMENT TRAPS, SO THAT THERE IS LITTLE IF ANY FINANCIAL INCENTIVE TO FIND A BETTER JOB OR EVEN ANY JOB AT ALL. THERE IS, ALAS, NO

/QUICK OR CHEAP

QUICK OR CHEAP SOLUTION TO THESE PROBLEMS. BUT THAT IS ALL THE MORE REASON TO MAKE A FURTHER MOVE TOWARDS SOLVING THEM NOW.

~~155~~. I PROPOSE TO INCREASE THE OTHER THRESHOLDS IN LINE WITH THE STATUTORY INDEXATION REQUIREMENT, ~~AND~~ BUT BY NO MORE. THE FIRST HIGHER RATE OF 40 PER CENT WILL APPLY WHEN TAXABLE INCOME REACHES £15,400 A YEAR AND THE TOP RATE OF 60 PER CENT TO TAXABLE

IR ✓ INCOME ~~OF~~ OVER £38,100 ~~OR MORE~~. THE SINGLE AGE ALLOWANCE WILL RISE FROM £2,360 TO £2,490 AND THE MARRIED AGE ALLOWANCE FROM £3,755 TO £3,955.

~~156~~. FOR THE BASIC THRESHOLDS, STATUTORY INDEXATION WOULD MEAN PUTTING THE SINGLE AND MARRIED ALLOWANCES UP BY £100 AND £150 RESPECTIVELY. I AM GLAD TO SAY THAT I CAN DO CONSIDERABLY BETTER THAN THAT. I PROPOSE TO INCREASE THE BASIC THRESHOLDS BY WELL OVER DOUBLE WHAT IS REQUIRED BY INDEXATION. THE

IR SINGLE PERSON'S ~~THRESHOLD~~ allowance WILL BE INCREASED BY £220,

/FROM £1,785

1R FROM £1,785 TO £2,005; AND THE MARRIED ~~THRESHOLD~~ man's allowance BY £360, FROM £2,795 TO £3,155.

~~157~~. THIS IS AN INCREASE OF AROUND 12½ PER CENT, OR SOME 7 PER CENT IN REAL TERMS. IT BRINGS THE 1R MARRIED MAN'S TAX ~~THRESHOLD~~ allowance FOR 1984-85 TO ITS HIGHEST LEVEL IN REAL TERMS SINCE THE WAR. IT MEANS THAT THE GREAT MAJORITY OF MARRIED COUPLES WILL ENJOY AN INCOME TAX CUT OF AT LEAST £2 A WEEK. AND IT MEANS THAT A LARGE NUMBER OF PEOPLE, THOSE WITH THE SMALLEST INCOMES OF ALL, ARE TAKEN OUT OF INCOME TAX ALTOGETHER. SOME 850,000 PEOPLE - OVER 100,000 OF THEM WIDOWS - WHO WOULD HAVE PAID TAX IF THRESHOLDS HAD NOT BEEN INCREASED, WILL PAY NO TAX IN 1984-85. THAT IS 400,000 ~~FEWER~~ (MORE ~~[illegible]~~ TAKEN OUT OF TAX) ✓ THAN IF THE ALLOWANCES HAD MERELY BEEN INDEXED.

158. ALL THESE CHANGES WILL TAKE EFFECT UNDER PAYE ON THE FIRST PAY DAY AFTER 10 MAY. THEIR COST IS CONSIDERABLE: SOME £1.8 BILLION IN 1984-85, OF

/WHICH ROUGHLY

WHICH ROUGHLY HALF REPRESENTS THE COST OF INDEXATION.

159. THIS IS AS FAR AS I CAN GO ON INCOME TAX THIS YEAR, WITHIN A BROADLY REVENUE-NEUTRAL BUDGET FOR δ? Jone 1984-85. BUT ~~AS I HAVE ALREADY SAID,~~ SO LONG AS WE HOLD TO OUR PUBLISHED PLANNED LEVELS OF PUBLIC SPENDING, THERE IS AN EXCELLENT PROSPECT OF FURTHER CUTS IN INCOME TAX IN NEXT YEAR'S BUDGET. THESE WOULD BE ON TOP OF THE MEASURES I HAVE ANNOUNCED IN THIS BUDGET WHICH, AS I HAVE ALREADY TOLD THE HOUSE, WILL REDUCE TAXATION IN 1985-86 BY WELL OVER £1¼ BILLION, WITH BUSINESS TAKING THE LION'S SHARE.

/I have, Mr Deputy Speaker,

TAX REFORM

I INDICATED AT THE OUTSET THAT THIS WILL BE A RADICAL, TAX-REFORMING, BUDGET. IT WILL ALSO SIGNIFICANTLY REDUCE THE OVERALL BURDEN OF TAX OVER THE NEXT TWO YEARS TAKEN TOGETHER. AND I HOPE TO HAVE SCOPE FOR FURTHER REDUCTIONS IN FUTURE BUDGETS.

MY PROPOSALS FOR REFORM ARE GUIDED BY TWO BASIC PRINCIPLES. FIRST, THE NEED TO MAKE CHANGES THAT WILL IMPROVE OUR ECONOMIC PERFORMANCE OVER THE LONGER TERM. SECOND, THE DESIRE TO MAKE LIFE A LITTLE SIMPLER FOR THE TAXPAYER.

BUT I AM WELL AWARE THAT THE TAX REFORMER'S PATH IS A STONY ONE. ANY CHANGE IN THE SYSTEM IS BOUND, AT LEAST IN THE SHORT TERM, TO BRING BENEFITS TO SOME AND DISADVANTAGES TO OTHERS. AND THE DISAPPROVAL OF THE LATTER GROUP TENDS TO BE RATHER

MORE AUDIBLE THAN THE MURMURINGS OF SATISFACTION FROM THE FORMER.

SOME COMMENTATORS HAVE SUGGESTED THAT OUR ENTIRE INCOME-BASED TAX SYSTEM SHOULD BE REPLACED WITH AN EXPENDITURE-BASED SYSTEM. EVEN IF A ROOT-AND-BRANCH CHANGE OF THIS KIND WERE DESIRABLE, IT WOULD, I BELIEVE, BE WHOLLY IMPRACTICAL AND UNREALISTIC.

BUT I DO NOT BELIEVE WE CAN AFFORD TO OPT FOR THE QUIET LIFE AND DO NOTHING. SO I HAVE CHOSEN THE MIDDLE WAY: TO INTRODUCE REFORMS, SOME OF THEM FAR-REACHING, WITHIN THE FRAMEWORK OF OUR EXISTING INCOME-BASED SYSTEM. I SHALL ALSO BE PROPOSING TRANSITIONAL ARRANGEMENTS WHERE I BELIEVE IT FAIR AND APPROPRIATE TO DO SO.

THE CHANGES I SHALL BE PROPOSING TODAY FALL INTO THREE BROAD CATEGORIES. THESE ARE THE TAXATION

/OF SAVINGS AND

OF SAVINGS AND INVESTMENT, BUSINESS TAXATION, AND THE TAXATION OF PERSONAL INCOME AND SPENDING.

/FIRST, THE TAXATION

TAX REFORM

~~58.~~ I ~~MENTIONED~~ INDICATED AT THE OUTSET THAT THIS WILL BE A RADICAL, TAX-REFORMING, BUDGET. IT WILL ALSO SIGNIFICANTLY REDUCE THE OVERALL BURDEN OF TAX OVER THE NEXT TWO YEARS TAKEN TOGETHER. AND I HOPE TO HAVE SCOPE FOR FURTHER REDUCTIONS IN ~~SUBSEQUENT~~ FUTURE BUDGETS. [cu] ✓

~~59.~~ MY PROPOSALS FOR REFORM ARE GUIDED BY TWO BASIC PRINCIPLES. FIRST, THE NEED TO MAKE CHANGES THAT WILL IMPROVE OUR ECONOMIC PERFORMANCE OVER THE LONGER TERM. SECOND, THE DESIRE TO MAKE LIFE A LITTLE SIMPLER FOR THE TAXPAYER.

~~60.~~ BUT I AM WELL AWARE THAT THE TAX REFORMER'S PATH IS A STONY ONE. ANY CHANGE IN THE SYSTEM IS BOUND, AT LEAST IN THE SHORT TERM, TO BRING BENEFITS

/TO SOME AND

TO SOME AND DISADVANTAGES TO OTHERS. AND THE DISAPPROVAL OF THE LATTER GROUP TENDS TO BE RATHER MORE AUDIBLE THAN THE MURMURINGS OF SATISFACTION FROM THE FORMER.

~~61~~. SOME COMMENTATORS HAVE SUGGESTED THAT OUR ENTIRE INCOME-BASED TAX SYSTEM SHOULD BE REPLACED WITH AN EXPENDITURE-BASED SYSTEM. EVEN IF A ROOT-AND-BRANCH CHANGE OF THIS KIND WERE DESIRABLE, IT WOULD, I BELIEVE, BE WHOLLY IMPRACTICAL AND UNREALISTIC.

~~62~~. BUT I DO NOT BELIEVE WE CAN AFFORD TO OPT FOR THE QUIET LIFE AND DO NOTHING. SO I HAVE CHOSEN THE MIDDLE WAY: TO INTRODUCE REFORMS, SOME OF THEM ~~OF A~~ FAR-REACHING, [~~Substantial~~] ~~MAJOR NATURE~~, WITHIN THE FRAMEWORK OF OUR EXISTING INCOME-BASED SYSTEM. I SHALL ALSO BE PROPOSING TRANSITIONAL ARRANGEMENTS WHERE I BELIEVE IT FAIR AND APPROPRIATE TO DO SO.

✓ Jore. {Lets keep the mileage out of this!]

/THE CHANGES

63. THE CHANGES I SHALL BE PROPOSING TODAY FALL INTO THREE BROAD CATEGORIES. THESE ARE THE TAXATION OF SAVINGS AND INVESTMENT, BUSINESS TAXATION, AND THE TAXATION OF PERSONAL INCOME AND SPENDING.

/ First, the Taxation of

BUSINESS TAXATION

~~83~~. I NOW TURN TO BUSINESS TAXATION. HERE, GOVERNMENT HAS TWO RESPONSIBILITIES TOWARDS BRITISH BUSINESS AND INDUSTRY. THE FIRST IS TO ENSURE THAT THEY DO NOT HAVE TO BEAR AN EXCESSIVE BURDEN OF TAXATION. THE SECOND IS TO ENSURE THAT, GIVEN A PARTICULAR BURDEN, IT IS STRUCTURED IN THE WAY THAT DOES LEAST DAMAGE TO THE NATION'S ECONOMIC PERFORMANCE.

~~84~~. THE MEASURES I AM ANNOUNCING TODAY WILL, TAKING THE NEXT TWO YEARS TOGETHER, RESULT IN A SUBSTANTIAL REDUCTION IN THE BURDEN OF TAXATION ON BRITISH BUSINESS. AND IN ADDITION I SHALL BE PROPOSING A FAR-REACHING REFORM ~~OF THE STRUCTURE~~ OF COMPANY TAXATION.

IR.
GH announced
that ~~the~~ the G.P.
responses showed
general desire for
no change in
structure of tax.

/RESPONSES TO THE

~~85~~. RESPONSES TO THE CORPORATION TAX GREEN PAPER IN 1982 SHOWED A STRONG GENERAL DESIRE TO RETAIN THE IMPUTATION SYSTEM. I ACCEPT THAT. BUT OTHER CHANGES ARE NEEDED.

~~86~~. THE CURRENT RATES OF CORPORATION TAX ARE FAR TOO HIGH, PENALISING PROFIT AND SUCCESS, AND BLUNTING THE CUTTING EDGE OF ENTERPRISE. THEY ARE THE PRODUCT OF TOO MANY SPECIAL RELIEFS, INDISCRIMINATELY APPLIED AND OF DIMINISHING RELEVANCE TO THE CONDITIONS OF TODAY. SOME OF THESE RELIEFS REFLECT ECONOMIC PRIORITIES OR CIRCUMSTANCES WHICH HAVE LONG VANISHED, AND NOW SERVE ONLY TO DISTORT INVESTMENT DECISIONS AND CHOICES ABOUT FINANCE. OTHERS WERE INTRODUCED TO MEET SHORT-TERM PRESSURES, NOTABLY THE UPWARD SURGE OF INFLATION.

New para

WITH INFLATION DOWN TO TODAY'S LOW LEVELS, THIS IS CLEARLY THE TIME TO TAKE A FRESH LOOK. AND WITH UNEMPLOYMENT AS HIGH AS IT IS TODAY, IT IS PARTICULARLY DIFFICULT TO JUSTIFY A TAX SYSTEM

/WHICH ENCOURAGES

WHICH ENCOURAGES LOW-YIELDING OR EVEN LOSS-MAKING INVESTMENT AT THE EXPENSE OF JOBS.

87. MY PURPOSE THEREFORE IS TO PHASE OUT SOME UNNECESSARY RELIEFS, IN ORDER TO BRING ABOUT, OVER TIME, A MARKEDLY LOWER RATE OF TAX ON COMPANY PROFITS.

88. FIRST, CAPITAL ALLOWANCES. OVER VIRTUALLY THE WHOLE OF THE POST-WAR PERIOD THERE HAVE BEEN INCENTIVES FOR INVESTMENT IN BOTH PLANT AND MACHINERY AND INDUSTRIAL (THOUGH NOT COMMERCIAL) BUILDINGS. BUT THERE IS LITTLE EVIDENCE THAT THESE INCENTIVES HAVE STRENGTHENED THE ECONOMY OR IMPROVED THE QUALITY OF INVESTMENT. QUITE THE CONTRARY: THE EVIDENCE SUGGESTS THAT BUSINESSES HAVE INVESTED SUBSTANTIALLY IN ASSETS YIELDING A LOWER RATE OF RETURN THAN THE INVESTMENTS MADE BY OUR PRINCIPAL COMPETITORS. TOO MUCH OF BRITISH INVESTMENT HAS BEEN MADE BECAUSE THE TAX ALLOWANCES

MAKE IT LOOK PROFITABLE, RATHER THAN BECAUSE IT WOULD BE TRULY PRODUCTIVE. WE NEED INVESTMENT DECISIONS BASED ON FUTURE MARKET ASSESSMENTS, NOT FUTURE TAX ASSESSMENTS.

~~89~~. I PROPOSE TO RESTRUCTURE THE CAPITAL ALLOWANCES IN THREE ANNUAL STAGES. IN THE CASE OF PLANT AND MACHINERY, AND ASSETS WHOSE ALLOWANCES ARE LINKED WITH THEM, THE FIRST YEAR ALLOWANCE WILL BE REDUCED FROM 100 PER CENT TO 75 PER CENT FOR ALL SUCH EXPENDITURE INCURRED AFTER TODAY, AND TO 50 PER CENT FOR EXPENDITURE INCURRED AFTER 31 MARCH NEXT YEAR. AFTER 31 MARCH 1986 THERE WILL BE NO FIRST YEAR ALLOWANCES, AND ALL EXPENDITURE ON PLANT AND MACHINERY WILL QUALIFY FOR ANNUAL ALLOWANCES ON A 25 PER CENT REDUCING BALANCE BASIS.

[Ranger]

~~90~~. IN ADDITION, FROM {NEXT YEAR} ~~1985~~ ANNUAL ALLOWANCES WILL BE GIVEN AS SOON AS THE EXPENDITURE IS INCURRED, AND NOT, AS THEY ARE TODAY, WHEN THE ASSET

/COMES INTO USE.

COMES INTO USE. THIS WILL BRING FORWARD THE ENTITLEMENT TO ANNUAL ALLOWANCES FOR THOSE ASSETS, SUCH AS SHIPS AND OIL RIGS, FOR WHICH SOME PAYMENT IS NORMALLY MADE WELL BEFORE THEY ARE BROUGHT INTO USE.

9~~1~~. FOR INDUSTRIAL BUILDINGS, I PROPOSE THAT THE INITIAL ALLOWANCE SHOULD FALL FROM 75 PER CENT TO 50 PER CENT FROM TONIGHT, AND BE FURTHER REDUCED TO 25 PER CENT FROM 31 MARCH NEXT YEAR. AFTER 31 MARCH 1986 THE INITIAL ALLOWANCE WILL BE ABOLISHED, AND EXPENDITURE WILL BE WRITTEN OFF ON AN ANNUAL 4 PER CENT STRAIGHT LINE BASIS. ~~I SHOULD ADD THAT,~~ W WHEN THESE CHANGES HAVE ALL TAKEN PLACE, TAX ALLOWANCES FOR BOTH PLANT AND MACHINERY AND INDUSTRIAL BUILDINGS WILL STILL ON AVERAGE BE RATHER MORE GENEROUS THAN WOULD BE PROVIDED BY A STRICT SYSTEM OF ~~ECONOMIC~~ COMMERCIAL DEPRECIATION.

New para/

c/x
v. loud shouts
of This.
— eg Bergum,
below.

8

/THE CHANGES

92. THE CHANGES IN THE RATES OF ALLOWANCES WILL NOT APPLY TO PAYMENTS UNDER BINDING CONTRACTS ENTERED INTO BEFORE MIDNIGHT TONIGHT, ~~ON OR BEFORE TODAY,~~ PROVIDED THAT THE EXPENDITURE IS INCURRED WITHIN THE NEXT THREE YEARS.

93. THERE WILL BE TRANSITIONAL TAX ARRANGEMENTS FOR CERTAIN INVESTMENT PROJECTS IN THE DEVELOPMENT AREAS AND SPECIAL DEVELOPMENT AREAS. WHEN A PROJECT IN THOSE AREAS HAS HAD AN OFFER OF INDUSTRY ACT SELECTIVE FINANCIAL ASSISTANCE AND ALSO ATTRACTS REGIONAL DEVELOPMENT GRANTS, THE EXISTING CAPITAL ALLOWANCES WILL CONTINUE TO APPLY TO THE EXPENDITURE TO WHICH THE SELECTIVE ASSISTANCE IS RELATED. THESE ARRANGEMENTS WILL COVER PROJECTS FOR WHICH OFFERS HAVE ALREADY BEEN MADE BETWEEN 1 APRIL 1980 AND TODAY. SIMILAR ARRANGEMENTS FOR REGIONAL DEVELOPMENT GRANTS WERE ANNOUNCED BY MY RT. HON. FRIEND THE SECRETARY OF STATE FOR TRADE AND INDUSTRY IN HIS WHITE PAPER LAST DECEMBER.

/OVER THE SAME

~~94~~. OVER THE SAME PERIOD TO 31 MARCH 1986 MOST OTHER CAPITAL ALLOWANCES WILL BE BROUGHT INTO LINE WITH THE MAIN CHANGES I HAVE ANNOUNCED. THE INLAND REVENUE WILL BE ISSUING A PRESS NOTICE TONIGHT GIVING FULL DETAILS OF THESE PROPOSALS.

~~95~~. NEXT, STOCK RELIEF. AS THE HOUSE WILL RECALL, THIS WAS INTRODUCED BY THE LAST LABOUR GOVERNMENT AS A FORM OF EMERGENCY HELP TO BUSINESSES FACING THE RAVAGES OF HIGH INFLATION. THOSE DAYS ARE PAST; AND THE RELIEF IS NO LONGER NECESSARY. [COMPANY] ~~IR/ANR.~~ ✓ LIQUIDITY HAS IMPROVED AND, ABOVE ALL, INFLATION HAS FALLEN SHARPLY. ACCORDINGLY, I PROPOSE NOT TO ALLOW ~~TO ABOLISH~~ STOCK RELIEF for increases in ~~[illegible]~~ prices after ~~FROM~~ THIS MONTH.

EST's point
IR language. OK?

[You could add:-
"Relief for past periods
will continue to be allowed
under the current
rules; but from
today there will
be no clawback
of relief unless a
business comes
to an end."

I see no need,
neither do IR,
add this humble
language.]

Press
whom

~~96~~. THE CHANGES I HAVE JUST ANNOUNCED, IN CAPITAL ALLOWANCES AND STOCK RELIEF, ENABLE ME TO EMBARK ON A MAJOR PROGRAMME OF PROGRESSIVE REDUCTIONS IN THE MAIN RATE OF CORPORATION TAX. FOR PROFITS EARNED IN THE YEAR JUST ENDING, ON WHICH TAX IS GENERALLY

/PAYABLE IN

PAYABLE IN 1984-85, THE RATE WILL BE CUT FROM 52 PER CENT TO 50 PER CENT. FOR PROFITS EARNED IN 1984-85 THE RATE WILL BE FURTHER CUT TO 45 PER CENT. LOOKING FURTHER AHEAD, TO PROFITS EARNED IN 1985-86, THE RATE WILL GO DOWN TO 40 PER CENT; AND FOR PROFITS EARNED IN 1986-87 THE MAIN RATE OF CORPORATION TAX WILL BE 35 PER CENT - NO LESS THAN 17 PERCENTAGE POINTS BELOW THE CURRENT RATE.

~~EST [?NO]~~

~~a reduction of no less than 1/3, and~~

~~97~~. ALL THESE RATES FOR THE YEARS AHEAD WILL BE INCLUDED IN THIS YEAR'S FINANCE BILL. AND WHEN THESE CHANGES ARE COMPLETE, OUR RATES OF CAPITAL ALLOWANCES FOR THE GENERALITY OF PLANT AND MACHINERY WILL BE COMPARABLE WITH THOSE IN MOST OTHER COUNTRIES, WHILE THE RATE OF TAX (ON PROFITS) WILL BE SIGNIFICANTLY LOWER.

~~98~~. THE SUBSTANTIAL REDUCTION IN THE RATE OF CORPORATION TAX WILL BRING A FURTHER BENEFIT. OUR

/IMPUTATION SYSTEM

IMPUTATION SYSTEM ALLOWS A COMPANY TO OFFSET IN FULL ALL INTEREST PAID. BUT ONLY A PARTIAL OFFSET FOR DIVIDENDS IS ALLOWED. COMPANIES THUS HAVE A CLEAR INCENTIVE TO FINANCE THEMSELVES THROUGH BORROWING, IN PARTICULAR BANK BORROWING, RATHER THAN BY RAISING EQUITY CAPITAL. THE CLOSER THE CORPORATION TAX RATE COMES TO THE BASIC RATE OF INCOME TAX, THE SMALLER THIS UNDESIRABLE DISTORTION BECOMES.

99. OF COURSE, THE MAJORITY OF COMPANIES ARE NOT LIABLE TO PAY THE MAIN RATE OF CORPORATION TAX AT ALL. FOR THEM IT IS THE SMALL COMPANIES' RATE, AT PRESENT 38 PER CENT, WHICH APPLIES. I PROPOSE TO REDUCE THIS RATE FORTHWITH TO 30 PER CENT, FOR PROFITS EARNED IN 1983-84 AND THEREAFTER. A TAX REGIME FOR SMALL COMPANIES WHICH IS ALREADY GENEROUS BY INTERNATIONAL STANDARDS WILL THUS BECOME MARKEDLY MORE GENEROUS.

/THE CORPORATION

100. THE CORPORATION TAX MEASURES I HAVE JUST ANNOUNCED WILL COST £280 MILLION IN 1984-85. IN 1985-86 THE COST WILL BE £450 MILLION - MADE UP OF £1,100 MILLION BY WAY OF REDUCTIONS IN THE RATES, ONLY PARTIALLY OFFSET BY A £650 MILLION REDUCTION IN THE VALUE OF THE RELIEFS. DURING THE TRANSITIONAL PERIOD AS A WHOLE, THESE MEASURES SHOULD HAVE A BROADLY NEUTRAL EFFECT ON THE FINANCIAL POSITION OF COMPANIES. BUT WHEN THE CHANGES HAVE FULLY WORKED THROUGH, COMPANIES WILL ENJOY VERY SUBSTANTIAL REDUCTIONS IN THE TAX THEY PAY.

101. BUSINESS AND INDUSTRY CAN GO AHEAD CONFIDENTLY ON THE BASIS OF THE CORPORATION TAX RATES I HAVE ANNOUNCED TODAY, WHICH SET THE FRAMEWORK OF COMPANY TAXATION FOR THE REST OF THIS PARLIAMENT.

102. OVER THE NEXT TWO YEARS, THESE CHANGES WILL CAUSE SOME INVESTMENT TO BE BROUGHT FORWARD, TO TAKE ADVANTAGE OF HIGH FIRST YEAR CAPITAL ALLOWANCES

/ - A PROSPECT MADE

- A PROSPECT MADE ALL THE MORE ALLURING FOR BUSINESS SINCE THE PROFITS EARNED WILL BE TAXED AT THE NEW, LOWER, RATES. BUT THE MORE IMPORTANT AND LASTING EFFECT WILL BE TO ENCOURAGE THE SEARCH FOR INVESTMENT PROJECTS WITH A GENUINELY WORTHWHILE RETURN, AND TO DISCOURAGE UNECONOMIC INVESTMENT.

103. IT IS DOUBTFUL WHETHER IT WAS EVER REALLY SENSIBLE TO SUBSIDISE CAPITAL INVESTMENT IRRESPECTIVE OF THE TRUE RATE OF RETURN. CERTAINLY, WITH OVER THREE MILLION UNEMPLOYED IT CANNOT MAKE SENSE ~~TO DO SO.~~ SUBSIDISE CAPITAL SO HEAVILY AT THE EXPENSE OF LABOUR.

~~EST. [? Yes]~~

104. THESE CHANGES HOLD OUT AN EXCITING OPPORTUNITY FOR BRITISH INDUSTRY AS A WHOLE: AN OPPORTUNITY FURTHER TO IMPROVE ITS PROFITABILITY, AND TO EXPAND, BUILDING ON THE RECOVERY THAT IS ALREADY WELL UNDER WAY. HIGHER PROFITS AFTER TAX WILL ENCOURAGE AND REWARD ENTERPRISE, STIMULATE INNOVATION IN ALL ITS FORMS, AND CREATE MORE JOBS.

/I NOW TURN

105. I NOW TURN TO SOME MORE DETAILED MEASURES AFFECTING BUSINESS.

106. THE BUSINESS EXPANSION SCHEME, INTRODUCED LAST YEAR AS A SUCCESSOR TO THE BUSINESS START UP SCHEME, HAS BEEN WIDELY WELCOMED AS A HIGHLY IMAGINATIVE SCHEME FOR ENCOURAGING INDIVIDUALS TO INVEST IN SMALL COMPANIES. IT IS ALREADY PROVING A CONSIDERABLE SUCCESS. IT NOW NEEDS TIME TO SETTLE DOWN, AND I HAVE ONLY ONE CHANGE TO PROPOSE THIS YEAR.

107. THE SCHEME WAS DESIGNED TO OFFER GENEROUS INCENTIVES FOR INVESTMENT BY NEW OR EXPANDING COMPANIES IN HIGH RISK AREAS. THE OWNERSHIP OF FARMLAND CANNOT BE SAID TO FALL WITHIN THIS CATEGORY, AND I THEREFORE PROPOSE THAT FROM ~~TODAY~~ tomorrow FARMING SHOULD CEASE TO BE TREATED AS A QUALIFYING TRADE UNDER THE SCHEME. ✓ JR !

/NEXT, IN KEEPING

108. NEXT, IN KEEPING WITH WHAT I HAVE SAID ABOUT REMOVING COMPLEXITY AND DISTORTIONS, I PROPOSE TO ABOLISH TWO RELIEFS IN THE PERSONAL TAX FIELD WHICH WERE INTRODUCED AT A TIME WHEN THIS COUNTRY SUFFERED FROM EXCESSIVELY HIGH RATES OF INCOME TAX. AS WE HAVE REDUCED THOSE RATES, THE RELIEFS ARE NO LONGER JUSTIFIED.

109. THE FIRST ~~DISTORTION~~ IS THE 50 PER CENT TAX RELIEF (FALLING AFTER 9 YEARS TO 25 PER CENT) APPLIED TO THE EMOLUMENTS OF FOREIGN-DOMICILED EMPLOYEES WORKING HERE FOR FOREIGN EMPLOYERS. THESE EMPLOYEES ARE OFTEN PAYING MUCH LESS TAX HERE THAN THEY WOULD EITHER IN THEIR OWN COUNTRY OR IN MOST OTHER EUROPEAN COUNTRIES. AT PRESENT INCOME TAX RATES, THE NEED FOR THIS RELIEF HAS CLEARLY DISAPPEARED. MOREOVER, IT IS OPEN TO WIDESPREAD ABUSE. IT IS, FOR EXAMPLE, POSSIBLE FOR ~~THE SON OF AN IMMIGRANT, WORKING HERE FOR A FOREIGN COMPANY, TO~~ SOMEONE WHOSE PARENTS CAME HERE FROM ABROAD, AND WHO HAS HIMSELF LIVED HERE ALL HIS LIFE, TO ENJOY THIS RELIEF, IF HE WORKS FOR A FOREIGN COMPANY. ~~EVEN IF HE HAS LIVED IN THIS~~ THAT CANNOT BE RIGHT.

~~/COUNTRY ALL HIS~~

/ I THEREFORE

New para

~~COUNTRY ALL HIS LIFE.~~

I THEREFORE PROPOSE TO WITHDRAW THE RELIEF FOR ALL NEW CASES FROM TODAY. FOR EXISTING BENEFICIARIES, THE 25 PER CENT RELIEF WILL CEASE ON 6 APRIL, AND THE 50 PER CENT RELIEF WILL BE PHASED OUT OVER THE NEXT FIVE YEARS.

~~1~~10. I ALSO PROPOSE TO WITHDRAW THE FOREIGN EARNINGS RELIEF FOR UNITED KINGDOM RESIDENTS WHO WORK AT LEAST 30 DAYS ABROAD IN A TAX YEAR. THIS RELIEF TOO HARKS BACK TO THE DAYS OF PENALLY HIGH INCOME TAX RATES. IT TOO HAS BEEN EXPLOITED, IN PARTICULAR BY THOSE WHO PROLONG THEIR OVERSEAS VISITS PURELY IN ORDER TO GAIN A TAX ADVANTAGE. I PROPOSE TO WITHDRAW THE MATCHING RELIEF FOR THE SELF-EMPLOYED WHO SPEND 30 DAYS ABROAD, AND FOR THOSE RESIDENT IN THE UK WHO HAVE SEPARATE EMPLOYMENTS OR SEPARATE TRADES CARRIED ON WHOLLY ABROAD. THE RELIEF WILL BE HALVED TO 12½ PER CENT IN 1984- 85 AND REMOVED ENTIRELY FROM 6 APRIL 1985.

new para

HOWEVER, I AM NOT MAKING ANY CHANGE TO THE 100 PER

/CENT REDUCTION

CENT DEDUCTION GIVEN FOR ABSENCES ABROAD OF 365 DAYS OR MORE. IN ADDITION, I HAVE AUTHORISED CONSULTATIONS BY THE INLAND REVENUE ABOUT A POSSIBLE RELAXATION IN THE RULES GOVERNING THE TAXATION OF EXPENSES REIMBURSED TO EMPLOYEES FOR TRAVEL OVERSEAS.

111. THE ABOLITION OF THESE RELIEFS WILL EVENTUALLY YIELD REVENUE SAVINGS OF OVER £150 MILLION; AND REPRESENTS ANOTHER USEFUL STEP IN THE REMOVAL OF COMPLEXITY AND DISTORTIONS IN THE TAX SYSTEM.

112. I NEED TO SET THE CAR BENEFIT SCALES FOR 1985-86 FOR THOSE PROVIDED WITH THE USE OF A CAR BY THEIR EMPLOYER. DESPITE THE INCREASES OVER RECENT YEARS, THE LEVELS STILL FALL SHORT OF ANY REALISTIC MEASURE OF THE TRUE BENEFIT. I AM PROPOSING AN INCREASE OF 10 PER CENT IN BOTH THE CAR AND CAR FUEL SCALES WITH EFFECT FROM APRIL 1985.

/UNNECESSARILY

113. UNNECESSARILY HIGH RATES OF TAX DISCOURAGE ENTERPRISE AND RISK TAKING. THIS IS TRUE OF THE CAPITAL TAXES, JUST AS IT IS OF THE CORPORATION AND INCOME TAXES. IT IS A MATTER OF PARTICULAR CONCERN TO THOSE INVOLVED IN RUNNING UNQUOTED FAMILY BUSINESSES. THE HIGHEST RATES OF CAPITAL TRANSFER TAX ARE FAR TOO HIGH AND BADLY OUT OF LINE WITH ~~COMPARABLE~~ RATES ABROAD. I PROPOSE THEREFORE, IN ADDITION TO STATUTORY INDEXATION, TO REDUCE THE HIGHEST RATE OF CAPITAL TRANSFER TAX FROM 75 PER CENT TO 60 PER CENT. FOR LIFETIME GIFTS I PROPOSE TO SIMPLIFY THE SCALE SO THAT THE RATE IS ALWAYS ONE-HALF OF THAT ON DEATH.

Stet/

Keep in 'comparable'

114. FOR CAPITAL GAINS TAX I WILL, AS PROMISED, BRING FORWARD IN THE FINANCE BILL PROPOSALS TO DOUBLE THE LIMIT FOR RETIREMENT RELIEF TO A FIGURE OF £100,000, BACKDATED TO APRIL 1983. A CONSULTATIVE DOCUMENT ON OTHER POSSIBLE CHANGES IN THIS RELIEF IS BEING ISSUED NEXT WEEK. I AM

/PROPOSING NO

PROPOSING NO OTHER CHANGES THIS YEAR IN CAPITAL GAINS TAX BEYOND THE STATUTORY INDEXATION OF THE EXEMPT AMOUNT FROM £5,300 TO £5,600. HOWEVER, THE TAX CONTINUES TO ATTRACT CRITICISM -NOT LEAST FOR ITS COMPLEXITY - AND THAT IS A MATTER TO WHICH I HOPE TO RETURN ~~IN A LATER~~ NEXT YEAR.

115. WE HAVE DONE MUCH TO IMPROVE THE DEVELOPMENT LAND TAX. EARLY IN THE LAST PARLIAMENT, MY PREDECESSOR INCREASED THE THRESHOLD FROM £10,000 TO £50,000. I NOW PROPOSE A FURTHER INCREASE TO £75,000, WHICH WILL REDUCE THE NUMBER OF CASES LIABLE TO THE TAX BY MORE THAN ONE-THIRD.

116. NEXT SHARE OPTIONS. THE MEASURES INTRODUCED IN THE LAST PARLIAMENT TO IMPROVE EMPLOYEE INVOLVEMENT THROUGH PROFIT-SHARING AND SAVINGS-RELATED SHARE OPTIONS SCHEMES HAVE BEEN A NOTABLE SUCCESS. THE NUMBER OF THESE [~~EMPLOYEE~~] SCHEMES OPEN TO ALL EMPLOYEES HAS INCREASED FROM ABOUT 30 IN 1979 TO

8 JJC ✓

/OVER 670 NOW,

OVER 670 NOW, BENEFITING SOME HALF A MILLION EMPLOYEES. TO MAINTAIN AND BUILD ON THIS PROGRESS I PROPOSE TO INCREASE THE MONTHLY LIMIT ON CONTRIBUTIONS TO SAVINGS-RELATED SHARE OPTION SCHEMES FROM £50 TO £100. I HAVE ALSO AUTHORISED THE INLAND REVENUE TO DOUBLE THE TAX-FREE LIMITS UNDER THE CONCESSION ON LONG SERVICE AWARDS, AND TO INCLUDE WITHIN THESE LIMITS THE GIFT OF SHARES IN THE EMPLOYEE'S COMPANY.

117. BUT BEYOND THIS, I AM CONVINCED THAT WE NEED TO DO MORE TO ATTRACT TOP CALIBRE COMPANY MANAGEMENT AND TO INCREASE THE INCENTIVES AND MOTIVATION OF EXISTING EXECUTIVES AND KEY PERSONNEL BY LINKING THEIR REWARDS TO PERFORMANCE. I PROPOSE THEREFORE THAT, SUBJECT TO CERTAIN NECESSARY LIMITS AND CONDITIONS, SHARE OPTIONS GENERALLY ~~WILL~~ BE TAKEN OUT OF INCOME TAX ALTOGETHER, LEAVING ANY GAIN TO BE CHARGED TO CAPITAL GAINS TAX ON ULTIMATE DISPOSAL OF THE SHARES. THE NEW RULES WILL APPLY TO OPTIONS MEETING THE NECESSARY CONDITIONS WHICH ARE GRANTED FROM 6 APRIL.

8

[IR] ✓

/I AM SURE

~~118.~~ I am sure that all these changes will be welcomed as measures to encourage the commitment of employees to the success of their companies and to improve the performance, competitiveness and profitability of British industry.

~~119.~~ As the House knows, the Government is deeply concerned at the threat which the spread of unitary taxation in certain US states has posed to the US subsidiaries of British firms. With our European partners we are monitoring the situation closely, and await with keen interest the imminent report of US Treasury Secretary Regan's Working Group. It is essential that a satisfactory solution is found and speedily implemented.

~~120.~~ US firms operating in this country are not of course taxed on a unitary basis.

/I now turn

121. I NOW TURN TO OIL TAXATION. LAST YEAR'S NORTH SEA TAX CHANGES WERE WELL RECEIVED, AND THERE HAS BEEN A SUBSTANTIAL INCREASE IN THE NUMBER OF DEVELOPMENT PROJECTS COMING FORWARD, AND A NEW SURGE IN EXPLORATION. // NP THE GOVERNMENT IS ALREADY COMMITTED TO A STUDY OF THE ECONOMICS OF INVESTMENT IN INCREMENTAL DEVELOPMENT IN EXISTING FIELDS. THIS IS OF INCREASING IMPORTANCE, AND IN CONSULTATION WITH MY RT HON FRIEND THE SECRETARY OF STATE FOR ENERGY I THEREFORE PROPOSE TO REVIEW THIS AREA WITH THE INDUSTRY, AND TO LEGISLATE AS APPROPRIATE NEXT YEAR TO IMPROVE THE POSITION. TO PREVENT PROJECTS BEING DEFERRED PENDING THIS REVIEW, ANY CHANGES WILL APPLY TO ALL PROJECTS WHICH RECEIVE DEVELOPMENT CONSENT AFTER TODAY.

numbers
per 57a subst. in relation
in para.

122. MEANWHILE, I AM TAKING TWO MEASURES TO PREVENT AN UNJUSTIFIED LOSS OF TAX IN THE NORTH SEA. FIRST, IN ADDITION TO THE PRT MEASURES ON FARMOUTS WHICH I ANNOUNCED LAST SEPTEMBER, I AM LIMITING THE

/POTENTIAL

WORK ON NO FEWER THAN 128 OFFSHORE EXPLORATION AND APPRAISAL WELLS STARTED LAST YEAR — AN ALL-TIME RECORD.

JOC/DEn. ✓

potential Corporation Tax cost of such deals. Second, I propose to repeal the provision which allows Advance Corporation Tax to be repaid where Corporation Tax is reduced by PRT. I have also reviewed the case for extending last year's future field concessions to the Southern Basin, but have concluded that additional incentives here are not needed.

1~~23~~. I have just two further changes affecting business to propose, both of which will come into force on 1 October.

1~~24~~. Ever since VAT was introduced in this country, we have treated imports differently from the way our main European Community competitors treat them. While they require VAT on imported goods to be paid in the same way as customs duties, we do not. Under our system an importer does not have to account for VAT on his imports until he makes his normal VAT

/return,

RETURN, ON AVERAGE SOME 11 WEEKS LATER. DURING THIS TIME THE IMPORTER ENJOYS FREE CREDIT AT THE TAXPAYER'S EXPENSE. ~~BUT BUSINESSES BUYING FROM UK SUPPLIERS HAVE TO PAY VAT~~ ~~AS SOON AS THEY PAY THESE SUPPLIERS~~ ~~STRAIGHT AWAY~~.

C+E
Mnge
CU.
et al.

*

~~125~~. THE EUROPEAN COMMISSION HAS FOR SOME YEARS NOW BEEN SEEKING, WITH OUR FULL SUPPORT, TO GET A SYSTEM LIKE OURS ADOPTED THROUGHOUT THE COMMUNITY. BUT THE PLAIN FACT IS THAT IN ALL THAT TIME THE COMMISSION HAS MADE NO PROGRESS WHATEVER.

Jol.

~~126~~. I MUST TELL THE HOUSE ~~HAVE~~ THAT I AM NOT PREPARED TO PUT BRITISH INDUSTRY AT A COMPETITIVE DISADVANTAGE IN THE HOME MARKET ANY LONGER. SHOULD OUR EUROPEAN PARTNERS AT ANY TIME UNDERGO A DAMASCENE CONVERSION, AND AGREE THAT THE COMMISSION'S PROPOSAL SHOULD BE ACCEPTED AFTER ALL, THEN OF COURSE WE WOULD REVERT TO THE PRESENT SYSTEM. BUT IN THE MEANTIME I PROPOSE TO MOVE TO THE SYSTEM USED BY OUR EUROPEAN COMPETITORS. WE SHALL PROVIDE THE SAME FACILITIES

/FOR PAYMENT

BUT WHEN ONE BRITISH BUSINESSMAN BUYS FROM ANOTHER, ~~HE~~ GETS NO SUCH HELP FROM THE TAXPAYER: HE PAYS HIS VAT WHEN HE PAYS ~~AS THE BUS~~ HIS SUPPLIER

FOR PAYMENT OF VAT ON IMPORTS AS APPLY TO CUSTOMS DUTIES. THAT MEANS THAT MOST IMPORTERS WILL BE ABLE TO DEFER PAYMENT OF VAT BY ON AVERAGE ONE MONTH FROM THE DATE OF IMPORTATION. BUT THAT IS ALL.

~~127~~. AS I HAVE SAID, THIS CHANGE WILL APPLY FROM 1 OCTOBER. BY BRINGING FORWARD VAT RECEIPTS, IT WILL BRING IN AN EXTRA £1.2 BILLION IN 1984-85, SOME OF WHICH WILL BE BORNE BY FOREIGN PRODUCERS AND MANUFACTURERS. THERE WILL OF COURSE BE NO INCREASED REVENUE IN SUBSEQUENT YEARS.

~~128~~. THE SECOND CHANGE I PROPOSE TO MAKE ON 1 OCTOBER CONCERNS THE NATIONAL INSURANCE SURCHARGE. THIS TAX ON JOBS WAS INTRODUCED BY THE LABOUR GOVERNMENT IN 1977 AT THE RATE OF 2 PER CENT, AND FURTHER INCREASED BY THE RT. HON. MEMBER FOR LEEDS EAST IN 1978 TO 3½ PER CENT. DURING THE LAST PARLIAMENT, THIS GOVERNMENT REDUCED IT TO 1 PER CENT, AND WE ARE PLEDGED TO ABOLISH IT DURING THE LIFETIME OF THIS PARLIAMENT.

check ✓

/GIVEN THE IMPACT

129. GIVEN THE IMPACT THAT THIS TAX HAS, NOT ONLY ON INDUSTRIAL COSTS BUT ALSO - AT A TIME OF HIGH UNEMPLOYMENT - ON JOBS, I HAVE DECIDED TO TAKE THE OPPORTUNITY OF THIS MY FIRST BUDGET TO FULFIL THAT PLEDGE. ABOLITION OF THE NATIONAL INSURANCE SURCHARGE FROM OCTOBER WILL REDUCE PRIVATE SECTOR EMPLOYERS' COSTS BY ALMOST £350 MILLION IN 1984-85, AND OVER £850 MILLION IN A FULL YEAR. IT WILL THUS BE OF CONTINUING HELP TO BRITISH INDUSTRY. AS BEFORE, THE BENEFIT WILL BE CONFINED TO THE PRIVATE SECTOR.

130. THE HOUSE WILL I AM SURE AGREE THAT A BUDGET WHICH ABOLISHES THE NATIONAL INSURANCE SURCHARGE, AND which CUTS THE RATES AND SIMPLIFIES THE STRUCTURE OF CORPORATION TAX, IS A BUDGET FOR JOBS AND FOR ENTERPRISE. IT OFFERS BRITISH INDUSTRY AN OPPORTUNITY WHICH I AM CONFIDENT IT WILL SEIZE.

{PEM}

?Yes?

Substantially reduces the Government's demands on the financial system, which

/HAVING ANNOUNCED

SAVINGS AND INVESTMENT

~~64.~~ FIRST, THE TAXATION OF SAVINGS AND INVESTMENT. THE PROPOSALS I AM ABOUT TO MAKE SHOULD IMPROVE THE DIRECTION AND QUALITY OF BOTH. AND THEY WILL CONTRIBUTE FURTHER TO THE CREATION OF A PROPERTY-OWNING AND SHARE-~~OWING~~ OWNING DEMOCRACY, IN WHICH MORE DECISIONS ARE MADE BY INDIVIDUALS RATHER THAN BY ~~INTERMEDIARY~~ INSTITUTIONS.

!

~~65.~~ I START WITH STAMP DUTY. THIS WAS DOUBLED FROM ITS LONG-STANDING 1 PER CENT BY THE POST-WAR LABOUR GOVERNMENT IN 1947, REDUCED BY THE ~~MACMILLAN~~ Conservative GOVERNMENT IN 1963, AND ONCE AGAIN DOUBLED TO 2 PER CENT BY LABOUR IN THE FIRST BUDGET PRESENTED BY THE RT HON MEMBER FOR LEEDS EAST IN 1974. AT ITS PRESENT LEVEL IT IS AN IMPEDIMENT TO MOBILITY AND

INCOMPATIBLE WITH THE FORCES OF COMPETITION NOW AT WORK IN THE CITY, FOLLOWING THE WITHDRAWAL OF THE STOCK EXCHANGE CASE FROM THE RESTRICTIVE PRACTICES COURT.

// 66. I THEREFORE PROPOSE TO HALVE THE RATE OF STAMP DUTY TO 1 PER CENT. [~~WITH THE EXCEPTION OF THOSE DOCUMENTS WHICH HAVE TO BE STAMPED BEFORE 20 MARCH, THE CHANGE WILL TAKE EFFECT FROM TODAY.~~]

// 67. FOR THE HOME BUYER, THE NEW FLAT RATE 1 PER CENT STAMP DUTY WILL START AT £30,000. BELOW THIS LEVEL NO DUTY WILL BE PAYABLE. AS A RESULT OF THIS £5,000 INCREASE IN THE THRESHOLD, 90 PER CENT OF FIRST TIME HOME BUYERS WILL NOT HAVE TO PAY STAMP DUTY AT ALL.

// 68. REDUCING THE RATE OF DUTY ON SHARE TRANSFERS WILL REMOVE AN IMPORTAN~~CE~~T DISINCENTIVE TO INVESTMENT IN EQUITIES AND INCREASE THE [illegible]

/INTERNATIONAL

The new rate will apply straight away to Stock Exchange deals. It will also apply from today to other transactions where documents are stamped on or after 20 March.

[IR.]

Big improvement I think

INTERNATIONAL COMPETITIVENESS OF OUR STOCK MARKET. IT SHOULD ALSO HELP BRITISH COMPANIES TO RAISE EQUITY FINANCE.

[Manges]

~~69~~. IN ADDITION, I HAVE ~~THREE~~ FOUR PROPOSALS TO ENCOURAGE THE ISSUE OF CORPORATE BONDS. I SHALL GO AHEAD WITH THE NEW ARRANGEMENTS FOR DEEP DISCOUNT STOCK AND THE RELIEFS FOR COMPANIES ISSUING EUROBONDS, AND FOR CONVERTIBLE LOAN STOCK, WHICH WERE ANNOUNCED BUT NOT ENACTED LAST YEAR. AND I PROPOSE TO EXEMPT FROM CAPITAL GAINS TAX MOST CORPORATE FIXED INTEREST SECURITIES PROVIDED THEY ARE HELD FOR MORE THAN A YEAR. SINCE SUCH SECURITIES ARE ALREADY EXEMPT FROM STAMP DUTY THIS MEANS THAT THE TAX CONCESSIONS FOR PRIVATE SECTOR BORROWING IN THE CORPORATE BOND MARKET WILL NOW BE VIRTUALLY THE SAME AS FOR GOVERNMENT BORROWING IN THE GILT-EDGED MARKET.

1
2
3
4

/THE REDUCTIONS

~~70~~. THE REDUCTIONS IN STAMP DUTY WILL COST £450 MILLION IN 1984-85, OF WHICH £160 MILLION IS THE COST OF THE RELIEF ON SHARE TRANSFERS, AND £290 MILLION THE COST OF THE RELIEF ON TRANSFERS OF HOUSES AND OTHER BUILDINGS AND LAND.

~~71~~. NEXT, LIFE ASSURANCE. THE MAIN EFFECT OF LIFE ASSURANCE PREMIUM RELIEF TODAY IS UNDULY TO FAVOUR INSTITUTIONAL RATHER THAN DIRECT INVESTMENT. IT HAS ALSO SPAWNED A MULTIPLICITY OF WELL-ADVERTISED TAX MANAGEMENT SCHEMES, I THEREFORE PROPOSE TO WITHDRAW THE RELIEF ON ALL NEW CONTRACTS MADE AFTER TODAY. I STRESS THAT THIS CHANGE WILL APPLY ONLY TO NEW (OR NEWLY ENHANCED) POLICIES, TAKEN OUT ~~OR INCREASED~~ AFTER TODAY. EXISTING POLICIES WILL NOT BE AFFECTED AT ALL. THE CHANGE IS ESTIMATED TO YIELD ABOUT £90 MILLION IN 1984-85.

and no less Than 50 pages of legislation attempting to deal~~ing~~ with its abuse.

~~1 sentence on pages in statute book (subject to our proviso)~~ – new proviso

C/t will that do? The relief itself takes 20 pages.

~~72~~. I AM ALSO PROPOSING TO ~~WITHDRAW~~ CURTAIL THE SPECIAL - BUT UNFORTUNATELY WIDELY ABUSED - PRIVILEGES FOR

/WHAT ARE KNOWN

WHAT ARE KNOWN AS 'TAX EXEMPT' FRIENDLY SOCIETIES, AND BRING THEM INTO LINE WITH THE NORMAL RULES FOR FRIENDLY SOCIETIES DOING 'MIXED' BUSINESS. HOWEVER THE LIMITS WITHIN WHICH IN FUTURE ALL FRIENDLY SOCIETIES WILL BE ABLE TO WRITE ASSURANCE ON A TAX EXEMPT BASIS WILL BE INCREASED FROM £500 TO £750.

~~73.~~ I HAVE ALSO REVIEWED THE TAX TREATMENT OF DIRECT PERSONAL INVESTMENT. THE INVESTMENT INCOME SURCHARGE IS AN UNFAIR AND ANOMALOUS TAX ON SAVINGS AND ON THE REWARDS OF SUCCESSFUL ENTERPRISE. IT HITS THE SMALL BUSINESSMAN WHO REACHES RETIREMENT WITHOUT THE CUSHION OF A COMPANY PENSION SCHEME, AND IMPEDES THE CREATION OF FARM TENANCIES. IN THE VAST MAJORITY OF CASES IT IS A TAX ON SAVINGS MADE OUT OF HARD-EARNED AND FULLY-TAXED INCOME. MORE THAN HALF OF THOSE WHO PAY THE INVESTMENT INCOME SURCHARGE ARE OVER 65, AND OF THESE HALF WOULD OTHERWISE BE LIABLE TO TAX AT ONLY THE BASIC RATE.

/I HAVE THEREFORE

~~74~~. I HAVE THEREFORE DECIDED THAT THE INVESTMENT INCOME SURCHARGE SHOULD BE ABOLISHED. THE COST IN 1984-85 WILL BE SOME £25 MILLION, BUILDING UP TO around £350 ~~£360~~ MILLION IN A FULL YEAR. [IR]

~~75~~. FINALLY, I PROPOSE TO DRAW MORE CLOSELY TOGETHER THE TAX TREATMENT OF DEPOSITORS IN BANKS AND BUILDING SOCIETIES. THESE INSTITUTIONS COMPETE IN THE SAME MARKET FOR PERSONAL DEPOSITS. I BELIEVE THAT THEY SHOULD BE ABLE TO DO SO ON MORE EQUAL TERMS AS FAR AS TAX IS CONCERNED. ONE SOURCE OF UNEQUAL TREATMENT HAS ALREADY BEEN REMOVED, WITH THE RECENT CHANGE MADE ON LEGAL ADVICE IN THE TAX TREATMENT OF BUILDING SOCIETIES' PROFITS FROM GILT-EDGED SECURITIES. THEY ARE NOW TREATED IN THE SAME WAY AS THOSE OF THE BANKS HAVE ALWAYS BEEN.

/BUT THE MAJOR

~~76~~. BUT THE MAJOR SOURCE OF UNEQUAL TREATMENT, AGAINST WHICH THE BANKS IN PARTICULAR HAVE FREQUENTLY COMPLAINED, IS THE SPECIAL ARRANGEMENT FOR INTEREST PAID BY BUILDING SOCIETIES. THE SOCIETIES PAY TAX AT A SPECIAL RATE - THE "COMPOSITE RATE" -ON THE INTEREST PAID TO THE DEPOSITOR, WHO RECEIVES CREDIT FOR INCOME TAX AT THE FULL BASIC RATE.

~~77~~. THIS SYSTEM, WHICH HAS WORKED WELL FOR THE PAST 90 YEARS, HAS BOTH AN ADVANTAGE AND A DISADVANTAGE. THE DISADVANTAGE IS THAT A MINORITY OF DEPOSITORS, WHO ARE BELOW THE INCOME TAX THRESHOLD, STILL ~~HAVE~~ PAY
12 ✓ TAX ~~DEDUCTED~~ AT THE COMPOSITE RATE. IT HAS NOT HOWEVER STOPPED MANY OF THEM USING BUILDING SOCIETIES BECAUSE OF THE COMPETITIVE RATES THEY HAVE OFFERED. THE ADVANTAGE OF THE SCHEME IS ITS EXTREME SIMPLICITY, PARTICULARLY FOR THE TAXPAYER; MOST TAXPAYERS ARE SPARED THE BOTHER OF PAYING TAX ON INTEREST THROUGH PAYE OR INDIVIDUAL ASSESSMENT,

/WHILE THE REVENUE

while the Revenue are spared the need to recruit up to 2000 extra staff to collect the tax due on interest paid without deduction.

78. In common with my predecessors of all Parties over the past 90 years, I am satisfied that the advantage of the composite rate arrangement outweighs the disadvantage. It follows that equal treatment of building societies and banks should be achieved, not by removing the composite rate from the societies, but by extending it to the banks and other licensed deposit takers.

79. Non-taxpayers will continue to be able to receive interest gross, should they wish to do so, by putting their money into appropriate National Savings facilities. But the purpose of the move is not, of course, to attract savings into Government hands: as I have already announced, next year's target for National Savings will be the same as this

YEAR'S AND LAST YEAR'S; AND THE TOTAL GOVERNMENT APPETITE FOR SAVINGS, WHICH IS MEASURED BY THE SIZE OF THE PUBLIC SECTOR BORROWING REQUIREMENT, IS BEING SIGNIFICANTLY REDUCED.

~~80~~. THE TRUE PURPOSE OF THE MOVE IS SIMPLE: FAIRER COMPETITION AND SIMPLICITY ITSELF. [~~UNLESS THEY ARE~~ The great majority of IR ✓
~~HIGHER RATE TAXPAYERS,~~] INDIVIDUAL BANK CUSTOMERS WILL, WHEN IT COMES TO TAX, BE ABLE TO FORGET ABOUT BANK INTEREST ALTOGETHER, FOR ALL THE TAX DUE ON IT WILL ALREADY HAVE BEEN PAID. AND IT WILL BE EASIER FOR PEOPLE TO COMPARE THE TERMS OFFERED FOR THEIR SAVINGS BY BANKS AND BUILDING SOCIETIES. THE~~RE WILL~~ PURPOSE OF THE CHANGE IS NOT TO RAISE ADDITIONAL REVENUE ~~AND~~ ~~BE NO DIRECT GAIN TO THE EXCHEQUER~~. HOWEVER, THE INLAND REVENUE WILL BE ABLE TO MAKE STAFF SAVINGS OF
8 Jore et al ✓ UP TO [~~AN EXTRA~~] 1000 CIVIL SERVANTS. MOREOVER, THIS FIGURE TAKES NO ACCOUNT OF THE SUBSTANTIAL NUMBERS OF ADDITIONAL INLAND REVENUE STAFF WHO WOULD HAVE BEEN REQUIRED TO OPERATE THE PRESENT SYSTEM AS THE TREND TOWARDS THE PAYMENT OF INTEREST ON CURRENT ACCOUNTS DEVELOPS.

/ACCORDINGLY,

? c/x or ? ✓ THE COMPOSITE RATE ARRANGEMENT IS DESIGNED TO COLLECT NO MORE ~~than~~ TAX THAN ~~THE AMOUNT~~ would be DUE AT THE BASIC RATE FROM ALL DEPOSITORS under existing arrangements

~~81.~~ ACCORDINGLY, I PROPOSE TO EXTEND THE COMPOSITE RATE ARRANGEMENTS TO INTEREST RECEIVED BY UK RESIDENT INDIVIDUALS FROM BANKS AND OTHER LICENSED DEPOSIT TAKERS WITH EFFECT FROM 1985-86. THE COMPOSITE RATE WILL NOT APPLY EITHER TO NON-RESIDENTS OR TO THE CORPORATE SECTOR. ARRANGEMENTS WILL ALSO BE MADE TO EXCLUDE FROM THE SCHEME CERTIFICATES OF DEPOSIT AND TIME DEPOSITS OF £50,000 OR MORE.

~~82.~~ TAKEN TOGETHER, THE MAJOR PROPOSALS I HAVE JUST ANNOUNCED ON STAMP DUTY, LIFE ASSURANCE PREMIUM RELIEF, THE INVESTMENT INCOME SURCHARGE, AND THE COMPOSITE RATE, COUPLED WITH OTHER MINOR PROPOSALS, WILL PROVIDE A SIMPLER AND MORE STRAIGHTFORWARD TAX SYSTEM FOR SAVINGS AND INVESTMENT. THEY WILL REMOVE BIASES WHICH HAVE DISCOURAGED THE INDIVIDUAL SAVER FROM INVESTING DIRECTLY IN INDUSTRY. [~~AND~~] THEY WILL REINFORCE THE GOVERNMENT'S POLICY OF ENCOURAGING COMPETITION IN THE FINANCIAL SECTOR, AS IN THE ECONOMY AS A WHOLE. AND THEY ARE PART OF A PACKAGE OF MEASURES DESIGNED TO ENABLE INTEREST RATES TO FALL, AND REDUCE THE COST OF BORROWING.

[PEM] ✓

/ I now turn to

PUBLIC EXPENDITURE

~~47~~. The Public Expenditure White Paper setting out our spending plans for the next three years was approved by the House last week. Today I want to consider the important issue of Government spending in a rather wider perspective.

~~48~~. For far too long, public spending has grown faster than the economy as a whole. As a result, the tax burden has steadily increased and income tax has extended steadily lower down the ~~WAGE~~ INCOME scale. cy ✓

~~49~~. We have seen a massive enlargement in the role of the State, at the expense of the individual, and a corresponding increase in the dead weight of taxation holding back our economic progress as a nation.

/This process

50. This process has to stop. But it has arisen because much public spending is directed to eminently desirable ends. This raises difficult issues which deserve the widest possible consideration and debate.

51. The Government is therefore publishing today, in addition to the customary Budget documents, a Green Paper on the prospects for public spending and taxation over the next ten years. It examines past trends; discusses the pressures for still higher spending; and examines the rewards for the individual and the benefits for the economy if these pressures can be contained.

52. The Green Paper concludes that, without firm control over public spending, there can be no prospect of bringing the burden of tax back to more reasonable levels. On the assumptions made in the Green Paper, the burden of taxation will be reduced

/to the levels

to the levels of the early 1970s only if public spending is kept broadly stable in real terms over the next ten years.

~~53.~~ The Government believes that the issues discussed in the Green Paper merit the attention of the House and the country.

~~54.~~ In contrast to previous years, I have no package of public expenditure measures to announce in this Budget. The White Paper plans stand.

~~55.~~ I can however make one announcement, which I think the House will welcome. Within the published plans the Government ~~have~~ HAS been able to provide the National Heritage Memorial Fund with additional resources which will enable them among other things to secure the future of Calke Abbey. My Rt Hon Friend the Secretary of State for the Environment will be announcing the details shortly.

~~JSK~~/AMB ✓

/The House will

56. The House will recall that proposals for the new rates of social security benefit to come into force in November are not now made at the time of the Budget. Following last year's legislation to return to the historic method of uprating, price protection is measured by reference to the Retail Price Index for May. My Rt Hon Friend the Secretary of State for Social Services will be announcing the new rates of social security benefits, including Child Benefit, when the May RPI is known.

57. Before leaving Government spending, I should add a word on public sector manpower. At the beginning of the last Parliament, the Government set itself the target of reducing the size of the Civil Service from 732,000 in April 1979 to 630,000 by April of this year. That target will be achieved. We have now set ourselves the further target of 593,000 by April 1988. I am confident that a

/smaller Civil

SMALLER CIVIL SERVICE WILL CONTINUE TO IMPROVE ITS EFFICIENCY. THE TAX CHANGES I SHALL BE ANNOUNCING TODAY WILL REDUCE MANPOWER REQUIREMENTS BY AT LEAST 1,000 IN MY OWN DEPARTMENTS, WHICH WILL HELP TOWARDS MEETING THE 1988 TARGET.

/I INDICATED AT THE

THE ~~MTFS~~ MEDIUM TERM FINANCIAL STRATEGY

~~22.~~ For the United Kingdom, the Medium Term Financial Strategy has been the cornerstone of such policies. It will continue to play that role; to provide a framework and discipline for Government and to set out clearly, to industry and the financial markets, the guidelines of policy. Too often in the past Governments abandoned financial discipline whenever the going got rough, and staggered from one short-term policy expedient to another. The temptation to accommodate inflationary pressures proved irresistible, and the nation's longer-term economic performance was progressively undermined.

/The MTFS was

23. THE MTFS WAS DESIGNED TO REMEDY THIS, BY IMPOSING A DISCIPLINED FINANCIAL FRAMEWORK WHICH WOULD ALSO ENSURE CONSISTENCY BETWEEN MONETARY AND FISCAL POLICIES, AND A PROPER BALANCE IN THE ECONOMY. IT IS SO DESIGNED TO ENSURE THAT THE MORE INFLATION AND INFLATIONARY EXPECTATIONS COME DOWN, THE MORE ROOM IS AVAILABLE FOR OUTPUT AND EMPLOYMENT TO GROW.

24. PEOPLE NOW KNOW THAT THE GOVERNMENT INTENDS TO STICK TO ITS MEDIUM TERM OBJECTIVES. THEY UNDERSTAND THAT THE FASTER INFLATION COMES DOWN, THE FASTER OUTPUT AND EMPLOYMENT ARE LIKELY TO RECOVER. THE INCREASING DEGREE OF REALISM AND FLEXIBILITY IN THE ECONOMY OWES MUCH TO THE PURSUIT OF FIRM AND CONSISTENT POLICIES WITHIN THE MTFS FRAMEWORK.

25. ORIGINALLY THE MTFS COVERED FOUR YEARS. IN THIS FIRST BUDGET OF A NEW PARLIAMENT IT IS

/APPROPRIATE TO

APPROPRIATE TO CARRY IT FORWARD FOR FIVE YEARS. So THE MTFS PUBLISHED TODAY IN THE FINANCIAL STATEMENT AND BUDGET REPORT - THE RED BOOK - SHOWS A CONTINUING DOWNWARD PATH FOR THE MONETARY TARGET RANGES OVER THE NEXT FIVE YEARS, AND A PATH FOR PUBLIC BORROWING CONSISTENT WITH THAT REDUCTION. IT TAKES FULL ACCOUNT OF IMPORTANT INFLUENCES SUCH AS THE PATTERN OF NORTH SEA OIL REVENUES, AND THE LEVEL OF ASSET SALES ARISING FROM THE PRIVATISATION PROGRAMME. //P

New PARA ✓ [CU]

FOR THE ~~LAST~~ TWO FINAL YEARS OF THE NEW MTFS, WHICH LIE BEYOND THE PERIOD COVERED IN LAST YEARS PUBLIC EXPENDITURE SURVEY AND LAST MONTH'S WHITE PAPER, THE GOVERNMENT HAS NOT YET MADE FIRM PLANS FOR PUBLIC SPENDING. BUT THE MTFS ASSUMPTION - AND AT PRESENT IT IS NO MORE THAN AN ASSUMPTION - IS THAT THE LEVEL OF PUBLIC SPENDING IN 1987-88 AND 1988-89 WILL BE THE SAME IN REAL TERMS AS THAT CURRENTLY PLANNED FOR 1986-87.

/THE PRECISE

~~?No [EST]~~ [PEM]

26. THE PRECISE FIGURES SET OUT IN THE MTFS ARE NOT OF COURSE A [illegible] RIGID FRAMEWORK, LACKING ALL FLEXIBILITY. AS IN THE PAST, THERE MAY ~~WELL~~ NEED TO BE ADJUSTMENTS TO TAKE ACCOUNT OF CHANGING CIRCUMSTANCES. BUT NO CHANGES WILL BE MADE THAT MIGHT JEOPARDISE THE CONSISTENT PURSUIT OF THE GOVERNMENT'S OBJECTIVES.

/Monetary Policy

New paras to 1, 25, 86, 97, 109, 110, 145.

Changes to paras 1, (6), 12, 17, 37, 42, 58, 65, 64, 71, 72, 91, 92, 97, 108, 109, 114, 117, (121), (128), 133, 136, (141), 144, 155, 157, 160.

INTRODUCTION

New para

JOC 1

This Budget will set the Government's course for this Parliament. There will be no letting up in our determination to defeat inflation. ~~This Budget will~~ We shall continue the policies that we have followed consistently since 1979. Th~~o~~ese policies provide the only way to achieve our ultimate objective of stable prices. To ~~let them go~~ abandon them would be to risk renewed inflation, and much higher unemployment. As a result of our determined efforts, inflation is at its lowest level since the 'sixties. ~~Growth in the economy is strong.~~ Economic recovery is well under way. Employment is growing.

JOC

~~2.~~ Th~~o~~ese achievements are a tribute to the courage and foresight of the five Budgets presented by my distinguished predecessor, whose duties ~~sadly~~ unfortunately keep him in Brussels today.

[JOC / ES]

/~~My Budget~~

/ I shall do

3. I SHALL DO NOTHING TODAY TO COMPROMISE THOSE SUCCESSES. BUT THERE IS MUCH THAT I CAN DO TO BUILD UPON THEM.

4. MY BUDGET TODAY HAS TWO THEMES.

5. FIRST, THE FURTHER REDUCTION OF INFLATION. AND SECOND, A SERIES OF TAX REFORMS DESIGNED TO ENABLE THE ECONOMY TO WORK BETTER. REFORMS TO STIMULATE ENTERPRISE AND SET BRITISH BUSINESS ON THE ROAD TO PROFITABLE EXPANSION. REFORMS THAT WILL HELP TO BRING NEW JOBS.

6. I SHALL BEGIN BY REVIEWING THE ECONOMIC BACKGROUND TO THE BUDGET. I SHALL THEN DEAL WITH THE MEDIUM TERM FINANCIAL STRATEGY; WITH MONETARY POLICY AND THE MONETARY TARGETS FOR NEXT YEAR; AND WITH PUBLIC BORROWING AND THE APPROPRIATE PSBR FOR THE COMING YEAR. I SHALL THEN TURN TO PUBLIC EXPENDITURE, INCLUDING THE PROSPECTS FOR THE LONGER

/TERM.

TERM. FINALLY I SHALL DEAL WITH TAXATION, AND THE CHANGES IN THE STRUCTURE OF TAXATION WHICH WILL PAVE THE WAY FOR CUTS IN TAXES IN SUBSEQUENT YEARS. FOR THIS WILL BE A TAX REFORM BUDGET.

7. AS USUAL, A NUMBER OF PRESS RELEASES, FILLING OUT THE DETAILS OF MY TAX PROPOSALS, WILL BE AVAILABLE FROM THE VOTE OFFICE AS SOON AS I HAVE SAT DOWN.

I START WITH

THE ECONOMIC BACKGROUND

8// I START WITH THE ECONOMIC BACKGROUND.

[TB]

9// SINCE 1980, INFLATION HAS FALLEN STEADILY FROM A PEAK OF OVER 20 PER CENT. For LAST YEAR as a whole IT WAS DOWN TO ABOUT 4½ PER CENT, THE LOWEST FIGURE SINCE THE SIXTIES. AND WITH LOWER INFLATION HAVE COME LOWER INTEREST RATES.

10// THIS IN TURN HAS LED TO AN ECONOMIC RECOVERY WHOSE UNDERLYING STRENGTH IS NOW BEYOND DISPUTE. WHEREAS IN SOME PREVIOUS CYCLES RECOVERY HAS COME FROM A SELF-DEFEATING STIMULUS TO MONETARY DEMAND, THIS TIME IT HAS SPRUNG FROM SOUND FINANCE AND HONEST MONEY. LOWER INFLATION AND LOWER INTEREST RATES BENEFIT INDUSTRY, BUSINESS, AND CONSUMER CONFIDENCE ALIKE.

/ACROSS THE

~~ANR~~ [?/No]

11. Across the economy, total money incomes grew in 1983 by about 8 per cent, of which 3 per cent represented real growth in output. Although there is still room for improvement, this is a very much healthier division between inflation and real growth than the nation experienced in the 1970s. Output in the second half of 1983 is now reckoned to have exceeded the previous peak, before the world recession set in, and is still rising strongly.

12. Productivity too has continued to improve rapidly. Just as over the past year many have wrongly predicted an end to the recovery, so some have tried to dismiss the sharp rise in productivity as a flash in the pan. Yet ~~during~~ IN 1983 manufacturing productivity grew by 6 per cent ~~with~~ FOR THE SECOND YEAR IN SUCCESSION. ~~no sign of slowing down.~~ Unit labour costs across the whole economy are likely to show the smallest annual increase since the 1960s. This has allowed a welcome and necessary recovery in real levels of profitability.

– with his accident, now [illegible] (TB)

/Higher profits

13. HIGHER PROFITS LEAD TO MORE JOBS. THE NUMBER OF PEOPLE IN WORK INCREASED BY ABOUT 80,000 BETWEEN MARCH AND SEPTEMBER LAST YEAR. THE LOSS OF JOBS IN MANUFACTURING HAS SLOWED DOWN SHARPLY, WHILE JOBS IN SERVICES INCREASED BY getting on for ~~ALMOST~~ 200,000 IN THE FIRST NINE MONTHS OF LAST YEAR.

JOX/TB ✓

175,000
2 days
after
B

14. BUT FURTHER PROGRESS IS NEEDED: ALTHOUGH OUR UNIT WAGE COSTS IN MANUFACTURING ROSE BY UNDER 3 PER CENT LAST YEAR, OUR THREE BIGGEST COMPETITORS, THE US, JAPAN AND GERMANY, DID BETTER. THE EMPLOYMENT PROSPECT WOULD BE SIGNIFICANTLY IMPROVED IF A BIGGER CONTRIBUTION TO IMPROVED COST PERFORMANCE WERE TO COME FROM LOWER PAY RISES.

15. DEMAND, OUTPUT, PROFITS AND EMPLOYMENT ALL ROSE LAST YEAR. HOME DEMAND HAS PLAYED THE MAJOR PART IN THE RECOVERY SO FAR. LOWER INFLATION REDUCED PEOPLE'S NEED TO SAVE, AND REAL INCOMES ROSE. PERSONAL CONSUMPTION INCREASED BY OVER 3½ PER

/CENT COMPARED

CENT COMPARED WITH 1982. FIXED INVESTMENT ROSE RATHER FASTER THAN CONSUMPTION, WITH INVESTMENT IN HOUSING AND SERVICES PARTICULARLY STRONG.

~~16.~~ OUR RATE OF ECONOMIC GROWTH LAST YEAR WAS THE HIGHEST IN THE EUROPEAN COMMUNITY. FOR MUCH OF 1983 OUR EXPORT PERFORMANCE WAS AFFECTED BY WEAK DEMAND IN MANY OF OUR OVERSEAS MARKETS, WHILE IMPORTS ROSE SLIGHTLY FASTER THAN HOME DEMAND. BUT BY THE END OF LAST YEAR WORLD TRADE WAS CLEARLY MOVING AHEAD AGAIN, AND IN THE THREE MONTHS TO JANUARY MANUFACTURING EXPORTS INCREASED VERY SUBSTANTIALLY. THE BALANCE OF PAYMENTS ON CURRENT ACCOUNT LAST YEAR IS ESTIMATED TO HAVE BEEN IN SURPLUS BY ABOUT £2 BILLION.

~~17.~~ OUR CRITICS HAVE BEEN CONFOUNDED BY THIS COMBINATION OF ECONOMIC RECOVERY AND LOW INFLATION. EVEN THE PESSIMISTS HAVE BEEN FORCED TO ACKNOWLEDGE THE DURABILITY OF THE RECOVERY. IT IS SET TO CONTINUE

/THROUGHOUT

throughout this year at an annual rate of 3 per cent. Inflation is expected to remain low, edging back down to 4½ per cent by the end of this year. With rising incomes and low inflation, consumption will continue to grow. And, encouraged by improved profitability and better long-term growth prospects, investment is expected to rise by a good 6 per cent this year.

~~18.~~ Looking abroad, too, economic prospects are more favourable than for some time. Output in the United States should continue to grow strongly this year. And recovery is spreading to the rest of the world.

~~19.~~ Of course, there are inevitable risks and uncertainties. The size and continued growth of the United States budget deficit is a cause of widespread concern and keeps interest rates high, exacerbating the problems of the debtor countries.

/And the need

AND THE NEED TO FINANCE THE US DEFICIT BY INFLOWS OF FOREIGN CAPITAL HAS KEPT THE DOLLAR ARTIFICIALLY HIGH AND LED TO A MASSIVE AND GROWING TRADE DEFICIT, GREATLY INCREASING THE PRESSURES FOR PROTECTIONISM WITHIN THE UNITED STATES.

20. A SECOND POTENTIAL RISK IS DISRUPTION IN THE OIL MARKET. THE UNITED KINGDOM, AND INDEED THE WORLD ECONOMY, INEVITABLY REMAIN VULNERABLE TO ANY MAJOR DISTURBANCES IN THIS MARKET.

21. BUT DESPITE THESE RISKS THERE IS A GROWING SENSE THROUGHOUT THE INDUSTRIALISED WORLD THAT THE RECOVERY THIS TIME IS ONE WHICH CAN BE SUSTAINED. THE ESSENTIAL REQUIREMENT IS THE CONTINUED PURSUIT OF PRUDENT MONETARY AND FISCAL POLICIES.

For the United Kingdom

MONETARY POLICY

~~27~~. MONETARY POLICY WILL CONTINUE TO PLAY A CENTRAL ROLE. FURTHER REDUCTIONS IN MONETARY GROWTH ARE NEEDED TO ACHIEVE STILL LOWER INFLATION.

~~28~~. OVER THE TWELVE MONTHS TO MID-FEBRUARY THE GROWTH OF £M3 HAS BEEN WELL WITHIN THE 7-11 PER CENT TARGET RANGE, WITH M1 ~~AND PSL2 AT OR~~ AT THE TOP OF THE RANGE AND PSL 2 A LITTLE ABOVE [~~THE TOP OF~~] IT. WHILE IN THE EARLY MONTHS OF THE TARGET PERIOD MOST MEASURES OF MONEY SHOWED SIGNS OF ACCELERATING, SINCE THE SUMMER GROWTH IN ALL THE TARGET AGGREGATES HAS BEEN COMFORTABLY WITHIN THE RANGE. AND NOMINAL INTEREST RATES HAVE CONTINUED TO DECLINE IN LINE WITH FALLING INFLATION.

[JDC] over

/OTHER EVIDENCE

29. OTHER EVIDENCE CONFIRMS THAT MONETARY CONDITIONS ARE SATISFACTORY. THE EFFECTIVE EXCHANGE RATE HAS REMAINED FAIRLY STABLE, DESPITE THE INTERNATIONAL UNCERTAINTIES WHICH I HAVE DESCRIBED.

30. IF MONETARY POLICY IS TO STAY ON TRACK ITS PRACTICAL IMPLEMENTATION MUST ADAPT TO CHANGES IN THE FINANCIAL SYSTEM AND IN THE SIGNIFICANCE OF DIFFERENT MEASURES OF MONEY. THERE IS NOTHING NEW IN THIS. OVER THE YEARS WE HAVE MORE THAN ONCE ALTERED THE TARGET RANGES AND AGGREGATES TO TAKE ACCOUNT OF SUCH CHANGES. BUT THE THRUST OF THE STRATEGY HAS BEEN MAINTAINED.

~~does "attempt" sound rather feeble?~~

31. ONE IMPORTANT DEVELOPMENT HAS BEEN THE ~~ATTEMPT~~ ~~MOVE~~ DECISION TO GIVE A MORE EXPLICIT ROLE TO THE NARROW MEASURES OF MONEY. £M3 AND THE OTHER BROAD AGGREGATES GIVE A GOOD INDICATION OF THE GROWTH OF LIQUIDITY. BUT A LARGE PROPORTION OF THIS MONEY IS IN REALITY A FORM

/OF SAVINGS,

OF SAVINGS, INVESTED FOR THE INTEREST IT CAN EARN. IN DEFINING POLICY IT IS HELPFUL ALSO TO MAKE SPECIFIC REFERENCE TO MEASURES OF MONEY WHICH RELATE MORE NARROWLY TO BALANCES HELD FOR CURRENT SPENDING.

3~~2~~. IT WAS FOR THIS REASON THAT M1 WAS INTRODUCED AS A TARGET AGGREGATE, BUT IT HAS NOT PROVED ENTIRELY SATISFACTORY FOR THAT PURPOSE. WITH THE RAPID GROWTH OF INTEREST-BEARING SIGHT DEPOSITS, M1 HAS BECOME AN INCREASINGLY POOR MEASURE OF MONEY HELD TO FINANCE CURRENT SPENDING. ~~TREND~~ THE SIGNS ARE THAT THIS WILL CONTINUE.

? ~~Frank~~ EST 4

~~33~~ 4. OTHER MEASURES OF NARROW MONEY HAVE NOT BEEN DISTORTED TO THE SAME EXTENT. IN PARTICULAR, M0, WHICH CONSISTS MAINLY OF CURRENCY, IS LIKELY TO BE A BETTER INDICATOR OF FINANCIAL CONDITIONS THAN M1. THERE IS ALSO THE NEW AGGREGATE M2, WHICH WAS SPECIFICALLY DEVISED TO PROVIDE A COMPREHENSIVE MEASURE OF TRANSACTIONS BALANCES. THIS MAY ALSO BE

PEA

/A USEFUL GUIDE

A USEFUL GUIDE BUT, BEING NEW, STILL NEEDS TO BE INTERPRETED WITH PARTICULAR CARE.

34. IN THE PAST TWO YEARS, IT HAS BEEN POSSIBLE TO SET A SINGLE TARGET RANGE FOR BOTH BROAD AND NARROW MEASURES OF MONEY. BUT THIS WILL NOT NORMALLY BE THE CASE; FOR NARROW MONETARY AGGREGATES TEND IN THE LONG RUN TO GROW MORE SLOWLY THAN BROADER MEASURES. THUS THIS YEAR'S RED BOOK SETS OUT TWO SEPARATE (THOUGH OVERLAPPING) RANGES.

~~2No FC.~~

35. THE TARGET RANGE FOR BROAD MONEY WILL CONTINUE TO APPLY TO £M3, AND FOR THE COMING YEAR WILL BE SET AT 6-10 PER CENT, AS INDICATED IN LAST YEAR'S MTFS. THE TARGET RANGE FOR NARROW MONEY WILL APPLY TO M0 AND FOR NEXT YEAR WILL BE SET AT 4-8 PER CENT. TO AVOID ANY POSSIBLE MISUNDERSTANDING, LET ME STRESS THAT THE USE OF M0 AS A TARGET AGGREGATE WILL NOT INVOLVE ANY CHANGE IN METHODS OF MONETARY CONTROL.

/THE TWO TARGET

36. THE TWO TARGET AGGREGATES WILL HAVE EQUAL IMPORTANCE IN THE CONDUCT OF POLICY. AND THE AUTHORITIES WILL CONTINUE TO TAKE INTO ACCOUNT OTHER MEASURES OF MONEY, ESPECIALLY M2 AND PSL2, WHICH INCLUDE BUILDING SOCIETY LIABILITIES, AS WELL AS WIDER EVIDENCE OF FINANCIAL CONDITIONS, INCLUDING THE EXCHANGE RATE. AS IN THE PAST, MONETARY CONDITIONS WILL BE KEPT UNDER CONTROL BY AN APPROPRIATE COMBINATION OF ~~fiscal policy~~ FUNDING AND OPERATIONS IN THE MONEY MARKET.

FC

37. SO FAR AS FUNDING IS CONCERNED, THE PUBLIC SECTOR'S BORROWING REQUIREMENT, AS I SHALL SHORTLY EXPLAIN, WILL BE SIGNIFICANTLY LOWER IN THE COMING YEAR. IN FINANCING IT, THE ROLE OF ~~THE~~ NATIONAL SAVINGS WILL REMAIN IMPORTANT. THIS YEAR'S NATIONAL SAVINGS' TARGET OF £3 BILLION IS LIKELY TO BE ACHIEVED: THE TARGET FOR THE COMING YEAR WILL AGAIN BE £3 BILLION.

8

× ✓

/PRECISE MONETARY

~~38~~. PRECISE MONETARY TARGETS FOR THE LATER YEARS WILL BE DECIDED NEARER THE TIME. BUT TO GIVE A BROAD INDICATION OF THE OBJECTIVES OF MONETARY POLICY, THE NEW MTFS, LIKE PREVIOUS VERSIONS, SHOWS MONETARY RANGES FOR A NUMBER OF YEARS AHEAD. THESE RANGES ARE CONSISTENT WITH A CONTINUING DOWNWARD TREND IN INFLATION: THEY DEMONSTRATE THE GOVERNMENT'S INTENTION TO MAKE FURTHER PROGRESS TOWARDS STABLE PRICES.

/1 TURN NOW

PUBLIC SECTOR BORROWING

39. I turn now to public borrowing. Just as the classical formula for financial discipline - the gold standard and the balanced budget - had both a monetary and a fiscal component, so does the medium term financial strategy.

40. The MTFS has always envisaged that the Public Sector Borrowing Requirement would fall as a percentage of Gross Domestic Product over the medium term. By 1981-82 we had brought it down to 3½ per cent of GDP.

41. Since then there has been little further fall. The latest estimate of the PSBR for the current year, 1983-84, remains what it was in November:

/around £10 billion

AROUND £10 BILLION, EQUIVALENT TO 3¼ PER CENT OF GDP. THIS IS SIGNIFICANTLY ABOVE WHAT WAS INTENDED AT THE TIME OF LAST YEAR'S BUDGET, AND WOULD OF COURSE HAVE BEEN HIGHER STILL HAD IT NOT BEEN FOR THE JULY MEASURES.

~~42~~. WE NOW NEED A FURTHER SUBSTANTIAL REDUCTION IN BORROWING, IN ORDER TO HELP BRING INTEREST RATES DOWN FURTHER AS MONETARY GROWTH SLOWS DOWN. STERLING INTEREST RATES ARE, OF COURSE, ALSO INFLUENCED BY DOLLAR INTEREST RATES; BUT THAT MAKES IT ALL THE MORE IMPORTANT TO CURB DOMESTIC PRESSURES. IN CONTRAST TO VIRTUALLY THE WHOLE OF THE POST-WAR PERIOD, UK ~~LONGER-TERM~~ THREE-MONTHS AND LONG-TERM RATES ARE NOW ~~LONGER~~ LOWER THAN AMERICAN RATES. AS LONG AS AMERICAN RATES REMAIN NEAR THEIR CURRENT LEVEL, IT IS HIGHLY DESIRABLE THAT THIS ADVANTAGE BE MAINTAINED.

~~43~~. THE HIGHER LEVEL OF ASSET SALES WE ARE PLANNING AS THE PRIVATISATION PROGRAMME GATHERS PACE IS A

/FURTHER REASON

FURTHER REASON FOR REDUCING THE PSBR SIGNIFICANTLY IN THE COMING YEAR. ASSET SALES REDUCE THE GOVERNMENT'S NEED TO BORROW. BUT THEIR EFFECT ON INTEREST RATES MAY BE LESS THAN THE EFFECT OF MOST OTHER REDUCTIONS IN GOVERNMENT SPENDING PROGRAMMES.

44. LAST YEAR'S MTFS SHOWED AN ILLUSTRATIVE PSBR FOR 1984-85 OF 2½ PER CENT OF GDP, EQUIVALENT TO AROUND £8 B MILLION. BUT I BELIEVE THAT IT IS POSSIBLE, AND INDEED PRUDENT, TO AIM FOR A SOMEWHAT LOWER FIGURE. I AM THEREFORE PROVIDING FOR A PSBR NEXT YEAR OF 2¼ PER CENT OF GDP, OR £7¼ BILLION.

! Jock et al.
Billion

45. THE HOUSE WILL RECALL THAT IN NOVEMBER I WARNED THAT ON CONVENTIONAL ASSUMPTIONS, INCLUDING THE 1983 RED BOOK'S PSBR FIGURE OF £8 BILLION FOR NEXT YEAR, I MIGHT HAVE TO INCREASE TAXES SLIGHTLY IN THE BUDGET. I AM GLAD TO REPORT THAT THE LATEST, AND MORE BUOYANT, FORECASTS OF TAX REVENUE IN THE COMING YEAR HAVE IMPROVED THE PICTURE. A PSBR OF

/£7¼ BILLION

£7¼ BILLION WILL REQUIRE NO OVERALL NET INCREASE TAXATION.

~~46.~~ MOREOVER, WHILE THE MEASURES I SHALL SHORTLY ANNOUNCE WILL, AFTER INDEXATION, BE BROADLY NEUTRAL IN THEIR EFFECTS ON REVENUE IN 1984-85, THEY WILL REDUCE TAXATION IN 1985-86 BY WELL OVER £1¾ BILLION. AND THE MTFS PUBLISHED TODAY SHOWS THAT THERE SHOULD BE ROOM FOR FURTHER TAX CUTS NOT ONLY IN 1985-86, BUT THROUGHOUT THE REMAINDER OF THIS PARLIAMENT, PROVIDED THAT WE STICK FIRMLY TO OUR PUBLISHED PLANS FOR PUBLIC EXPENDITURE TO 1986-87, AND MAINTAIN AN EQUALLY FIRM CONTROL OF PUBLIC SPENDING THEREAFTER.

~~as the PSBR falls as a proportion of GDP~~

~~PETT.~~

~~? NO~~

/THE PUBLIC EXPENDITURE

~~INDIRECT TAXES~~ PERSONAL TAXATION : TAXES ON SPENDING.

~~131~~. Having announced major reforms of both the taxation of savings and investment and the taxation of business, I turn now to the third and final area in which I propose to make progress on tax reform. This is the taxation of personal income and spending.

~~132~~. The broad principle was clearly set out in the Manifesto on which we were first elected in 1979. This emphasised the need for a switch from taxes on earnings to taxes on spending. My predecessor made an important move in this direction in *his* first budget, and the time has come to make a further move today. To reduce direct taxation by this means is important in two ways. It improves incentives and makes it more worthwhile to work, and it increases the freedom of choice of the individual.

/Having regard

133. HAVING REGARD TO THE REPRESENTATIONS I HAVE RECEIVED ON HEALTH GROUNDS, I THEREFORE PROPOSE AN INCREASE IN THE TOBACCO DUTY WHICH, INCLUDING VAT, WILL PUT 10P ON THE PRICE OF A PACKET OF CIGARETTES, WITH CORRESPONDING INCREASES FOR HAND-ROLLING TOBACCO AND CIGARS. THIS WILL DO NO MORE THAN ✓ RESTORE THE TAX ON TOBACCO TO ITS 1965 LEVEL, IN REAL TERMS. THESE CHANGES WILL TAKE EFFECT FROM MIDNIGHT ON THURSDAY. I DO NOT, HOWEVER, PROPOSE ANY INCREASE IN THE DUTY ON PIPE TOBACCO.

134. I PROPOSE TO RAISE MOST OF THE OTHER EXCISE DUTIES BROADLY IN LINE WITH INFLATION, SO AS TO MAINTAIN THEIR REAL VALUE: NOT TO DO SO WOULD RUN COUNTER TO THE PHILOSOPHY I OUTLINED A MOMENT AGO. BUT WITH INFLATION AS LOW AS IT NOW IS, THE NECESSARY INCREASES ARE ON THE WHOLE MERCIFULLY MODEST.

/I PROPOSE TO

BUDGET SECRET

~~135~~. I PROPOSE TO INCREASE THE DUTIES ON PETROL AND DERV BY AMOUNTS WHICH, INCLUDING VAT, WILL RAISE THE PRICE AT THE PUMPS BY 4½P AND 3½P A GALLON RESPECTIVELY. THIS DOES NO MORE THAN KEEP PACE WITH INFLATION. THE CHANGES WILL TAKE EFFECT FOR OIL DELIVERED FROM REFINERIES AND WAREHOUSES FROM SIX O'CLOCK THIS EVENING. I DO NOT PROPOSE TO INCREASE THE DUTY ON HEAVY FUEL OIL, WHICH IS OF PARTICULAR IMPORTANCE TO INDUSTRIAL COSTS.

~~136~~. THERE IS ONE EXCISE DUTY WHICH I PROPOSE TO DO AWAY WITH ALTOGETHER. MANY OF THOSE WHO FIND IT HARDEST TO MAKE ENDS MEET, INCLUDING IN PARTICULAR MANY PENSIONERS, USE PARAFFIN STOVES TO HEAT THEIR HOMES. ~~AND~~ IT IS WITH THEM IN MIND THAT I PROPOSE TO ABOLISH THE DUTY ON KEROSENE FROM SIX O'CLOCK TONIGHT. I AM SURE THAT THIS WILL BE WELCOMED ON ALL SIDES OF THE HOUSE.

will Michael
White say :-
"Pensioner MP's,
huddling over
their stoves,
raised a wintry
cheer"
(Everyone thinks it's oil
I merely [illegible] the wrong!)

/THE VARIOUS RATES

~~137~~. The various rates of Vehicle Excise Duty will, once again, go up roughly in line with prices. Thus the duty for cars and light vans will be increased by £5, from £85 to £90 a year. However, in the light of the reassessment by my Rt Hon Friend the Secretary of State for Transport of the wear and tear that various types of vehicle cause to the roads, there will be reductions in duty for the lightest lorries, offset by higher increases for some heavier lorries. All these changes in Vehicle Excise Duty will take effect from tomorrow.

~~138~~. However, I propose to exempt from Vehicle Excise Duty all recipients of the War Pensioners' Mobility Supplement. In addition, the existing VAT relief for motor vehicles designed or adapted for use by the handicapped will be extended, and matched by a new Car Tax relief. The effect will be that neither VAT nor car tax will apply to family cars designed for disabled people or substantially adapted for their use.

/I now come

139. I NOW COME TO THE MOST DIFFICULT DECISION I HAVE TO TAKE IN THE EXCISE DUTY FIELD. AS THE HOUSE WILL BE AWARE, THE RULES OF THE EUROPEAN COMMUNITY, SO FAR AS ALCOHOLIC DRINKS ARE CONCERNED, ARE DESIGNED TO PREVENT A MEMBER STATE FROM PROTECTING ITS OWN DOMESTIC PRODUCT BY IMPOSING A SIGNIFICANTLY HIGHER DUTY ON COMPETING IMPORTS. IN PURSUIT OF THIS, THE COMMISSION HAS TAKEN A NUMBER OF COUNTRIES TO THE EUROPEAN COURT OF JUSTICE.

140. IN OUR CASE, THE COMMISSION CONTENDED THAT WE WERE PROTECTING BEER BY UNDER-TAXING IT IN RELATION TO WINE. WE FOUGHT THE CASE, BUT LOST; AND I AM NOW IMPLEMENTING THE JUDGEMENT HANDED DOWN BY THE COURT LAST YEAR. ACCORDINGLY, I PROPOSE TO INCREASE THE DUTY ON BEER BY THE MINIMUM AMOUNT NEEDED TO COMPLY WITH THE JUDGEMENT AND MAINTAIN REVENUE: 2P ON A TYPICAL PINT OF BEER, INCLUDING VAT. AT THE SAME TIME, THE DUTY ON TABLE WINE WILL BE REDUCED BY THE EQUIVALENT OF ABOUT 18P A BOTTLE, AGAIN INCLUDING VAT.

/WE HAVE THUS

141. We have thus complied with the Court's judgement. And I am happy to be able to tell the House that the Italian Government have, after discussions, given us an undertaking that they will comply with ~~an~~ earlier Court rulingS on discrimination against Scotch whisky. ~~and other imported spirits.~~

Knox

Clark

Knox agrees delete.

142. As for the rest of the alcoholic drinks, cider, which increasingly competes with beer but attracts a lower duty, will go up by 3p a pint. The duties on made-wine will be aligned with those on other wine. And I propose to increase the duty on sparkling wine, fortified wine and spirits by about 10p a bottle, including VAT. All these changes will take effect from midnight tonight.

143. These changes in excise duties will, all told, bring in some £840 million in 1984-85, some £200m more than is required to keep pace with inflation.

/The addition

THE ADDITION IS OF COURSE DUE TO THE INCREASE IN TOBACCO DUTY.

~~144~~. THE REMAINDER OF THE EXTRA REVENUE I NEED TO ENABLE ME TO MAKE A SUBSTANTIAL SWITCH THIS YEAR FROM TAXES ON EARNINGS TO TAXES ON SPENDING ~~WILL~~ MUST COME FROM VAT. I PROPOSE NO CHANGE IN THE RATE OF VAT. INSTEAD, I INTEND TO BROADEN THE BASE OF THE TAX BY EXTENDING THE 15 PER CENT RATE TO TWO AREAS OF EXPENDITURE THAT HAVE HITHERTO BEEN ZERO-RATED.

~~145~~. FIRST, ALTERATIONS TO BUILDINGS. AT PRESENT REPAIRS AND MAINTENANCE ARE TAXED, BUT ALTERATIONS ARE NOT. THE BORDERLINE BETWEEN THESE TWO CATEGORIES IS THE MOST CONFUSED IN THE WHOLE FIELD OF VAT. I PROPOSE TO END THIS CONFUSION AND ILLOGICALITY BY BRINGING ALL ALTERATIONS INTO TAX.

P/12 I RECOGNISE THAT THIS WILL BE UNWELCOME NEWS FOR THE CONSTRUCTION INDUSTRY, BUT CONSTRUCTION WILL OF COURSE BENEFIT GREATLY FROM THE REDUCTION IN THE

/RATE OF STAMP

RATE OF STAMP DUTY WHICH I HAVE ALREADY ANNOUNCED. £290 MILLION OF THE COST OF THAT REDUCTION IN 1984-85 RELATES TO TRANSFERS OF LAND AND BUILDINGS, AND OF THAT £290 MILLION SOME 90 PER CENT RELATES TO BUILDINGS AND BUILDING LAND. NEVERTHELESS, TO ALLOW A REASONABLE TIME FOR EXISTING COMMITMENTS TO BE COMPLETED OR ADJUSTED, THE VAT CHANGE WILL BE DEFERRED UNTIL 1 JUNE.

1~~46~~11. SECONDLY, FOOD. MOST FOOD IS ZERO-RATED. BUT FOOD SERVED IN RESTAURANTS IS TAXED, TOGETHER WITH A MISCELLANEOUS RANGE OF ITEMS INCLUDING ICE-CREAM, CONFECTIONERY, SOFT DRINKS AND CRISPS, WHICH WERE BROUGHT INTO TAX BY THE RT HON MEMBER FOR LEEDS EAST. TAKE-AWAY FOOD CLEARLY COMPETES WITH OTHER FORMS OF CATERING, AND I THEREFORE INTEND TO BRING INTO TAX HOT TAKE-AWAY FOOD AND DRINKS, WITH EFFECT FROM 1 MAY.

/THE TOTAL EFFECT

147. THE TOTAL EFFECT OF THE EXTENSIONS OF THE VAT COVERAGE WHICH I HAVE PROPOSED WILL BE TO INCREASE THE YIELD OF THE TAX BY £375 MILLION IN 1984-85 AND BY £650 MILLION IN A FULL YEAR.

148 THE TOTAL IMPACT EFFECT ON THE RETAIL PRICE INDEX OF THE VAT CHANGES AND EXCISE DUTY CHANGES TAKEN TOGETHER WILL BE LESS THAN THREE-QUARTERS OF ONE PER CENT. THIS HAS ALREADY BEEN TAKEN INTO ACCOUNT IN THE FORECAST WHICH I HAVE GIVEN TO THE HOUSE OF A DECLINE IN INFLATION TO 4½ PER CENT BY THE END OF THE YEAR.

149. THE EXTRA REVENUE RAISED IN THIS WAY WILL ENABLE ME, WITHIN THE OVERALL FRAMEWORK OF A NEUTRAL BUDGET, TO LIGHTEN THE BURDEN OF INCOME TAX.

Since we took office

CONCLUSION

I HAVE, MR DEPUTY SPEAKER, COMPLETED THE COURSE I CHARTED AT THE OUTSET THIS AFTERNOON. I HAVE DESCRIBED THE RECOVERY, AND HOW THE GOVERNMENT PLANS TO SUSTAIN IT, AND ASSIST THE CREATION OF NEW JOBS. I HAVE REAFFIRMED OUR COMMITMENT TO FURTHER REDUCTIONS IN INFLATION, BY MAINTAINING SOUND MONEY AND BY CURBING GOVERNMENT BORROWING. I HAVE EMBARKED ON A RADICAL PROGRAMME OF TAX REFORM, ABOLISHING OUTRIGHT TWO MAJOR TAXES - THE INVESTMENT INCOME SURCHARGE AND THE NATIONAL INSURANCE SURCHARGE. ~~ALTOGETHER.~~ AND I HAVE BEEN ABLE TO PROPOSE MEASURES WHICH WILL SIGNIFICANTLY REDUCE THE BURDEN OF TAXATION OVER THE NEXT TWO YEARS. I COMMEND THIS BUDGET TO THE HOUSE.

Jok ✓ ?

B(82)1032 Taken in

SECRET

Mr Kerr
Some Inland Revenue comments from yesterday on the 10 March draft (which I sanitized before showing to them).
MJJ
12.3.82.

BUDGET SPEECH : AT 11 MARCH
INLAND REVENUE COMMENTS

Paragraph 66, Line 3. After "20 March," insert

"OR WHICH RELATE TO STOCK EXCHANGE DEALS WITHIN THE LAST TRADING ACCOUNT,"

Line 4, delete "TAKE" insert "HAVE".

(Para 66 as it stands is wrong in relation to SE deals)

Para 68, line 2. "IMPORTANCE" shd be "IMPORTANT"

Para 74, line 4. £m360 is the pre-indexation cost. After indexation of the threshold, the cost of abolition falls to £m340. Arguably that is the better figure to use, but to get round the problem I suggest:

"AROUND £350 MILLION"

Para 77, lines 4-5. Delete "HAVE TAX DEDUCTED" Insert "PAY TAX".

The point is that if tax were merely deducted at source it could be repaid to non-taxpayers. With a composite rate, non-taxpayers actually end up paying tax.

Para 80, lines 2-3. Delete "UNLESS THEY ARE HIGHER RATE TAXPAYERS,"

Insert "THE GREAT MAJORITY OF [INDIVIDUAL BANK CUSTOMERS]"

Some basic rate taxpayers could be affected, eg the elderly subject to withdrawal of age allowance.

Para 84, line 5. Delete "THE STRUCTURE OF"

(This is a possible banana skin. The Govt has accepted the desire for no change to the structure of corporation tax — ie the partial imputation system (see Para. 85). The Chancellor is not changing the structure of the tax.

Para 116, line 5. Delete "EMPLOYEE". (It is redundant.)

Para 117, last line. Before "CONDITIONS" insert "NECESSARY"

(I think this makes the sentence read better.)

Para 156, line 7: Delete "THRESHOLD" insert "ALLOWANCE"
line 8: Delete "THRESHOLD" insert "MAN'S ALLOWANCE"

Para 157, line 3: Delete "THRESHOLD" insert "ALLOWANCE"

These changes are not critical, but

(a) we have used "THRESHOLD" a lot in this part of the Speech
(b) strictly, a taxpayer's threshold is arrived at by adding together all the allowances & reliefs to which he is entitled. The Chancellor is only increasing the main allowances.

ara 157, penultimate line. After "FEWER" insert "TAXPAYERS"

(The figure of 850,000 is of course 400,000 more than if allowances had merely been indexed. It is the total number of taxpayers which is 400,000 fewer.)

Tony Kuczys

(On Julian Reed's ext — 5757 — this afternoon.
Then at home: 989 9353. Tomorrow morning
at Somerset House: 2541 7221)

E3

BUDGET SECRET

B(84) 1033

Mr KERR

BUDGET SPEECH.

Final comments on your text of 11 March.
Most are small, & ideas about better/simpler wording,
e.g. in the introductory paras 1-10.

Bigger points to note are

Para 10. Wording of piece on reflation is still a bit obscure.

12. We could rub home the productivity of mfg. industry argument more. The present para inadvertently implies the fast growth has only been for 1 year.

27. The introductory sentence of the Monetary Policy section sounds odd. Monetary policy is presented there as something new on top of the MTFS, while it is in truth a central part of it.

148. The really major point of the small price effects comes here. Brief A2 (vi), which is to be revised, suggests that only 0·3% out of a total 0·7% increase in the RPI in attributable to the Budget is ~~due to~~ over & above indexation. I propose an additional sentence which could be far stronger, to disarm critics.

AR. 12/3

INTRODUCTION

Two x "This budget"

?/Too many.

THIS BUDGET WILL SET THE GOVERNMENT'S COURSE FOR THIS PARLIAMENT. THERE WILL BE NO LETTING UP IN OUR DETERMINATION TO DEFEAT INFLATION. ~~THIS BUDGET~~ It WILL CONTINUE THE POLICIES ~~THAT~~ WE HAVE FOLLOWED CONSISTENTLY SINCE 1979. THOSE POLICIES PROVIDE THE ONLY WAY TO ACHIEVE OUR ULTIMATE OBJECTIVE OF STABLE PRICES. TO ~~LET THEM GO~~ abandon them WOULD ~~BE TO~~ RISK RENEWED INFLATION, AND MUCH HIGHER UNEMPLOYMENT. AS A RESULT OF OUR DETERMINED EFFORTS, INFLATION IS AT ITS LOWEST LEVEL SINCE THE 'SIXTIES. GROWTH IN THE ECONOMY IS STRONG. EMPLOYMENT and investment are ~~IS~~ GROWING.

Obscure

?helps to repeat at all times

2. THOSE ACHIEVEMENTS ARE A TRIBUTE TO THE COURAGE AND FORESIGHT OF THE FIVE BUDGETS PRESENTED BY MY DISTINGUISHED PREDECESSOR, WHOSE DUTIES SADLY KEEP HIM IN BRUSSELS TODAY.

/MY BUDGET

~~Too many refs to "tax" in 1 form or another! I don't think structure adds much & cutting these improves euphony~~

TERM. FINALLY I SHALL DEAL WITH TAXATION, AND THE

? CHANGES ~~IN THE STRUCTURE OF TAXATION~~ WHICH WILL PAVE

? THE WAY FOR CUTS ~~IN TAXES~~ IN SUBSEQUENT YEARS.

7. AS USUAL, A NUMBER OF PRESS RELEASES, FILLING OUT THE DETAILS OF MY TAX PROPOSALS, WILL BE AVAILABLE FROM THE VOTE OFFICE AS SOON AS I HAVE SAT DOWN.

? Too many refs to "tax" in one form or another]
And "structure" doesn't help improve euphony

THE ECONOMIC BACKGROUND

8. I START WITH THE ECONOMIC BACKGROUND.

9. SINCE 1980, INFLATION HAS FALLEN STEADILY FROM A PEAK OF OVER 20 PER CENT. LAST YEAR IT WAS DOWN TO ABOUT 4½ PER CENT, THE LOWEST FIGURE SINCE THE SIXTIES. AND WITH LOWER INFLATION HAVE COME LOWER INTEREST RATES.

10. THIS IN TURN HAS LED TO AN ECONOMIC RECOVERY WHOSE UNDERLYING STRENGTH IS NOW BEYOND DISPUTE. ? ~~WHEREAS~~ IN SOME PREVIOUS CYCLES RECOVERY HAS COME FROM A SELF-DEFEATING STIMULUS TO MONETARY DEMAND & therefore has not lasted. But THIS TIME IT HAS SPRUNG FROM SOUND FINANCE AND HONEST MONEY and is set to last. LOWER INFLATION AND LOWER INTEREST RATES BENEFIT INDUSTRY, BUSINESS, AND CONSUMER CONFIDENCE ALIKE.

This rather concedes the argument that such recovery is not lasting but this one is healthy. So there could be a case for being more explicit

/ACROSS THE

11. ACROSS THE ECONOMY, TOTAL MONEY INCOMES GREW IN 1983 BY ABOUT 8 PER CENT, OF WHICH 3 PER CENT REPRESENTED REAL GROWTH IN OUTPUT. ALTHOUGH THERE IS STILL ROOM FOR IMPROVEMENT, THIS IS A VERY MUCH HEALTHIER DIVISION BETWEEN INFLATION AND REAL GROWTH THAN THE NATION EXPERIENCED IN THE 1970S. OUTPUT IN THE SECOND HALF OF 1983 IS NOW RECKONED TO HAVE EXCEEDED THE PREVIOUS PEAK, BEFORE THE WORLD RECESSION SET IN, AND IS STILL RISING STRONGLY.

Reads better transposed

12. PRODUCTIVITY TOO HAS CONTINUED TO IMPROVE RAPIDLY. JUST AS OVER THE PAST YEAR MANY HAVE WRONGLY PREDICTED AN END TO THE RECOVERY, SO SOME HAVE TRIED TO DISMISS THE continuing SHARP RISE IN PRODUCTIVITY AS A FLASH IN THE PAN. YET DURING 1983 MANUFACTURING PRODUCTIVITY GREW BY 6 PER CENT WITH NO SIGN OF SLOWING DOWN. UNIT LABOUR COSTS ACROSS THE WHOLE ECONOMY ARE LIKELY TO SHOW THE SMALLEST ANNUAL INCREASE SINCE THE 1960S. THIS HAS ALLOWED A WELCOME AND NECESSARY RECOVERY IN REAL LEVELS OF PROFITABILITY.

the sharp rise has been for several years; & by saying so one makes critics look sillier

/HIGHER PROFITS

AND THE NEED TO FINANCE THE US DEFICIT BY INFLOWS OF FOREIGN CAPITAL HAS KEPT THE DOLLAR ARTIFICIALLY HIGH AND LED TO A MASSIVE AND GROWING TRADE DEFICIT, GREATLY INCREASING THE PRESSURES FOR PROTECTIONISM WITHIN THE UNITED STATES.

(redundant, Risks are potential ex def.

20. A SECOND ~~POTENTIAL~~ RISK IS DISRUPTION IN THE OIL MARKET. THE UNITED KINGDOM, AND INDEED THE WORLD ECONOMY, INEVITABLY REMAIN VULNERABLE TO ANY MAJOR DISTURBANCES IN THIS MARKET.

?

21. BUT DESPITE THESE RISKS THERE IS A GROWING SENSE THROUGHOUT THE INDUSTRIALISED WORLD THAT ~~THE~~ RECOVERY THIS ~~TIME~~ IS ONE WHICH CAN BE SUSTAINED. THE ESSENTIAL REQUIREMENT IS THE CONTINUED PURSUIT OF PRUDENT MONETARY AND FISCAL POLICIES.

Avoid intro sentence. Makes it sound as if Mon. policy is over & above the MTFS.

MONETARY POLICY

The MTFS shows {sets out} the central role monetary policy will continue to play

27. ~~MONETARY POLICY WILL CONTINUE TO PLAY A CENTRAL ROLE.~~ For FURTHER REDUCTIONS IN MONETARY GROWTH ARE NEEDED TO ACHIEVE STILL LOWER INFLATION.

28. OVER THE TWELVE MONTHS TO MID-FEBRUARY THE GROWTH OF £M3 HAS BEEN WELL WITHIN THE 7-11 PER CENT TARGET RANGE, WITH M1 AND PSL2 AT OR A LITTLE ABOVE THE TOP OF IT. WHILE IN THE EARLY MONTHS OF THE TARGET PERIOD MOST MEASURES OF MONEY SHOWED SIGNS OF ACCELERATING, SINCE THE SUMMER GROWTH IN ALL THE TARGET AGGREGATES HAS BEEN COMFORTABLY WITHIN THE RANGE. AND NOMINAL INTEREST RATES HAVE CONTINUED TO DECLINE IN LINE WITH FALLING INFLATION.

/OTHER EVIDENCE

29. OTHER EVIDENCE CONFIRMS THAT MONETARY CONDITIONS ARE SATISFACTORY. THE EFFECTIVE EXCHANGE RATE HAS REMAINED FAIRLY STABLE, DESPITE THE INTERNATIONAL UNCERTAINTIES WHICH I HAVE DESCRIBED.

30. IF MONETARY POLICY IS TO STAY ON TRACK ITS PRACTICAL IMPLEMENTATION MUST ADAPT TO CHANGES IN THE FINANCIAL SYSTEM AND IN THE SIGNIFICANCE OF DIFFERENT MEASURES OF MONEY. THERE IS NOTHING NEW IN THIS. OVER THE YEARS WE HAVE MORE THAN ONCE ALTERED THE TARGET RANGES AND AGGREGATES TO TAKE ACCOUNT OF SUCH CHANGES. BUT THE THRUST OF THE STRATEGY HAS BEEN MAINTAINED.

31. ONE IMPORTANT DEVELOPMENT HAS BEEN THE ~~ATTEMPT~~ move TO GIVE A MORE EXPLICIT ROLE TO THE NARROW MEASURES OF MONEY. £M3 AND THE OTHER BROAD AGGREGATES GIVE A GOOD INDICATION OF THE GROWTH OF LIQUIDITY. BUT A LARGE PROPORTION OF THIS MONEY IS IN REALITY A FORM

Sounds a bit pathetic!

M_1 has failed, but we mustn't deprecate M_0

/OF SAVINGS,

147. THE TOTAL EFFECT OF THE EXTENSIONS OF THE VAT COVERAGE WHICH I HAVE PROPOSED WILL BE TO INCREASE THE YIELD OF THE TAX BY £375 MILLION IN 1984-85 AND BY £650 MILLION IN A FULL YEAR.

PRICE EFFECTS

148 THE TOTAL IMPACT EFFECT ON THE RETAIL PRICE INDEX OF THE VAT CHANGES AND EXCISE DUTY CHANGES TAKEN TOGETHER WILL BE LESS THAN THREE-QUARTERS OF ONE PER CENT. THIS HAS ALREADY BEEN TAKEN INTO ACCOUNT IN THE FORECAST WHICH I HAVE GIVEN TO THE HOUSE OF A DECLINE IN INFLATION TO 4½ PER CENT BY THE END OF THE YEAR. And most of it – about ½% is due to the normal process of indexation

149. THE EXTRA REVENUE RAISED IN THIS WAY WILL ENABLE ME, WITHIN THE OVERALL FRAMEWORK OF A NEUTRAL BUDGET, TO LIGHTEN THE BURDEN OF INCOME TAX.

Taken in

B(84) 1031

FROM: A M W BATTISHILL
DATE: 12 March 1984

MR KERR

cc see below

BUDGET SPEECH: FINAL DRAFT

My comments on the final draft are as follows.

Paragraph 25, over the page, 10th line: this sentence uses "last" three times and with two different meanings. It might be better to talk of "the final two years of the new MTFS".

Paragraph 37: in line 4 is "the" intrusive before "National Savings"?

Paragraph 45: in the last line insert "in" before "taxation".

Paragraph 48: in the last line it might be better to say "income" rather than "wage". We are not only talking about wage earners.

Paragraph 50, first line: should one not substitute "had" for "has" in the first line.

Paragraph 51: would it not be better in the fourth line to use the title of the Green Paper, not a variation on it.

Paragraph 58: in the penultimate line "subsequent" is a shade ambiguous following the reference to "the next two years" in the preceding sentence. It might be better to substitute "future".

Paragraph 80: I am puzzled at the significance of the word "extra" in line 11. The next sentence makes it clear that this does not include notional savings of staff who would be needed to deal with the spread of interest-bearing accounts. Should the word be there at all?

Paragraph 124: at the very end I still worry about the words "straightaway". But Customs are presumably content.

Paragraph 127: the last sentence is probably alright. But if the value of imports were on a rising trend (and not reversed by the present measure) accelerating the payment dates might produce a small revenue yield compared with what it would otherwise have been. But I do not suggest any change.

A M W BATTISHILL

cc

Chief Secreatary
Financial Secretary
Minister of State
Economic Secretary
Sir P. Middleton
Sir T Burns
Mr Fraser (C&E)
Mr Monger
Mr Ridley
Mr Lord
Mr Portillo
Mr Norgrove
Mr Knox (C&E)
Mr Folger

B (84) 626

Taken in

MW

FROM: F CASSELL
12 March 1984

PRINCIPAL PRIVATE SECRETARY

SPEECH

Three points on the near-final draft you circulated on 10 March.

Paragraph 34. Is much gained by adding "(though overlapping)"? It's true, but it seems an unnecessary gloss in the Speech.

Paragraph 36. The suggestions made by Tim Lankester on the last sentence have not been taken. You might like to look again at the reasons he gave for wanting to change it (paragraph 6 of his minute of 9 March). I think they are valid. At the least the Speech should surely say "... by an appropriate combination of fiscal policy, funding and operation ...". That would meet the main point.

Paragraph 42, line 9, for "longer" read "lower".

F CASSELL

Taken in

BUDGET SECRET

B(84) 1034

FROM: G W MONGER
12 March 1984

cc
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Battishill
Mr Lankester
Mr Folger
Mr Norgrove
Mr Ridley
Mr Lord
Mr Portillo

PS/Customs & Excise
PS/Inland Revenue

MR KERR

BUDGET SPEECH

A few comments on the final draft.

Paragraph 69

2. There are four proposals on corporate bonds:

i. Deep discount stock

ii. Relief for Eurobonds

iii. Relief for incidental costs of convertible loan stocks

iv. CGT exemptions.

So "three" in the first line of this paragraph should be replaced by "four".

3. If the Chancellor wants to go further in building up this package, he could also bring in a fifth proposal: relief for discounts on bills of exchange. If he does the following changes should be made in paragraph 69:

Line 1, replace "three by "five"

Line 2 replace "encourage the issue of corporate bonds" by "make it easier for companies to raise finance".

Line 5 after "convertible loan stock insert "or using bill finance".

Paragraph 80

4. In line 3, "most" should be inserted before "individual". Bank customers who make annual returns, or who might lose age allowance, would still be concerned.

Paragraph 90

5. The Inland Revenue confirm that "from next year" should read "from 1985". (This is April 1985. The present wording suggests "from 1984-85 and could be misleading.)

Paragraph 124

6. I am doubtful about the words "straight away" at the end of the paragraph. It would be more accurate to say "as soon as they pay their suppliers". Customs agree with this.

Paragraph 126

7. I am also doubtful about the first sentence. It can be said that buyers of British goods are not at a competitive disadvantage because they get trade credit which has the same effect as postponement of VAT on imports. There is however another effect. British exporters to Europe do not get the advantage of postponed accounting in their main markets there whereas European importers to the UK do get it here. I would prefer to include this second effect in the statement by deleting "in the home market".

Paragraph 135

8. It means another short sentence but it might be worth taking credit for less than full revalorisation of Derv. The speech could say:

> "I propose to increase the duty on petrol by an amount which, including VAT, will raise the price at the pumps by 4½p a gallon. This does no more than keep pace with inflation. For derv the increase will be slightly less than indexation at 3½p a gallon. The changes will ..."

VAT registration threshold

9. I see that this has been dropped from the speech. This is no doubt in the interest of shortening, but it was an attractive lollipop.

Paragraph 157

10. "Fewer" in the penultimate line reads awkwardly after the preceding sentence that 850,000 have been taken out of tax. It looks as if fewer are taken out of tax with the Budget proposal than would have been taken out by indexation. Would it be clearer to say: "The number taken out of tax is 400,000 more than if the allowances had merely been indexed".

Misprints

11. You have probably noticed the misprints in paragraphs 37 (line 4, delete "the") 42 (line 9, "lower"), 80 (line 2 "itself" not a misprint, but is it still needed?) and 126 (line 1, "have").

G W MONGER

B:25a

BUDGET SECRET

B 84/1035

Taken in

FROM: M T FOLGER
DATE: 12 March 1984

MR KERR

cc Sir T Burns
Mr Battishill
Mr Evans
A/22

BUDGET SPEECH: 10 MARCH DRAFT

I attach some suggestions on paragraphs 8 to 14 of the speech.

2. I understand Mr Evans may be offering comments on paragraphs 15 to 21, either direct or via Sir Terence Burns.

MTF

M T FOLGER

Para 9 First two sentences use RPI figures defined in a slightly different way: 1983 figure is a whole of 1983 on whole of 1982. Amend 2nd sentence to read:

> "For last year as a whole it was down to..."

Para 12 The Chancellor's suggested redraft here is, I understand:

> "Yet during 1983 manufacturing productivity grew by 6 per cent, for the second year in succession."

This is acceptable but it would be much better to replace "during" by "in" as the figures are whole year on whole year.

Para 13 "almost 200,000" in the last sentence is dangerous, as we know a revised figure of 170,000 is to be published on 14 March. Sir Terence Burns suggests, and I agree, that we should say "approaching 200,000".

Para 14 The question of who our "biggest competitors" are is not straightforward, Sir Terence Burns suggests redrafting the first sentence:

> "...three of our big competitors"

BUDGET - SECRET B(84) 631

N° 1

FROM: L J H BEIGHTON
INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE
12 March 1984

c/+ agreed.

PWP

12/iii

CHANCELLOR OF THE EXCHEQUER

BUDGET SPEECH : PARAGRAPH 91

1. I understand that you would like a brief note about the use of the phrase "economic depreciation" at the end of paragraph 91 of the Speech.

2. What many people would take you to mean by a reference to "a strict system of economic depreciation" would be a system under which the replacement cost of an asset was matched by its depreciation over the years at its replacement cost in each year. Suppose for example that an asset costing 1,000 had a 10 year life and could properly be depreciated on a straight line basis, then if inflation were running at 5% the economic depreciation would be 100, 105, 110.25, 115.76, 121.55 etc compared with depreciation on a historic cost basis which would simply be 100 in each of the 10 years. To economists, in particular, it is a term of art.

3. While you can properly say in your Speech that because on average an asset has a life of more than 8 years, a measure of tax depreciation which allows for effective writing off after 8 years is more than sufficient to take care of commercial depreciation on a historic cost basis, the same is not necessarily true on a replacement cost basis - there is no empirical evidence of asset lives in the United Kingdom of which we are aware which would enable us to provide you with ammunition to support what you are

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cc	Chief Secretary	Sir Lawrence Airey
	Financial Secretary	Mr Green
	Economic Secretary	Mr Beighton
	Minister of State	Mr Corlett
	Sir Peter Middleton	PS/IR
	Mr Bailey	
	Mr Cassell	
	Mr Monck	
	Mr Monger	
	Mr Lord	

proposing to say against any critics who said you had not gone far enough. The outcome might either be that you might find yourself having to raise the level of 25% annual allowances to justify your statement or else to move tax accounts onto a current cost basis, despite all the difficulties and against a background of a profession which has just about reached the point of failure to do so for reporting purposes after 10 years of agonising debate.

4. The insertion of "commercial" for "economic" at the end of paragraph 91 would substantially reduce the danger of criticism along these lines and enable you to counter any criticism which there might nonetheless be. Normal accountancy principles require depreciation to be based on historic cost figures.

LJHB

L J H BEIGHTON

INTRODUCTION 6R Draft PWP

~~This budget is designed to make~~
the British economy work better.
It will contain measures to stimulate
enterprise, to improve incentives
and to boost profits. It will leave people
with more money in ~~people's~~ their take-home pay
and give them a freer choice about
how and where they save and invest.

This budget will provide a fillip
to the ~~economy~~ workings of the
economy. And that is what it
needs if new jobs are to be created.
That is one of the aims of this budget:
to provide the conditions for employment
to ~~grow~~. start here This Budget will set the Government's course
for this Parliament.

There will be no letting up in ~~the~~ our
determination to defeat inflation. This
budget will continue the policies
that we have followed consistently since

11 DOWNING STREET
WHITEHALL, S.W.1

Ⓐ

2. Those achievements are a tribute
(courage & foresight of the) presented by
to the five budgets ~~of~~ (my distinguished
whose
predecessor, ~~His present~~ duties ~~as~~
~~foreign secretary~~ sadly keep him in
Brussels today.

11 DOWNING STRE[illegible]
WHITEHALL, S.W.1

1979. Those policies provide the only way to achieve our ultimate objective of stable prices. To let them go would be to risk renewed inflation, and ~~as a result~~ much higher unemployment. ~~I shall do nothing today to compromise the successes we have had already.~~ As a result of our determined efforts, Inflation is at its lowest level since the sixties. Growth in the economy is strong. Employment ~~has recently been~~ is growing. Ⓐ

insert. from back page as para 2

3 I shall do nothing ~~E~~ today to compromise those successes. ~~[? How]~~ But there is much that I can do to build upon them.

4- My budget today has two themes: first the further reduction of inflation.

5, Second, a series of tax reforms designed to ~~put some fire into the economy.~~ Enable the Economy to work better.

11 DOWNING STRE
WHITEHALL, S.W.1

Reforms ~~to~~ ~~select British business in particular~~ to stimulate enterprise and set British business ~~to spring the traps on British business~~ on the road to profitable ~~and set it on the quest for profits~~ ~~and~~ expansion. ~~Reforms to make~~ ~~A~~ Reforms that ~~can~~ will help to bring new jobs.

6/ [then typed text]

11 DOWNING STRE
WHITEHALL, S.W.1

for jobs; and second, the reform and simplification of the tax system~~, which will make it fairer for all~~.

6. I shall begin by reviewing the economic background to the Budget. I shall then deal with the medium term financial strategy; with monetary policy and the monetary targets for next year; and with public borrowing and the appropriate PSBR for the coming year. I shall then turn to public expenditure, including the prospects for the longer term. Finally I shall deal with taxation, and the changes in the structure of taxation which will pave the way for cuts in taxes in subsequent years. ~~Some of these cuts I shall announce today, for this is in a sense a Budget for two years. In a wider sense it is a tax reform Budget, setting out a tax strategy for this Parliament.~~

7. As usual, a number of press releases ~~will be issued today, filling out the de~~tails of my tax proposals, will be available from the Vote Office as soon as I have sat down.

Stet /

Ross - Pl. ask Lesley to Type this final. (ie ½/¾ size paper, large type.) (and all the others as they come across)

THE ECONOMIC BACKGROUND

8. ~~But~~ I start with the economic background, ~~and the convincing evidence of recovery: a recovery that springs from the monetary and fiscal policies to which we shall hold~~.

9. Since 1980, inflation has fallen steadily from a peak of over 20 per cent. Last year it was down to about 4½ per cent, the lowest figure since the 'sixties. And with lower inflation have come lower interest rates.

This in turn has led to an economic recovery whose

10. ~~The~~ underlying strength ~~of the recovery is clear. Whereas~~ is now beyond dispute.

Whereas in some previous cycles recovery has come from a self-defeating stimulus to monetary demand, this time ~~its roots are~~ it has ~~in our commitment to~~ sprung from sound finance and honest money. Lower inflation and lower interest rates benefit industry, business, and consumer confidence ~~. Falling inflation has made room for real growth, as we always said it would~~ alike.

11. Across the economy, total money incomes grew in 1983 by about 8 per cent, of which 3 per cent represented real growth in output. Although there is still room for improvement, this ~~clearly~~ is a very much healthier division between inflation and real growth than the nation experienced in the 1970s. Output in the second half of 1983 is now reckoned to have exceeded the previous peak, before the world recession set in, and is still rising strongly.

12. Productivity too has continued to improve rapidly. Just as over the past year many have wrongly predicted an end to the recovery, so some have tried to dismiss the sharp rise in productivity as a flash in the pan. Yet during 1983 manufacturing productivity grew by 6 per cent with no sign of slowing down. Unit labour costs across the whole economy are likely to show the smallest annual increase since the 1960s. This has allowed a welcome and necessary recovery in real levels of profitability.

13. Higher profits lead to more jobs. The number of people in ~~employment~~ work increased by about ~~85,000~~ 80,000 between March and September last year. The loss of jobs in manufacturing has slowed down sharply, while jobs in services increased by ~~getting on for~~ almost 200,000 in the first nine months of last year. ~~This is encouraging news for the unemployed and those who will be leaving school this summer.~~

14. But further progress ~~on productivity~~ is needed: although our unit wage costs in manufacturing rose by under 3 per cent last year, ~~such costs actually fell in~~ our three biggest competitors, the US, Japan and Germany, ~~our three biggest competitors,~~ did better. The employment prospect would be significantly improved if a bigger contribution to improved ~~productivity~~ ~~competitiveness~~ cost performance were to come from lower pay rises. ~~Good sense about pay remains vital.~~

15. Demand, output, profits and employment all rose last year. Home demand has played the major part in the recovery so far. Lower inflation has reduced people's need to save and real

incomes rose. Personal consumption increased by over 3½ per cent compared with 1982. Fixed investment rose rather faster than consumption, with investment in housing and services particularly strong.

16. ~~Imports rose a little faster than home demand last year, as the UK emerged from recession ahead of our main trading partners -~~ our rate of economic growth last year was the highest in the European Community. For much of 1983 our export performance ~~reflected the weakness~~ was affected by weak demand in many of our overseas markets, while imports rose slightly faster than home demand. But by the end of last year world trade was clearly moving ahead again, and in the three months to January manufacturing exports increased very substantially. The balance of payments on current account last year is estimated to have been in surplus by about £2 billion.

17. Our critics have been confounded by ~~the~~ this combination of recovery and low inflation. Even the pessimists have been forced to acknowledge the ~~strength~~ durability of the recovery. It is set to continue throughout this year at an annual rate of 3 per cent. Inflation is expected to remain low, edging back down to 4½ per cent by the end of this year. With rising incomes and low inflation, ~~personal~~ consumption will continue to grow. ~~And the recovery is already becoming more broadly based.~~ And Encouraged by improved profitability and better long-term growth prospects, investment is expected to rise by a good 6 per cent this year.

18. Looking abroad, too, economic prospects are ~~also~~ more favourable than for some time. Output in the United States should continue to grow strongly this year. And recovery is spreading to the rest of the world.

19. Of course, there are inevitable risks and uncertainties. The size and continued growth of the United States budget deficit is a cause of ~~causes~~ widespread concern, ~~not least among Americans,~~ and keeps ~~American, and hence international,~~ world, interest rates high, ~~This acts as a brake on world recovery and worsens~~ exacerbating the problems of the debtor countries. ~~Another consequence is a massive and still growing deficit in the US current balance of payments, financed by inflows of foreign capital, and leading to mounting~~ And the need to finance the US deficit by inflows of foreign capital has kept the dollar artificially high and led to a massive and growing trade deficit, ~~[illegible]~~ greatly increasing the pressures for protectionism within the United States. ~~and sharp exchange rate movements. It is an unstable situation, creating worrying uncertainties.~~

20. A second potential risk is disruption in the oil market. ~~The immediate prospects are less obviously volatile than they were a year ago. But uncertainties remain, and~~ The United Kingdom, and indeed the world economy, inevitably remain~~s~~ vulnerable to any major disturbances in this market.

21. But despite these risks there is a growing sense throughout the industrialised world that the recovery this time is ~~not merely cyclical, but~~ one which can be sustained. The essential requirement is the continued pursuit of prudent monetary and fiscal policies.

Final

THE MTFS

22. For the United Kingdom, the Medium Term Financial Strategy has been the cornerstone of such policies. It will continue to play that role; to provide a framework and discipline for Government and to set out clearly, to industry and the financial markets, the guidelines of policy. Too often in the past Governments ~~have~~ abandoned financial discipline whenever the going got rough, and staggered ~~been driven to stagger~~ from one short-term policy expedient to another. The temptation to accommodate inflationary pressures proved irresistible, and the nation's longer-term economic performance was progressively undermined.

23. The ~~discipline of the~~ MTFS was designed primarily thus, by imposing a disciplined financial framework ~~to ensure consis-~~ which would also ensure consis-tency between monetary and fiscal policies, and a proper balance in the economy. It is so designed to ensure that the more inflation and inflationary expectations come down, the more room is available for output and employment to grow.

24. People now know that the Government intends to stick to its medium term objectives. They understand that the faster inflation comes down, the faster output and employment are likely to recover. The Increasing degree of realism~~, and~~ and flexibility in the economy owes much to the pursuit of firm and consistent policies within the MTFS framework.

25. Originally the MTFS covered four years. In this first Budget of a new Parliament ~~we have thought~~ it is appropriate to carry it forward for five years. So the MTFS published today in the Financial Statement and Budget Report -the Red Book - shows a continuing downward path for the monetary target ranges over the next five years, and a path for public borrowing consistent with that reduction. It takes full account of important influences such as the pattern of North Sea oil revenues, and the level of asset sales arising from the privatisation programme. For the last two years of the new MTFS, which lie beyond the period covered in last years Public Expenditure Survey and last month's White Paper, the Government has not yet made firm plans for public spending. But the MTFS assumption - and at present it is no more than an assumption - is that the level of public spending in 1987-88 and 1988-89 will be the same in real terms as that currently planned for 1986-87.

26. The precise figures set out in the MTFS are not of course a rigid framework, lacking all flexibility. As in the past, there may well need to be adjustments to take account of changing circumstances. But ~~such~~ no changes will be made ~~only when they will not~~ that might jeopardise the consistent pursuit of the Government's objectives.

1 Mr Norgrove
2 Mrs Crossdale

FROM: F CASSELL
9 March 1984

MISS O'MARA

cc - Economic Secretary
Sir P Middleton
Sir T Burns
Mr Battishill
Mr Lankester
Mrs Lomax
Mr Ridley
Mr Lord

BUDGET SPEECH: MONETARY POLICY

I have shown the section on monetary policy that you circulated this morning to Eddie George.

His reactions were very much on the same points as were commented on in Tim Lankester's note to you. But he had quite a neat reformulation of paragraph 31, which the Chancellor might like to consider, and some additional suggestions on paragraphs 33, 36 and 37.

Paragraph 31. Replace last two sentences by:-

> A "But a large proportion of this money is in reality a form of savings, invested for the interest it can earn. In defining policy it is helpful also to make specific reference to measures of money which relate more narrowly to balances held for current spending." B.

Paragraph 33, last sentence. Since we say in the MTFS we are in fact going to make use of M2 in interpreting MO the phrase "may in time prove" may look odd. He would prefer:-

> ~~"... of transactions balances.~~ C This may also be a useful guide but, being new, still needs to be interpreted with particular care." D

Paragraph 36, third line. Add after PSL2 ", which include building society liabilities.".

DJS.

Paragraph 37. There is no mention of (or for) gilts, only of National Savings. The message that the market wants to have is that we will be making less demands on it. This message could be conveyed by extending the opening of the paragraph:-

E/ "So far as funding is concerned, the public sector's borrowing requirement, as I shall shortly explain, will be significantly lower in the coming year. In financing it, the role of the National Savings ~~movement~~ /..." will remain important. /F

I think all these suggestions are helpful. I slightly prefer the George version of paragraph 31 to the Lankester; the important point, however, is that either is preferable to the existing version.

F CASSELL

Brief

MONETARY POLICY

27. Monetary policy will continue to play a central role. ~~For~~ Further reductions in monetary growth are needed to achieve still lower inflation.

28. Over the twelve months to mid-February the growth of £M3 has been well within the 7-11 per cent target range, with M1 and PSL2 at or a little above the top of it. While in the early months of the target period most measures of money showed signs of accelerating, (since the summer) growth in all the target aggregates has ~~since the summer~~ been comfortably within the range.

29. Other evidence confirms that monetary conditions are satisfactory. The effective exchange rate has remained fairly stable, despite the international uncertainties ~~and instability~~ which I have described. And nominal interest rates have continued to decline ~~in line with falling inflation~~. stet

30. ~~To maintain sound monetary conditions in the years ahead the monetary targets must reflect~~ If monetary policy is to stay on track its practical implementation must ~~adjust to~~ adapt to changes in the financial system and in the significance of different measures of money. There is nothing new in this. Over the years we have (more than once) altered the target ranges and aggregates to take account of such changes. But the thrust of the strategy has been maintained.

31. One important development has been the attempt to give a more explicit role to the narrow measures of money. ~~Even when targets were set solely in terms of £M3, we recognised the significance of their behaviour.~~ ~~when they~~ £M3 and the other broad aggregates give a good indication of the growth of liquidity.

But they do not measure money immediately available for current spending. In defining policy it is therefore helpful also to make specific reference to narrower measures of money which will provide such a guide.

? Yes ✓

(since a large) broad interest bearing

~~[But a large proportion of this money is deposited in ways which earn interest. In defining policy it is therefore helpful also to make specific reference to measures of money which bear very little interest, and provide a good guide to the immediate potential for spending.]~~

sensitive also

take explicit account of

or no thus

It was (that M1 was)

32. ~~M1 was~~ for this reason introduced as a target aggregate, but it has not proved entirely satisfactory for that purpose.

With the rapid growth of interest-bearing sight deposits, M1 has become an increasingly poor measure of money held to finance current spending. The signs are that this will continue.

? Yes ✓

~~[Its behaviour has been dominated by changes in its large interest-bearing component, which has grown rapidly, and now accounts for 25 per cent of the total. With the introduction of new interest bearing chequing accounts, the signs are that this will continue.]~~

, which now accounts for a quarter of the total, this has tended to dominate its behaviour. Moreover, (trend)

33. Other measures of narrow money have not been distorted to the same extent. In particular, MO, which consists mainly of currency, ~~has not been subject to this development. It has been affected by other innovations that have reduced people's need for cash, but [the pace of change has not diminished its value as an indicator of financial conditions.]~~ There is also the new aggregate M2, which was specifically devised to provide a comprehensive measure of transactions balances and which may in time prove a useful guide, but ~~still~~ needs to be interpreted with particular care.

(been reasonably steady and has thus)

for the time being it

~~I believe that it~~ is likely to be a ~~better~~ a [illegible] indicator of ~~[illegible]~~ financial conditions than M1

? Yes.

34. In the past two years, it has been possible to set a single target range for both broad and narrow measures of money. But this will not normally be the case; for narrow monetary aggregates tend (in the longer run) to grow more slowly than broader measures. ~~And~~ Thus this year's Red Book sets out two separate ~~ranges.~~ (though overlapping) ranges.

35. The target range for broad money will continue to apply to £M3, and for the coming year will be set at 6-10 per cent, as indicated in last year's MTFS. The target range for narrow money will apply to MO and for next year will be set at 4-8 per cent. To avoid any possible misunderstanding, ~~I~~ let me stress that the use of MO as a target aggregate will not involve any change in methods of monetary control.

36. ~~Both~~ The two target ~~ranges~~ aggregates will have equal importance in ~~formulating~~ the conduct of policy. And ~~we shall~~ the authorities will continue to take into account other measures of money, especially M2 and PSL2, as well as wider evidence of financial conditions, including the exchange rate. As in the past, ~~we shall seek to influence~~ monetary conditions (will be ~~controlled~~ kept under control) by an appropriate combination of funding and ~~fiscal policy~~ [operations in the money market.]

~~short-term~~
~~[short term interest rates.]~~

~~?No.~~

37. So far as funding is concerned, the role of the National Savings movement will remain important. This year's target of £3 billion is likely to be achieved: the target for the coming year will again be £3 billion.

38. Precise monetary targets for the later years will be decided nearer the time. But to give a broad indication of the

objectives of monetary policy, the new MTFS, like previous versions, shows monetary ranges for a number of years ahead. These ranges are consistent with a continuing downward trend in inflation: they demonstrate the Government's intention to make further progress towards stable prices.

Final

BUDGET SECRET

PUBLIC SECTOR BORROWING ~~Etc~~

39. I turn now to public borrowing. ~~for~~ Just as the classical formula for financial discipline - the gold standard and the balanced budget - had both a monetary and a fiscal component, so does the medium term financial strategy.

40. The MTFS has always envisaged that the Public Sector Borrowing Requirement would fall as a percentage of Gross Domestic Product over the medium term. ~~And it has,~~ By 1981-82 ~~And it has, notably as a result of the courageous Budget introduced by my predecessor in 1981, which~~ we had brought ~~the PSBR~~ it down to 3½ per cent of GDP, ~~in 1981-82~~.

41. Since then there has been little further fall. The latest estimate of the PSBR for the current year, 1983-84, remains what it was in November: around £10 billion, equivalent to 3¼ per cent of GDP. This is significantly above what was intended at the time of last year's Budget, and would of course have been higher still had it not been for the July measures. ~~took taken last July.~~

42. We now need a further substantial reduction in borrowing, in order to help bring interest rates down further as monetary growth slows down. Sterling interest rates are, of course, also influenced by dollar interest rates, ~~and so by the US situation which I have already described:~~ but that makes it all the more

important to curb domestic pressures. In contrast to virtually the whole of the post-war period, UK longer-term rates are now lower than American rates. As long as American rates remain near their current level, it is highly desirable that this advantage be maintained.

43. The higher level of asset sales ~~planned~~ we are planning as the privatisation programme gathers pace is a further reason for reducing the PSBR significantly in the coming year. Asset sales reduce the Government's need to borrow. But their effect on interest rates ~~is~~ may be less than the effect of most other reductions ~~direct cuts~~ in Government spending programmes.

44. Last year's MTFS showed an illustrative PSBR for 1984-85 of 2½ per cent of GDP, equivalent to around £8 billion. But I believe that it is possible, and indeed prudent, to aim for a somewhat lower figure. I ~~have~~ am therefore ~~decided to provide~~ providing for a PSBR next year of 2¼ per cent of GDP, or ~~roughly~~ £7¼ billion.

45. The House will recall that in November I warned that on conventional assumptions, including the 1983 Red Book's PSBR figure of £8 billion for next year, I might have to increase taxes slightly in the Budget. I am glad to report that the latest, and more buoyant, forecasts of tax revenue in the coming year, [~~coupled with the decisions taken in the Public Expenditure Survey and the continuing effects of the July measures,~~] have ~~changed~~ improved the picture. ~~Bringing the PSBR down to £7¼ billion will not~~

A PSBR of £7¼ billion [illegible] will

¶ Moreover, while

~~require such an increase in taxation.~~ ~~In fact it will require~~

require no overall net increase in taxation. ~~at all.~~ ~~So~~ the measures I shall shortly announce will, after indexation, be broadly neutral in their effects on revenue in 1984-85,

~~46. Better still~~, they will reduce taxation in 1985-86 by will over ~~some~~ £1¾ billion. And the MTFS published today shows that there should be room for ~~to~~ further tax cuts not only in 1985-86, but throughout the remainder of this Parliament, provided ~~of course~~ that we stick firmly to our published plans for public expenditure to 1986-87, and maintain an equally firm control of public spending thereafter.

PUBLIC EXPENDITURE

47. The Public Expenditure White Paper setting out our spending plans for the next three years was approved by the House last week. Today I want to consider the ~~critically~~ important issue of government spending in a rather wider perspective.

48. For far too long, public spending has grown faster than ~~has~~ the economy as a whole. As a result, the tax burden ~~The trend has seemed inexorable, and the~~ has steadily increased and ~~[illegible] tax [illegible]~~ income tax ~~result has been that the great mass of the population have had~~ has ~~reached~~ even lower levels of ~~[illegible]~~ incomes. ~~to pay more and more in tax. To take just one example:~~ as extending steadily lower down the wage scale. ~~recently as 1963-64 no married man had to pay a penny of income tax unless his~~ he earned ~~taxable income was at least 45 per cent of the average earnings level. Today the tax threshold is down to little more than under a third of average earnings. Over the years more and more people on lower and lower incomes have been brought into income tax.~~

49. We have seen ~~a steady~~ a massive enlargement in the role of the State, at the expense of the individual, and a ~~steady~~ corresponding increase in the dead weight of taxation ~~dragging down~~ holding back our economic ~~performance~~ progress as a nation.

50. ~~Clearly~~ This ~~dangerous~~ process has to stop. But it has arisen ~~Of course~~, because much public spending is directed to eminently desirable ends. ~~But there is an important choice to be made; and it is not about how much what proportion of our economic life we take on~~ between the benefits of higher public expenditure and lower taxation

Stet

This [illegible] BUDGET SECRET

~~But~~ raises difficult issues which deserve the ~~enough simply to make marginal changes in spending programmes~~ widest possible ~~from year to year. The choice needs more fundamental national~~ consideration and debate. ~~and it needs to be set within a longer time horizon.~~ ~~issues which [illegible] take account~~

51. ~~I am~~ The Government is therefore publishing today, in addition to the customary Budget documents, a Green Paper on the prospects for public spending and taxation ~~in~~ over the next ten years. It examines past trends; discusses the pressures for still higher spending; and examines the rewards for the individual and the benefits for the economy if these pressures can be contained.

52. The Green Paper concludes that, without firm control over public spending, there can be no prospect of bringing the burden of tax back to more reasonable levels. On the assumptions made in the Green Paper, the burden of taxation will be reduced to the levels of the early 1970s only if public spending ~~does not rise~~ is kept broadly stable in real terms over the next ten years. ~~If, on the other hand, spending grows by 1 per cent a year in real terms after 1988-89, the tax burden would by 1993 be only just below the 1978-79 level, and still well above its level in the 1960s, even if the economy grows by about 2 per cent a year over the ten years. And of course excessive taxation slows the whole economy.~~

53. The Government believes that the issues discussed in the Green Paper merit the attention of the House and the country.

~~It is a discussion document - descriptive not prescriptive - and we shall welcome the fullest possible discussion.~~

54. ~~I can at once inform the House of a further innovation.~~ In contrast to previous years, I have no ~~specific~~ package of public expenditure measures to announce in this Budget. The White Paper plans stand.

55. ~~But lest the innovation seems too sweeping,~~ I can however make one ~~small~~ announcement, which I think the House will welcome. Within the published plans ~~we~~ The Government have been able to provide the National Heritage Memorial Fund with additional resources which will enable them among other things to secure the future of Calke Abbey. My Rt Hon Friend the Secretary of State for the Environment will be announcing the details shortly. ~~is providing £6.3 million from his planned expenditure for this year and next, and I have accepted a claim on the Reserve of £2 million for next year.~~

56. The House will recall that the proposals for the new rates of social security benefit to come into force in November are not now made ~~on Budget day~~ at the time of the Budget. Following last year's legislation to return to the historic method of uprating, price protection is measured by reference to the Retail Price Index for May. ~~Accordingly,~~ My Rt Hon Friend the Secretary of State for Social Services will be announcing the new rates of social security benefits, including Child Benefit, ~~in June.~~ when the May RPI is known.

BUDGET SECRET

57. Before leaving ~~turning from~~ Government spending ~~to Government revenue~~, I should add a word on public sector manpower. At the beginning of the last Parliament, the Government set itself the target of reducing the size of the Civil Service from 732,000 in April 1979 to 630,000 by April of this year. That target will be ~~has been~~ achieved. We have now set ourselves the further target of 593,000 by April 1988, ~~and~~ I am confident that a smaller ~~it too will be achieved, and that a leaner~~ Civil Service will continue to improve its ~~operate with increasing~~ efficiency. ~~Speaking for my own Departments,~~ the tax changes I shall be announcing today will reduce manpower requirements by at least 1000 in my own Departments, which will help towards meeting the 1988 target.

TAX REFORM

58. I mentioned at the outset that this will be a radical, tax-reforming, Budget. It will also significantly reduce the overall burden of tax over the next two years taken together ~~- and indeed over the whole MTFS period -~~ and I hope to have scope for further reductions in tax in subsequent Budgets.

59. My proposals for reform are guided by two basic principles. First, the need to make changes that will improve our economic performance over the longer term. Second, the desire to make life a little simpler for the taxpayer.

60. But I am well aware that the tax reformer's path is a stony one. Any change in the system is bound, at least in the short term, to bring benefits to some and disadvantages to others. And the disapproval of ~~And, if I may borrow a phrase from the Rt Hon member for Leeds East, the howls of anguish from~~ the latter group tends to be rather more audible than the murmurings of satisfaction from the former.

61. ~~Reform must succeed, but need not be, in this sense, a howling success. So I have rejected the extreme suggestion, popular in some quarters, that I should scrap~~ Some commentators have suggested That our entire income-based tax system ~~and~~ should be replaced ~~it~~ with ~~a brand new~~ an expenditure-based system. ~~A reform of this kind would produce, in the real world, an appalling upheaval of mind-boggling dimensions.~~

~~I was not attracted by that~~

~~Whatever~~ Even if a root-and-branch change of this ~~kind~~ kind were desirable, ~~and~~ it ~~would~~ would, I believe, be wholly ~~unrealistic~~ impractical and unrealistic.

62. But I ~~don't~~ do not believe we can afford to opt for the quiet life and do nothing. So I have chosen the middle way: to ~~work for~~ introduce ~~also~~ reforms, some of them ~~quite~~ of a major nature, ~~improvements, some I believe very substantial, but~~ within the framework of our existing income-based system. I shall also be proposing transitional arrangements where I believe it fair and appropriate to do so.

63. The changes I shall be proposing today fall into three broad categories. These are the taxation of savings and investment, business taxation, and the taxation of personal income and spending.

~~Not yet typed~~

SAVINGS AND INVESTMENT

64. First, the taxation of savings and investment. The proposals I am about to make should improve ~~both~~ the direction and quality of both. And they will contribute further to the creation of a property-owning and share-owning democracy, in which more decisions are made by individuals rather than by intermediary institutions. / stet

65. ~~First,~~ I start with stamp duty. This was doubled from its long-standing 1 per cent by the post-war Labour Government in 1947, reduced by the Macmillan Government in 1963, and once again doubled to 2 per cent (by Labour) in the first Budget presented by the Rt Hon member for Leeds East in 1974. At its present level it is an impediment to mobility and incompatible with the ~~welcome movement to greater~~ forces of ~~Competition~~ competition now at work in the City, following the withdrawal of the Stock Exchange case from the Restrictive Practices Court.

66. I therefore propose to halve the rate of stamp duty to 1 per cent. ~~In general, the new rate will apply from to-day,~~ ~~Transactions from today will benefit from the new rate, unless documents have to be stamped before 20 March, which is the earliest date on which the change will have legal effect.~~ With the exception of those documents which have to be stamped before 20 March, the change will take effect from to-day.

£5000

67. For the home buyer, the new flat rate 1 per cent stamp duty will start at (~~an increased threshold of~~) £30,000. Below this level no duty will ~~in~~ ~~at all~~ ~~future~~ be payable. As a result of this increase in the threshold, ~~and~~ 90 per cent of first time home buyers will ~~therefore~~ not ~~be liable for~~ have to pay stamp duty at all.

68. Reducing the rate of duty on share transfers will remove an important disincentive to ~~direct~~ investment in equities and increase the international competitiveness of our stock market. It should also help British companies to raise equity finance.

69. In addition, I have three proposals to encourage the issue of corporate bonds. I shall go ahead with the new arrangements for deep discount stock and the reliefs for companies issuing Eurobonds and convertible loan stock which were announced but not enacted last year. And I propose to exempt from Capital Gains Tax most ~~certain~~ corporate fixed interest securities provided they are held for more than a year. Since such securities are already exempt from stamp duty ~~- an exemption I can confirm also extends to certain convertible loan stocks -~~ this means that the tax concessions for Government borrowing in the gilt-edged market will now be virtually the same as for private sector borrowing in the corporate bond market.

70. The reductions in stamp duty will cost £450 million in 1984-85, of which £160 million is the cost of the relief on share transfers, and £290 million the cost of the relief on transfers of houses and other ~~real estate.~~ buildings and land.

71. Next, life assurance. ~~I have concluded that there is no longer any justification for Premium Relief on Life Assurance,~~

Move first.

Life Assurance Premium Relief

~~which is now only one of a number of savings channels for ordinary people.~~ The main effect of ~~the relief~~ today is unduly to favour ~~unduly~~ ~~encourage~~ institutional rather than direct investment. ~~and~~ It has also spawned ~~to spawn~~ a multiplicity of well-advertised tax management schemes. I therefore propose to withdraw the relief on all new contracts ~~policies~~ made after today. I stress that this change will apply only to new (or newly enhanced) policies, taken out or increased after today. Existing policies will not be affected at all. The change is estimated to yield £90 million in 1984-85.

[TAKES IN ~~[illegible]~~ 71 (A)]

72. I have also reviewed the tax treatment of ~~We must also review unjustified penalties on~~ direct personal investment. The Investment Income Surcharge is an unfair and anomalous tax on savings and on the rewards of successful enterprise. It hits the small businessman who reaches retirement without the cushion of a company pension scheme,and impedes the creation of farm tenancies. In the vast majority of cases it is a tax on savings made ~~in the first place~~ out of hard-earned and fully-taxed income. More than half of those who pay the investment income surcharge are over 65, and of these ~~more than~~ half would otherwise be liable to tax at only the basic rate.

73. I have therefore decided that the investment income surcharge should be abolished. The cost in 1984-85 will be some £25 million, ~~and in a full year~~ building up to £360 ~~around £350~~ million, in a full year.

74. Finally, I propose to draw more closely together the tax treatment of depositors in banks and building societies.

These institutions compete in the same market for personal deposits. I believe that they should be able to do so on more equal terms as far as tax is concerned.

75. One ~~inequality~~ source of unequal treatment has already been removed, with the recent change made on legal advice in the tax treatment of building societies' profits from gilt-edged securities. They are now treated in the same way as those of the banks have always been.

76. But the major ~~inequality of~~ source of unequal treatment, against which the banks in particular have frequently complained, ~~lies with~~ is the special arrangement for interest paid by building societies. ~~under which~~ The societies pay tax at a special rate - the "composite rate" - on the interest paid to the depositor, who receives credit for income tax at the full basic rate.

77. This system, which has worked well for the past 90 years, has both an advantage and a disadvantage. The disadvantage is that a minority of depositors, who are below the income tax threshold, still ~~suffer the deduction of~~ have tax deducted at the composite rate. ~~However, it is always open to such depositors to put their savings elsewhere, such as National Savings.~~ It has not however stopped many of them using Building Societies because of the competitive rates they have offered. The advantage of the scheme is its extreme simplicity, particularly for the taxpayer; most taxpayers are spared the bother of paying tax on interest through PAYE or individual assessment, while the Revenue are spared the need to recruit ~~an additional~~ up to 2000 extra staff to collect the tax due on interest paid without deduction.

78. In common with my predecessors of all Parties over the past 90 years, I am satisfied that the advantage of the composite rate arrangement outweighs the disadvantage. It follows that equal treatment of building societies and banks should be achieved, not by removing the composite rate from the societies, but by extending it to the banks and other licensed deposit takers.

79. Non-taxpayers will ~~would of course~~ continue to be able to receive interest gross, should they wish to do so, by putting their money into appropriate National Savings facilities. But the purpose of the move is not, of course, to attract savings into Government hands: as I have already announced, next year's target for National Savings will be the same as this year's and last year's, and the total Government appetite for savings, which is measured by the size of the Public Sector Borrowing Requirement, is being significantly reduced. ~~Moreover I have decided to reduce substantially the permitted maximum size of future holdings in the National Savings Investment Account and in Income Bonds.~~

80. The true purpose of the move is (simple: fairer competition and) ~~simple:~~ the simplicity itself. Unless they are higher rate taxpayers, individual bank customers will, when it comes to tax, be able to forget about bank interest altogether, for all the tax due on it will already have been paid. ~~be deducted at source.~~ The Inland Revenue will be able to make staff savings of up to an extra 1000 civil servants. Moreover, this figure takes no account of the (substantial numbers of additional Inland ~~extra numbers that would have~~

X

insert
λ

Revenue staff who would have
been required to operate the present system as the trend towards the payment of interest on current accounts develops.

81. Accordingly, I propose to extend the composite rate arrangements to interest received by UK resident individuals from banks and other licensed deposit takers with effect from 1985-86. The composite rate will not apply either to non-residents or to the corporate sector. Arrangements will also be made to exclude from the scheme Certificates of Deposit and Time Deposits of £50,000 or more.

82. Taken together, the major proposals I have just announced on stamp duty, life assurance relief, the investment income surcharge and the composite rate, coupled with other minor proposals, will provide a simpler and more straightforward tax system for savings and investment. They will remove biases which have discouraged the individual saver from investing directly in industry. And they will reinforce the Government's policy of encouraging competition in the financial sector, as in the economy as a whole.

B(84)571

BUDGET SECRET

FROM: A M ELLIS
DATE: 9 March 1984

PS/CHANCELLOR

cleared with IR.

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Monger
Mr Lord
PS/IR
Mr Isaac - IR
Mr Hall
Mr Battishill

BUDGET SPEECH

The Economic Secretary has read Mr Isaac's minute of 8 March, and agrees with his recommendation that there should be mention of the Friendly Society in the Budget Speech, but suggests a re-draft as follows:

IN

71(a)

> I am also proposing to withdraw the special - but unfortunately widely abused - privileges for what are known as 'tax exempt' Friendly Societies and bring them into line with the normal rules for Friendly Societies doing 'mixed' business. However the limits within which in future all Friendly Societies will be able to write assurance on a tax exempt basis will be increased from £500 to £750. ~~and I am th also proposing to increase existing limits of £50,000~~ up to which Friendly Societies may write assurance policies to £60,000. This is ~~the current maximum level for Building Society mortgages outside the Special Advances category~~.

✓

A M ELLIS

BUDGET SECRET

IN

COMPOSITE RATE

<u>Paragraph 80</u> New third sentence

"And it will be easier for people to compare the terms offered for their savings by banks and building societies. There will be no ~~increase in revenue for~~ direct gain to the Exchequer. However, the Inland Revenue will be able ....."

BUSINESS TAXATION

83. I now turn to ~~company~~ business taxation.

84. ~~In this area,~~ Here, Government has two responsibilities towards British business and industry. The first is to ensure that they do not have to bear an excessive burden of taxation. The second is to ensure that, given a particular burden, it is structured in the way that does least damage to the nation's economic performance.

85. The measures I am announcing today will, taking the next two years together, result in a ~~very~~ substantial reduction in the burden of taxation on British ~~industry.~~ business. And in addition I shall be proposing a far-reaching reform of the structure of company taxation.

85(a) Responses to the Corporation Tax Green Paper in 1982 showed a strong general desire to retain the imputation system. I accept that. But other changes are needed.

86. The current rates of Corporation Tax are far too high, penalising profit and success, and blunting the cutting edge of enterprise. They are the product of too many special reliefs, indiscriminately applied and of diminishing relevance to the conditions of today. Some of these reliefs reflect economic priorities or circumstances which have long vanished, and now serve only to distort investment decisions and choices about finance. Others were introduced to meet short-term pressures, notably the upward surge of inflation. With inflation down to ~~5 per cent and set to go lower,~~ today's low levels, this is clearly the time to take a fresh look. And with unemployment as high as it is today, it is particularly difficult to justify

a tax system which encourages low-yielding or even ~~unprofitable~~ loss-making investment at the expense of jobs.

87. My purpose therefore is to phase out some unnecessary reliefs, in order to bring about, over time, a markedly lower rate of tax on company profits.

88. First, capital allowances. Over virtually the whole of the post-war period there have been incentives for investment in both plant and machinery and industrial (though not commercial) buildings. But there is little evidence that these incentives have strengthened the economy or improved the quality of investment. Quite the contrary: the evidence suggests that businesses have invested substantially in assets yielding a lower rate of return than the investments made by our principal competitors. Too much of British investment has been made because the tax allowances make it look profitable, rather than because it would be truly productive. We need

~~89. The nation needs more investment, and the 6 per cent increase forecast for this year is encouraging. But the greatest benefits flow from~~ investment decisions based on ~~analysis of~~ future market assessments, not future tax assessments.

~~90~~ 89. I propose to restructure the capital allowances in three annual stages. In the case of plant and machinery, and assets whose allowances are linked with them, the first year allowance will be reduced from 100 per cent to 75 per cent for all such expenditure incurred after today, and to 50 per cent for expenditure incurred after 31 March next year. After 31 March 1986 there will be no first year allowances, and all expenditure on plant and machinery will qualify for annual allowances on a 25 per cent reducing balance basis.

90

~~91~~. In addition, from next year annual allowances will be given as soon as the expenditure is incurred, and not, as they are today, when the asset comes into use. This will bring forward the entitlement to annual allowances for those assets, such as ships and oil rigs, for which some payment is normally made well ~~in advance of their being~~ before they are brought into use.

91

~~92~~. For industrial buildings, I propose that the initial allowance should fall from 75 per cent to 50 per cent from tonight, and be further reduced to 25 per cent from 31 March next year. After 31 March 1986 the initial allowance will be abolished, and expenditure will be written off on an annual 4 per cent straight line basis. I should add that, when these changes have all taken place, ~~in respect of both plant~~ tax allowances for both plant and machinery and industrial buildings~~, tax allowances~~ will still on average be rather more generous than would be provided by a strict system of economic depreciation.

92

~~93~~. The changes in the rates of allowances will not apply to payments under binding contracts entered into on or before today, provided that the expenditure is incurred within the next three years.

There will be transitional

95 94. ~~After consulting my Rt Hon Friend the Secretary of State for Trade and Industry, I have decided to make transitional~~ tax arrangements for certain investment projects in ~~the regions. Existing capital allowances will continue to apply to expenditure on projects in Development Areas and special Development Areas for which regional development grants are available and offers of selective assistance have already been made between 1 April 1980 and today. Similar arrangements were announced for regional development grants in my Rt Hon Friend's White Paper on Regional Industrial Development last December~~.

insert (A) here

9~~5~~4. Over the same period to 31 March 1986 most other capital allowances will be brought into line with the main changes I have announced. The Inland Revenue will be issuing a press notice tonight giving full details of these proposals.

9~~6~~5. Next, stock relief. As the House will recall, this was introduced by the last Labour Government as a ~~rough and ready~~ form of emergency help to businesses facing the ravages of high inflation. These days are past; and the relief is no longer necessary. ~~for~~ Company liquidity has improved and, above all, inflation has fallen sharply. ~~and will be falling further during this Parliament.~~ Accordingly, I propose to abolish stock relief from this month.

6

9~~7~~. The changes I have just announced, in capital allowances and stock relief, enable me to embark on a major programme of progressive reductions in the main rate of Corporation Tax. For profits earned in the year just ending, on which tax is generally payable in 1984-85, the rate will be cut from 52 per cent to 50 per cent. For profits earned in 1984-85 the rate will be further cut to 45 per cent. Looking further ahead, to profits earned in 1985-86, the rate will go down to 40 per cent; and for profits earned in 1986-87 the main rate of Corporation Tax will be 35 per cent. – no less than 17 percentage points below the current rate.

7

~~98~~. All these rates for the years ahead will be included in this year's Finance Bill.

insert © 98(A)

98

~~99~~. ~~[illegible]~~ The ~~much~~ substantial reduction in the rates of Corporation Tax ~~And they~~ will bring a further benefit. ~~Responses to the Corporation Tax Green Paper published in 1982 revealed a strong and general desire to retain~~ Our imputation system ~~of Corporation Tax. This~~ allows a company to offset in full all interest paid. But only a partial ~~deduction~~ offset for dividends is allowed. Companies thus have ~~an unhealthy~~ a clear incentive to finance themselves through borrowing, in particular bank borrowing, rather than by raising equity capital. The closer the Corporation Tax rate comes to the basic rate of income tax, the smaller this undesirable distortion becomes.

99

~~100~~. Of course, the majority of companies are not liable to pay the main rate of Corporation Tax at all. For them it is the small companies' rate, at present 38 per cent, which applies.

ADD insert B

I propose to reduce this rate forthwith to 30 per cent, for profits earned in 1983-84 and thereafter. X

100
~~101~~. The Corporation Tax measures I have just announced will cost £280 million in 1984-85. In 1985-86 the cost will be ~~£600~~ £450 million - made up of ~~£1,150~~ £1,100 million by way of reductions in the rates, only partially offset by a ~~£550~~ £650 million reduction in the value of the reliefs. ~~The estimated costs for later years, which have been provided for in the MTFS figures contained in the Budget Red Book, have been drawn up on a cautious basis.~~ During the transitional period as a whole, these measures should have a broadly neutral effect on the financial position of companies. But when the changes have fully worked through, companies will enjoy very substantial reductions in the tax they pay.

NEW PARA

~~Thus~~ B business and industry can go ahead confidently on the basis of the Corporation Tax rates I have announced today, ~~and~~ which set the framework of company taxation for the rest of this Parliament.

~~both a short~~

102. ~~I expect these changes to have both a somewhat different impact in the short and long term. In the short term, some~~ Over the next two years, these changes will cause some investment ~~should~~ to be brought forward, ~~over the next two years,~~ to take advantage of ~~high first year~~ capital allowances ~~while they last~~ - a prospect made all the more alluring for business ~~by virtue of the fact that~~ since the profits earned ~~from then~~ will be taxed at the new, lower, rates. But the more important and ~~durable~~ lasting effect will be to encourage the search for investment projects with a genuinely worthwhile return, and to discourage uneconomic investment.

Sung stet/

103. It is doubtful ~~if~~ whether it was ever really sensible to subsidise capital investment irrespective of the true rate of return. Certainly,

with over three million unemployed it cannot make sense to do so.

104. These changes hold out an exciting opportunity for British industry as a whole: an opportunity further to improve its profitability, and to expand, building on the recovery that is already well under way. Higher ~~net~~ profits after tax will ~~should~~ encourage and reward enterprise, ~~and~~ stimulate ~~higher current expenditure and~~ innovation in all its forms, ~~- research and development, and work on new products,~~ ~~new~~ processes ~~and~~ and markets.
~~This reform is,~~
~~They are~~ the centre-piece, ~~for business~~, of ~~this Budget and the tax strategy for this Parliament.~~ create more jobs.

I now turn to some more detailed measures

105. ~~But I have further measures to announce that are relevant to business.~~ affecting business.

106. ~~First~~, The Business Expansion Scheme, introduced last year as a successor to the Business Start Up Scheme, has been widely welcomed as a highly imaginative scheme for encouraging individuals to invest in small companies. It is already proving a considerable success. It now needs time to settle down, and I have only one change to propose this year.

107. The scheme was designed to offer generous incentives for investment in high risk areas by new or expanding companies~~.~~,
The ownership of farmland cannot be said to fall
~~Farming is clearly not an area which falls~~ within this category, and I therefore propose that from today farming should cease to be treated as a qualifying trade under the scheme. ~~I am~~

~~also ready to consider tightening the scheme further, if it becomes clear at any time in the future that it is being used for purposes for which it was clearly not designed.~~

~~108. Secondly, as a measure of help to small firms, I propose to raise the VAT registration threshold with effect from midnight tonight from £18,000 to £18,700.~~

10~~9~~ 8. ~~Thirdly~~ Next, in keeping with what I have said about removing distortions, I propose to abolish two reliefs in the personal tax field which were introduced at a time when this country suffered from excessively high rates of income tax. As we have reduced those rates, the reliefs are no longer justified.

11~~0~~ 9. The first distortion is the 50 per cent ~~deduction~~ tax relief (falling after 9 years to 25 per cent) ~~given from~~ applied to the emoluments of foreign domiciled employees working here for foreign employers. ~~Foreign~~ These employees are often paying much less tax here than they would either ~~at home~~ in their own country or in most other European countries. ~~At~~ At ~~present income tax rates,~~ ~~t~~ The need for ~~the~~ this relief has clearly disappeared. Moreover it is open to widespread abuse. It is, for example, possible for the son of an immigrant, working here for a foreign company, to ~~pay tax on only 75 per cent of his salary~~ enjoy this relief, even if he ~~himself~~ has lived in this country all his life. I therefore propose to withdraw the ~~50 per cent~~ relief ~~entirely~~ for all new cases from today. ~~and to withdraw the~~ For existing beneficiaries, the 25 per cent ~~deduction from existing beneficiaries from~~ relief will cease on 6 April, ~~next. The~~ and the 50 per cent ~~deduction~~ relief will be phased out over the next five years.

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the

~~5 years to 5 April 1989.~~

11~~1~~0. I also propose to withdraw the ~~so-called~~ foreign earnings relief for United Kingdom residents ~~who perform their duties both here and overseas and~~ who ~~spend~~ work at least 30 days abroad in a tax year. This relief too ~~has lost its rationale, which~~ harks back to the days of penalty high income tax rates. It too has been exploited, in particular by those who prolong their overseas visits purely in order to gain a tax advantage. ~~For the same reason,~~ I propose to withdraw the matching relief for the self-employed who spend 30 days abroad, and for those resident in the UK ~~employees and self-employed~~ who have separate employments or separate trades carried on wholly abroad. The relief will be halved to 12½ per cent in 1984-85 and removed entirely from 6 April 1985. However, I In addition, I have ~~also~~ authorised consultations by the Inland Revenue ~~to consult interested parties~~ about a possible relaxation in the rules governing the taxation of expenses reimbursed to employees for travel overseas. I am not making any change to the 100 per cent deduction given for absences abroad of 365 days or more.

11~~2~~1. The abolition of these reliefs will eventually yield revenue savings of over £150 million; and represents another ~~useful~~ step in the removal of complexity and distortions in the tax system.

11~~3~~2. I need to set the car benefit scales for 1985-86 for those provided with the use of a car by their employer.

Despite the increases over recent years, the levels still fall short of any realistic measure of the true benefit. I am ~~accordingly~~ proposing an increase of 10 per cent in both the car and car fuel scales with effect from April 1985.

3

114. Unnecessarily high rates of tax discourage enterprise and risk taking. This is true of the capital taxes, just as it is of the corporation and income taxes. It is a matter of particular concern to those involved in running unquoted family businesses. The highest rates of capital transfer tax are ~~tax are way~~ far too high and badly out of line with comparable rates abroad. ~~and with the top rates of other taxes in this country.~~ I propose therefore, in addition to statutory indexation, to reduce the highest rate of capital transfer tax from 75 per cent to 60 per cent ~~as well as raising~~ ~~and to raise the threshold to £64,000 in line with indexation.~~ For lifetime gifts I ~~further~~ ~~mistrading~~ propose ~~to make the rate~~ simplifying the scale so that the rate is always one-half of that on death. ~~over the whole scale.~~

4

115. For capital gains tax I will, as promised, bring forward in the Finance Bill proposals to double the limit for retirement relief to a figure of £100,000, backdated to April 1983. A consultative document on other possible changes in this relief is being issued next week. I am proposing no other changes this year in capital gains tax beyond the statutory indexation of the exempt amount from £5,300 to £5,600. However, the tax continues to attract criticism - not least for its complexity - and that is a matter to which I hope to return in a later year.

11~~6~~5. We have done much to improve the Development Land Tax. Early in the last Parliament, my predecessor increased the threshold from £10,000 to £50,000. I now propose a further increase to £75,000, which will reduce the number~~s affected~~ of cases drawn ~~by~~ to the tax by more than one-third.

11~~7~~6. Next share options. The measures introduced in the last Parliament to improve employee involvement through profit sharing and savings related share option schemes have been a notable success. The number~~s~~ of ~~all~~ these employee schemes open to all employees has ~~have~~ increased from about 30 in 1979 to over 670 now, benefiting some half a million employees. To maintain and build on this progress I propose to increase the monthly limit on contributions to savings related share option schemes from £50 to £100. I have also authorised the Inland Revenue to double the tax-free limits under the concession on long service awards and to include within those limits the gift of shares in the employee's company.

11~~8~~7. But beyond this, I am convinced that we need to do more to attract top calibre company management and to increase the incentives and motivation of existing executives and key personnel by linking their rewards to performance. I propose therefore that, subject to certain necessary limits and conditions, share options generally will be taken out of income tax, leaving any gain to be charged to capital gains tax on ultimate disposal of the shares. The new rules will apply to options meeting the conditions which are granted from 6 April~~ next~~.

118. ~~119~~. I am sure that all these changes will be welcomed as measures to encourage the commitment of employees to the success of their companies and to improve the performance, competitiveness and profitability of British industry.

119. ~~120~~. As the House knows, the Government is ~~Before turning to North Sea taxation, I should like~~ ~~worried~~ ~~to remind the House of the Government's~~ deeply concerned ~~deeply~~ ~~concern~~ at the threat which the spread of unitary taxation in certain US states has posed to the US subsidiaries of British firms. With our European partners we are monitoring the situation closely, and await with keen interest the imminent report of ~~a~~ US Treasury Secretary Regan's Working Group~~ under my US counterpart~~. It is ~~very important~~ Essential that ~~that~~ a satisfactory solution ~~be~~ is found and speedily implemented.

120. ~~121~~. ~~This issue isnot wholly irrelevant to the North Sea,~~ ~~for~~ US firms operating ~~there, or elsewhere~~ in this country, are not of course taxed on a unitary basis. ~~taking account of world-wide profits~~.

I now turn to oil taxation.

121. ~~122~~. Last year's North Sea tax changes were well received, and there has been ~~encouraging progress~~ a substantial increase in the number of development projects coming forward, ~~as well as~~ and a new surge in exploration. ~~and appraisal.~~ The Government is already committed to a study of the economics of investment in incremental development in existing fields. This is of increasing importance and in consultation with my rt hon friend the Secretary of State for Energy I

therefore propose to review this area with the industry, and to legislate as appropriate next year to improve the position. To prevent projects being deferred pending this review, any changes will apply to all projects which receive development consent after today.

122. ~~123~~. Meanwhile, I am taking two measures to prevent an unjustified loss of tax in the North Sea. First, in addition to the PRT measures on farmouts which I announced last September, I am limiting the potential Corporation Tax cost of such deals. Second, I propose to repeal the provision which allows Advance Corporation Tax to be repaid where Corporation Tax is reduced by PRT. ~~I have concluded that this can no longer be justified.~~ I have also reviewed the case for extending last year's future field concessions to the Southern Basin, but have concluded that additional incentives here are not needed.

123. ~~124~~. I have just two further changes affecting business to pnopose, both of which will come into force on 1 October.

124. ~~125~~. Ever since VAT was introduced in this country, we have treated imports differently from the way ~~in which they are treated by~~ our main European Community competitors treat them. ~~In a nutshell,~~ While they require VAT on imported goods to be paid in the same way as customs duties, ~~We~~ we do not. Under our system an importer does not have to account for VAT on his

X

imports until he makes his normal VAT return, on average some 11 weeks later. During this time the importer enjoys free credit at the taxpayer's expense. But ~~This is an advantage not enjoyed by the home-produced equivalent of the import, since~~ businesses buying from UK suppliers have to pay VAT ~~when they pay their suppliers.~~ ~~at the~~ straight away.

125. ~~126~~. ~~The UK system does indeed have many~~ for importers undoubtedly has a number of advantages, ~~which is why~~ The European Commission has for some years now been seeking, (with our full support), ~~to get it~~ a system like ours adopted throughout the Community. ~~with the full support of both my predecessor and myself.~~ But the plain fact is that in all that time the Commission has made no progress whatever.

126. ~~127~~. I must tell the House that I am not prepared to put British industry at a competitive disadvantage in the home market any longer. Should our European partners at any time undergo a Damascene conversion, and ~~all~~ agree that the Commission's proposal should be accepted after all, then of course we would ~~gladly~~ revert to the present system. But in the meantime I propose to move to the system used by our ~~major~~ European competitors. ~~and charge VAT straight away on imports, providing~~ We shall provide the same facilities for ~~deferring~~ payment of VAT on imports as apply to customs duties. That means that most importers will be able to defer payment of VAT by on average one month from the date of importation. But that is all.

127. ~~128~~. As I have said, this change will apply from 1 October. By bringing forward VAT receipts, it will bring in an extra £1.2 billion in 1984-85, some of which will ~~of course~~ be borne ~~carried~~ by foreign producers and manufacturers. There will of course ~~naturally~~ be no increased revenue in subsequent years.

128. ~~129~~. The second change I propose to make on 1 October concerns the ~~Labour Government's~~ National Insurance Surcharge. This tax on jobs was ~~This, once again, was a brainchild of the Rt Hon member for Leeds East. Having~~ introduced ~~it~~ (in 1977 at the rate of 2 per cent, by the Labour Government) (and further ~~he then raised it~~ increased by the Rt Hon Member for Leeds East in 1978 to 3½ per cent. During the last Parliament, this Government reduced ~~my predecessor succeeded in reducing~~) it to 1 per cent, and we are pledged to abolish it during the lifetime of this Parliament.

129. ~~130~~. Given the impact that this tax has, not only on industrial costs but also - at a time of high unemployment - on jobs, I have decided to take the opportunity of this my first Budget to fulfil that pledge. Abolition of the National Insurance Surcharge from October will reduce private sector employers' costs by almost £350 million in 1984-85, and over £850 million in a full year. It will thus be of continuing help to British ~~business~~ industry. As before, ~~we shall take measures~~ the benefit will be confined to the private sector.

130. ~~131~~. 131. [at end] ~~Thus my proposals offer British business the abolition~~ ~~of the tax on jobs and the reduction of the rate of taxation~~ ~~on profits. They also sweep away a number of out-dated~~ ~~reliefs, reduce distortions, and assist enterprise.~~

131. The abolition of the National Insurance Surcharge, coupled with the reduction and reform of Corporation Tax, provide British industry with ~~[illegible]~~ the most favourable fiscal framework

~~131. This budget abolishes the National Insurance Surcharge, cuts the rates of corporation tax, sweeps away a number of out-dated reliefs; and so provides British business with a stimulus to profits and to expansion, and an opportunity which I am confident it will seize.~~

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131. The House will I am sure agree that a Budget which abolishes the National Insurance Surcharge, and cuts the rates and simplifies the structure of corporation Tax, is a Budget jobs and ~~for enterprise and [illegible]~~ for jobs and for enterprise. It offers British industry an opportunity which I am confident it will seize.

11 DOWNING STREET
WHITEHALL, S.W.1

John

IA have now cleared
with DTI who want
amendments below
M.

BUDGET SECRET

Industry Act

Ⓐ for 94.

94. ~~After consulting my Rt Hon Friend the Secretary of State for Trade and Industry, I have decided to make transitional tax arrangements for certain investment projects in~~ the development areas and special development areas which need most help from regional policy. When a project in those areas has had an offer of selective financial assistance and also attracts regional development grants, ~~-~~ the existing capital allowances will continue to apply to the expenditure to which the selective assistance is related. These arrangements will cover projects for which offers have already been made between 1 April 1980 and today. ~~These~~ Similar arrangements for regional development grants ~~Similar arrangements~~ were announced for ~~regional development grants in~~ by my Rt Hon Friend~~'s~~ White Paper on ~~Regional Industrial Development~~ last December.

tighter [illegible]

~~These arrangements which I have made in connection with ~~are welcomed~~ by my Rt Hon Friend the Secretary of State for Trade and Industry are similar to those~~

The S of S for Trade and Industry and I have

C

[illegible]

98(A) When these changes are complete, our rates of capital allowance for ~~most~~ the generality of plant and machinery ~~medium life assets~~ will be comparable with those in ~~most~~ ~~the majority of~~ most other countries, while ~~And~~ the rate of tax will be significantly lower.

B

Paragraph 100 ✓

.... reduce this rate forthwith to 30 per cent, for profits earned in 1983-84 and thereafter. A tax regime for small companies which is already generous by international standards will thus become markedly more generous.

INDIRECT TAXES

131. Having announced major reforms of both the taxation of savings and investment and the taxation of business, I turn now to the third and final area in which I propose to make progress on tax reform. This is the taxation of personal income and spending.

check for [illegible]

132. The broad principle was clearly set out in the Manifesto on which we were first elected in 1979. ~~and which~~ This emphasised the need for a switch from taxes on earnings to taxes on spending. My predecessor made an important move in this direction in his first budget, and the time has come to make a further move today. To reduce direct taxation by this means is important in two ways. It improves incentives and makes it more worthwhile to work, and it increases the freedom of choice of the individual.

raise

~~propose any substantial m~~

134. ~~I do not however see the excise duties - with certain exceptions - as an area for major change. I shall of course need to raise most~~ I propose to ~~[illegible]~~ ~~the~~ most of the ~~[illegible]~~ of the (other excise) duties broadly in line with inflation, so as to maintain their real value: not to do so would run counter to the philosophy I outlined a moment ago. But with inflation ~~now~~ as low as it now is, the necessary increases are on the whole mercifully modest. ~~Only for a few particular duties do I envisage steeper rises.~~

to next page

~~Given~~

~~134. One significant exception is tobacco, where I am~~ ~~believing it is right~~ ~~convinced of the need to raise the duty in real terms,~~ ~~given~~ ~~to help cut smoking and thus reduce the potential danger to health. I~~

133. ~~[illegible]~~ Having regard to the representations I have received on health grounds, I therefore propose an increase in the tobacco duty which, including VAT, will put 10p on the price of a packet of cigarettes, with corresponding increases for hand-rolling tobacco and cigars. This will do no more than restore the tax on tobacco to its 1965 level. I do not propose ~~to~~ any increase in the duty in pipe tobacco~~, which is important for a great many pensioners~~. These changes will take effect from midnight on Thursday.

134 from previous page

135. I propose ~~[illegible]~~ to increase the duties on petrol and derv by amounts ~~For the duties on petrol and derv I propose simply broad revalorisation, which means increases~~ which, ~~again~~ including VAT, will ~~increase~~ raise the price at the pumps by 4½p and 3½p a gallon respectively. (This does no more than keep pace with inflation.) I do not propose to increase the duty on heavy fuel oil, which is of particular importance to industrial costs. These changes will take effect for oil delivered from refineries and warehouses from six o'clock this evening.

136. There is one excise duty which I propose to do away with altogether. Many of those who find it hardest to make ends meet, including in particular many pensioners, use paraffin stoves to heat their homes, and it is with them in mind that I propose to abolish the duty on kerosene from six o'clock tonight. I am sure that this will be welcomed on all sides of the House.

137. The various rates of Vehicle Excise Duty will, once again, go up roughly in line with prices. Thus the duty for cars and light vans will be increased by £5, from £85 to £90 a year. However, gi~~ven the further evidence~~ in the light of the reassessment by my Rt Hon Friend the Secretary of State for Transport of ~~has now received on~~ the wear and tear that various types of vehicle cause to the roads, there will be reductions in duty for the lightest lorries, offset by higher increases for some heavier lorries. All these changes in Vehicle Excise Duty will take effect from tomorrow.

138. However, I propose to exempt from Vehicle Excise Duty all recipients of the War Pensioners' Mobility Supplement.

~~139. And I have decided to widen the specific VAT reliefs for the disabled in the important area of transport.~~ ~~these~~ In addition, ~~T~~he existing VAT relief for motor vehicles designed or adapted for use by the handicapped will be extended, and matched by a new Car Tax relief. The effect will be that neither VAT nor car tax will apply to family cars designed for disabled people or substantially adapted for their use.

139 ~~140~~. I now come to the most difficult decision I have to take in the excise duty field. As the House will be aware, the rules of the European Community, so far as alcoholic drinks are concerned, are designed to prevent a Member state from protecting its own domestic product by imposing a significantly higher duty on competing imports. In pursuit of this, the Commission has taken a number of countries to the European Court of Justice.

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BUDGET SECRET

142. We have thus complied with the Court's judgement. And I am happy to be able to tell the House that the Italian Government have, after discussions, given us an undertaking that they will comply with an earlier Court ruling on discrimination against Scotch whisky, and other imported spirits.

140 ~~141.~~ In our case, the Commission contended that we were protecting beer by under-taxing it in relation to wine. We fought the case, but lost; and I am now implementing the judgement handed down by the Court last year. Accordingly, I propose to increase the duty on beer~~, not by the 7p a pint which has been widely rumoured in the press, but~~ by the minimum amount needed to comply with the judgement and maintain revenue: 2p on a typical pint of beer, including VAT. At the same time, the duty on table wine will be reduced by the equivalent of about 18p a bottle, again including VAT.

141. ~~142. I cannot, however, ignore the fact that while we comply with the judgement of the European Court, one of our partners appears determined not to do so. I refer to Italy, which has been ordered by the Court to remove forthwith its discrimination against Scotch whisky, but as yet shows no sign whatever of complying. I have therefore decided to introduce a temporary duty surcharge on vermouth of some 20p a bottle on top of the basic increase, to which I shall come in a moment. This surcharge will come into operation on 1 September unless the Italian Government has - as I very much hope it will - implemented the Court's judgement by that date, and it will lapse as soon as I am satisfied that it has complied.~~

TAKEN IN NEW PARA 142

142. ~~143.~~ As for the rest of the alcoholic drinks, cider, which increasingly competes with beer but attracts a lower duty, will go up by 3p a pint. The duties on made-wine will be aligned with those on other wine. And I propose to increase the duty on sparkling wine, fortified wine and spirits by about 10p a

Insert.

PARAGRAPH 146

.... Bringing ~~all alterations into tax~~. I recognise that this will be unwelcome news for the construction industry, but ~~the industry~~ construction will of course benefit greatly from the reduction in the rate of stamp duty which I have already announced. £290 million of the cost of that reduction in 1984-85 relates to transfers of land and buildings, and of that £290 million some 90 per cent relates to buildings and building land. Nevertheless, to allow a reasonable time for existing commitments to be completed or adjusted, the VAT change will be deferred until 1 June.

bottle, including VAT. All these changes~~, except the vermouth surcharge,~~ will take effect from midnight tonight.

143. ~~144.~~ These changes in excise duties will, all told, bring in some £840 million in 1984-85, some £200m more than is required to keep pace with inflation. The addition is of course ~~largely~~ due to the increase in tobacco duty.

144. ~~145.~~ ~~But much~~ The remainder of the extra revenue I need to make a substantial switch this year from taxes on earnings to taxes on spending will come from VAT. I propose no change in the rate of VAT. Instead, I intend to broaden the base of the tax by extending the 15 per cent rate to two areas of expenditure that have hitherto been zero-rated.

145. ~~146.~~ First, alterations to buildings. At present repairs and maintenance are taxed, but alterations are not. The borderline between these two categories is the most confused in the whole field of VAT. I propose to end this confusion and illogicality by bringing all alterations into tax. ~~However, to allow a reasonable time for existing commitments to be completed or adjusted, the change will be deferred until 1 June.~~

146. ~~147.~~ Secondly, food. Most food is zero-rated. But food served in restaurants is taxed, together with a miscellaneous range of items including ice-cream, confectionery, soft drinks and crisps, which were brought into tax by the Rt Hon Member for Leeds East. Take-away food clearly competes with other

forms of catering, and I therefore intend to bring into tax hot take-away food and drinks, with effect from 1 May.

147. ~~148~~. The total effect of the extensions of the VAT coverage which I have proposed will be to increase the yield of the tax by £375 million in 1984-85 and by ~~almost~~ £650 million in ~~1985-86~~ a full year.

148. ~~149~~. The total impact effect on the Retail Price Index of the VAT changes and excise duty changes taken together will be less than three-quarters of one per cent. This has already been taken into account in the forecast which I have given to the House of a decline in inflation to 4½ per cent by the end of the year.

149. ~~150~~. The extra revenue raised in this way will enable me, within the overall framework of a neutral Budget, to lighten the burden of income tax.

~~Direct~~ Income Tax

~~PERSONAL TAXATION~~

151. Since we took office in 1979, we have cut the basic rate of income tax from 33 per cent to 30 per cent and sharply reduced the confiscatory higher rates inherited from the last Labour Government. We have increased the main tax allowances not simply in line with prices but by around 8 per cent in real terms. It is a good record. But it is not enough. The burden of income tax is still too heavy.

152. During the lifetime of this Parliament, I intend to carry forward ~~much further~~ the progress we have already made. For the most part, this will have to wait for future Budgets, particularly since I have thought it right this year to concentrate on setting a new regime of business taxation for the lifetime of a Parliament - and beyond. But as a result of the changes to taxes on spending which I have just announced, I can ~~make a start now.~~ take a further step in this Budget.

153. I propose to make no change this year in the rates of income tax. So far as the allowances and thresholds are concerned, I must clearly increase these by the amounts set out in the statutory indexation formula, based on the 5.3 per cent increase in the Retail Price Index to December. The question is how much more I can do, and how to direct it.

154. I have decided that, this year, the right course is to use every penny I have in hand, within the framework of a revenue neutral Budget, to lift the level of the basic tax thresholds, for the married and single alike. It is ~~fundamentally wrong that we collect~~ makes very little sense to be collecting income tax from people ~~whose incomes are so low that they are entitled to social security benefits on grounds of need.~~ who are at the same time receiving means-tested benefits. Moreover low tax thresholds ~~make~~ worsen the poverty and unemployment traps, ~~much worse,~~ so that ~~the financial~~ there is little if ~~financial~~ any financial incentive to find a better job or even any job ~~may decline almost to zero~~ at all. There is, alas, no quick or cheap solution to these problems. But that is all the more reason to make a ~~start on~~ further move towards solving them now.

155. I propose to increase ~~most~~ the other thresholds in line with the statutory indexation requirement, and by no more. The first higher rate of 40 per cent will apply when taxable income reaches £15,400 a year and the top rate of 60 per cent to taxable income of £38,100 or more. The single age allowance will rise from £2,360 to £2,490 and the married age allowance from £3,755 to £3,955.

156. For the basic thresholds, statutory indexation would mean putting the single and married allowances up by £100 and £150 respectively. I am glad to say that I can do considerably better than that. I propose to increase the basic thresholds by well over double what is required by indexation. The single person's threshold will be increased by £220, from £1,785 to £2,005; and the married threshold by £360, from £2,795 to £3,155. ~~The special allowances for widows, and for single parents, will as a consequence go up by some 14 per cent.~~

157. This is an increase of around 12½ per cent, or some 7 per cent in real terms. It brings the married man's tax threshold for 1984-85 to its highest level in real terms since the war. It means that The ~~gr~~ great majority of ~~every tax-paying~~ married couples ~~in the land~~ will enjoy an income tax cut of at least £2 a week. And it means that a large number of people, those with the smallest incomes of all, are taken out of income tax altogether. ~~And~~ Some 850,000 people - over 100,000 of them widows - ~~will not pay tax in 1984-85~~ who would have paid tax if thresholds had not been increased, will pay no tax in 1984-85. That is ~~And~~ 400,000 fewer than if the allowances had merely been indexed.

158. All these changes will take effect under PAYE on the first pay day after 10 May. Their cost is considerable: some £1.8 billion in 1984-85, of which roughly half represents the cost of indexation.

159. This is as far as I can go on income tax this year, within a broadly revenue-neutral Budget for 1984-85. But as I have already said, so long as we hold to our published planned levels of public spending, there is an excellent prospect ~~consistent with the necessary downward path of public borrowing~~ of further ~~tax~~ cuts in ~~pers~~ income tax in next year's Budget. These would be on top of the measures I have announced in this Budget which, as I have already told the House, will reduce taxation in 1985-86 by well over ~~some~~ £1¾ billion, with business taking the lion's share. So ~~for~~ next year I ~~would~~ hope to concentrate on further help to ~~be concentrating on further help to~~ individuals, ~~and principally on~~ and particularly on cutting income tax.

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BUDGET SECRET
until after Budget Speech on 13.3.84
then UNCLASSIFIED

H1 INCOME TAX - MAIN CHANGES

(See also Treasury and Inland Revenue press notices)

Factual

(i) Basic personal allowances (married, single and additional personal allowance) increased by around 12½ per cent - some 7 percentage points more than statutory indexation requirement of 5.3 per cent. But age allowances (and income limit) and higher rate thresholds simply indexed as statute requires:

(a) **Allowances**

	84-85	83-84	Increase over 83-84		Increase over indexation
	£	£	£	%	£
Married man's	3155	2795	360	12.9	210
Single (& wife's earned income)	2005	1785	220	12.3	120
Additional personal and widow's bereavement	1150	1010	140	13.9	90
Age married man's	3955	3755	200	5.3	-
Age single	2490	2360	130	5.5	-
Age income limit	8100	7600	500	6.6	-

(b) **Higher rate thresholds and bands**

Band	84-85	83-84	Increase in threshold	
%	£	£	£	%
40	15401-18200	14601-17200	800	5.5
45	18201-23100	17201-21800	1000	5.8
50	23101-30600	21801-28900	1300	6.0
55	30601-38100	28901-36000	1700	5.9
60	over 38100	over 36000	2100	5.8

(c) Tax reductions (including any tax overpaid after 6 April) will be in pay packets on first pay day after 10 May.

(ii) Weekly tax reductions in cash terms for a basic rate taxpayer of working age will be £2.08 married (new threshold £60.67 a week) and £1.27 a week single (new threshold £38.56 a week).

(iii) No change in basic rate of tax (30 per cent) or higher rates (40, 45, 50, 55 and 60). But Investment Income Surcharge (IIS) abolished: 1983-84 charge was 15 per cent on investment income over £7,100 (see also Brief H6).

BUDGET SECRET
until after Budget Speech on 13.3.84
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(iv) Costs (£ million):

	Total costs		Cost above indexation	
	1984-85	**Full year**	**1984-85**	**Full year**
Allowances	1715	2110	915	1130
Basic rate limit	45	75	0	0
Further higher rate thresholds	35	65	0	0
Investment income surcharge	25	360	25	340
TOTALS	1820	2610	940	1470

80 per cent of the total full year cost of the income tax reduction is due to the increase in allowances.

(v) Taxpayer numbers:

(a) some 850,000 fewer taxpayers than if allowances had remained at 1983-84 levels; 400,000 fewer than if all allowances had only been indexed.

(b) about 150,000 fewer higher rate taxpayers than if allowances and thresholds had remained at 1983-84 levels.

(c) about 280,000 taxpayers not now liable to IIS who would have been liable if IIS had been retained and the threshold indexed.

Positive

(i) Real increase in basic personal allowances for third successive year. Part of long-term programme to raise tax thresholds progressively so as to reduce direct tax burden. Real value of allowances at highest level under present Government: highest since the war for married man's allowance; since 1973-74 for single person's allowance. (But note: no real increase this year for age allowances.)

(ii) Average rates of tax lower than 1983-84 throughout the income range (assuming incomes rise 6½ per cent in line with GAD assumption for average earnings); lower than in 1978-79 for everyone above about half average earnings - for fuller specimen income and "track record" points see Briefs H3 and H4.

(iii) Low-paid benefit because:

(a) 400,000 fewer low-paid taxpayers (counting working wives separately) compared to indexation (about 200,000 fewer "tax units" counting husband and wife as one) - but see defensive ((i)(b)).

(b) real terms increase in allowances gives higher proportionate benefits for those on low earnings than for any other earners (see also Brief H3) - more effective for the lowest paid than a reduced rate band (see also Brief H5).

(iv) Single parents: APA for single parents up by £140 to £1150 (worth 81p a week in cash terms: £2.08 including increase in single allowance).

(v) Work incentives - see Brief H5.

(vi) Widows, single women aged 60-64 - see Brief H2.

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Defensive

(i) Income Tax

(a) Greatest cash reductions in tax go to the highest paid?

- with progressive income tax system, inevitable that higher paid get larger cash reductions. But

- real terms tax reductions concentrated on basic threshold (ie, basic personal allowances): no real increase in higher rate thresholds.

- in terms of percentage of income taken in tax (average tax rate) gains are larger for low-paid than for earners generally.

(b) Increase in thresholds takes out of tax only juveniles and part-timers - little help for families? Of total 400,000 taxpayers taken out of tax compared with indexation, about 100,000 are married men; remainder are single people or earning wives. Right to take low paid out of tax whoever they may be.

(c) Single not done as well as married? Single allowance increased by well over double indexation requirement; at highest real level since 1973-74.

(d) Bias against higher paid? Higher rate thresholds fully price protected and note large increases in previous years. Need to concentrate available resources on raising basic thresholds by maximum amount possible, to begin long-term process of putting thresholds back to sensible levels.

(e) Abolition of IIS means greatest increases go to those with large unearned incomes? Time to remove this penalty on thrift and enterprise: over 50 per cent of those who benefit are over 65, over 40 per cent of those who benefit otherwise liable only at basic rate: 70 per cent either elderly or basic rate taxpayers or both (see also Brief H6).

(f) Bias against the elderly? Age allowances fully protected against inflation: age allowances still substantially higher than main allowances, (married £800 higher, single £485 (see Brief H2)). Right to concentrate resources available on increasing basic thresholds.

(ii) Income Tax and NIC

(a) At 1984-85 earnings levels - taking for illustrative purposes the assumed 6½ per cent earnings increase for 1984-85 used by the Government Actuary - combined rate of tax and NIC is down at all levels compared with the rate on corresponding 1983-84 earnings.

(b) In cash terms (at Budget Day) increase in tax allowances will more than compensate taxpayers for any increase in NIC for all but about 30,000 single contracted-in, who lose at most 8p a week. Note: some very small losses for contracted-out below the tax threshold (see also Brief H3).

(iii) Green Paper on Husband and Wife, why no announcement? Ministers considering the wide range of views expressed. Premature to take action in this Budget. Must wait until full consideration completed.

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H2 ELDERLY, WIDOWS AND SINGLE WOMEN AGED 60-64

A. AGE ALLOWANCE

Factual

(i) Age allowance (for those 65 and over) increase held to indexation - 5.3 per cent (compared to around 12½ per cent on basic personal allowances).

(ii) Gives weekly tax reduction of £0.75 single and £1.15 married.

(iii) Income limit for age allowance also indexed, from £7,600 in 1983-84 to £8,100.

Positive

(i) Age allowances fully protected against inflation: now more than 8 per cent higher in real terms than in 1978-79. Assuming pension increase in November 1984 of around 5½ per cent:-

(a) pensioners with basic state pension only will pay no tax

(b) single pensioners can have up to about £13 per week over basic pension before they pay tax (about £1 more than in 1983-84); married pensioners up to about £20 per week (about £1.50 more than 1983-84)

(c) in all, about 60 per cent of elderly households (singles 65 or over; couples with one or both spouses 65 or over) will pay no tax.

(iii) With indexation of income limit for age allowance, a married pensioner will be able to have income up to £9,300 before benefit from age allowance disappears (£9,040 for 1983-84); a single pensioner up to £8,828 (£8,463 for 1983-84).

(iv) Abolition of investment income surcharge helps the elderly. More than half the people benefitting from abolition are over 65 and half of those are liable at basic rate only. Particular help to those - eg, self-employed etc - who have saved directly for retirement rather than had benefit of occupational pension (see also Brief H6).

Defensive

(i) Age allowances not increased in line with basic allowances? Age allowances fully protected against inflation: at highest ever level in real terms since introduction in 1975-76. Taking account of changes in structure, highest tax threshold for elderly married since war: for elderly single since 1974-75. "Clear water" over basic pension at least 8 per cent higher in real terms than in 1978-79 for over 65s.

(ii) Age allowances being phased out? Right to concentrate available resources on increasing main allowances to raise basic threshold this year. Age allowances will continue to keep bulk of over 65s out of tax. Age allowances still substantially higher than main allowances - £800 married and £485 single.

(iii) Elderly already lose heavily from housing benefit changes? Housing benefit changes not part of the Budget. Cash gains from threshold increases greater than housing benefit losses for about half of elderly losers. (But NB some elderly HB losers are not taxpayers. See also Brief F2).

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B. WIDOWS, SINGLE WOMEN AGED 60-64

Factual

(i) Assuming a November 1984 pension increase of about 5½ per cent women on basic pension alone will not have to pay tax: single allowance of £2,005 about £200 higher than the basic pension payable in 1984-85.

(ii) Well over half the women in the group aged 60-64 will not have to pay tax.

(iii) Of the 850,000 people taken out of tax, over 100,000 are widows of all ages. [If pressed: 50,000 widows out of the 400,000 reduction compared with if the allowances had been indexed.]

Positive

Women in the group aged 60-64 who are liable to tax gain the full benefit of the 12½ per cent increase in basic thresholds: worth £1.27 a week cash reduction in tax. Cash "clear water" over basic pension at highest level since 1973-74.

Defensive

Age allowance (or other special reliefs) for widows, single women 60-64?

(a) no justification in principle (view of all past Chancellors)

(b) unfair to other taxpayers.

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H3 EFFECTS OF TAX AND NIC CHANGES ON LIVING STANDARDS

Factual

(i) Various measures announced in Budget will affect living standards in 1984-85. Distributional effect cannot be quantified in all cases. Estimates can be made of effect of following:

- (a) Around 12½ per cent increase in basic income tax allowances (see Brief H1)
- (b) increase in higher rate thresholds in line with indexation (5.3 per cent) (see Brief H1)
- (c) abolition of investment income surcharge (IIS) (see Brief H6)
- (d) extension of VAT base (see Brief M2)

(ii) Living standards will also be affected by the following non-Budget changes:

- (e) rise in NIC lower earnings limit from £32.50 to £34 and upper earnings limit from £235 to £250 - announced in November (taking effect in April 1984 - see Brief F1).
- (f) cuts in housing benefit - announced in November and modified in February (see Brief F2).
- (g) uprating of pensions and other benefits (including child benefit) to be announced in June.

(iii) Whether people are better or worse off in 1984-85 than in 1983-84 cannot be predicted precisely. Depends also on movements in earnings and prices. For illustration, following paragraphs assume that average earnings rise by 6½ per cent as assumed by Government Actuary, and prices by 4½ per cent (Budget forecast for 1984 Q4 on 1983 Q4, consistent with year-on-year increase). Of course, not everyone gets average pay rise or faces average price rise. Some do better than average, others worse.

1. Income Tax Effects

(i) Higher allowances will benefit all taxpayers. Basic rate taxpayers (under 65) gain £1.27 a week (single), £2.08 a week (married). Elderly gain less: 75p a week (single), £1.15 a week (married).

(ii) **As a proportion of income, tax reduction greatest for low-paid**. For married man, reduction is 2.3 per cent of gross income at £90 per week (about half average earnings), 1.2 per cent at £180 per week (about average earnings), 0.9 per cent at £240 per week (about one-and-a-half times average earnings) and 1.3 per cent at £900 per week (about five times average earnings).

(iii) The above represent static effects of Budget - ie assuming income is unchanged. But most incomes increase from one year to the next. So dynamic comparison - allowing for rising income - also relevant. On dynamic comparison, income tax will take a lower proportion of income in 1984-85 than in 1983-84 at all earnings levels, on illustrative assumption of 6½ per cent increase in earnings. Because higher rate thresholds merely indexed but main allowances up by around 12½ per cent, **greatest proportionate benefit for low-paid** (see 3 below).

(iv) Those with investment incomes exceeding £7100 will gain from abolition of IIS. Average gain large (over £20 a week). Note: unlike allowance change, **biggest gains for highest incomes**.

2. NIC Effects

(i) No increase in Class I NIC rates this year.

(ii) Increase in upper earnings limit (UEL) means those above £250 a week pay £1.35 a week more if contracted-in, £1.03 if contracted-out. Increase in lower earnings limit (LEL) does not affect those above £34 a week, except that contracted-out pay 3p more.

(iii) These are static losses. In general proportion of income taken in NIC will not rise between 1983-84 and 1984-85 because UEL increase only 6.4 per cent - similar to assumed rise in earnings.

3. Combined effects of income tax and NIC

(i) In static terms, only a small number of single people above the UEL lose more from NIC than they gain from income tax (30,000 single people losing a maximum of 8p a week).

Note: small losses of 3p per week for contracted-out below 1983-84 tax threshold.

(ii) In dynamic terms, percentage of income taken in income tax and NIC lower in 1984-85 than in 1983-84 for everyone (assuming their earnings rise by 6½ per cent). **Gains greatest for lowest paid.** Examples as follows:

Percentage of income paid in income tax and NIC

	Single				Married*			
X average earnings	½	1	1½	5	½	1	1½	5
1983-84	27.0	33.0	34.2	45.1	20.2	29.6	32.0	43.8
1984-85	26.3	32.7	34.0	45.1	19.0	29.0	31.6	43.6

*with or without children, husband only earner

4. Real take-home pay

(i) Depends on actual movements in earnings and prices

(ii) On illustrative 6½ per cent earnings rise and 4½ per cent price rise (year-on-year) real take-home pay will be higher for everyone whose earnings grow in line with the average. **Low-paid will do best.** Examples as follows:

Projected increase in real take-home pay*
between 1983-84 and 1984-85 (%)

	Single				Married				Married +2 children≠			
X average earnings	½	1	1½	5	½	1	1½	5	½	1	1½	5
	+2.8	+2.4	+2.2	+2.0	+3.3	+2.7	+2.5	+2.1	+3.5	+2.9	+2.6	+2.2

*earnings less income tax and NIC

≠figures relate to take-home pay plus child benefit

(iii) BUT - These figures take no account of means-tested benefits such as housing benefit (HB). Some who lose from HB could be worse off in 1984-85 than in 1983-84 (see Brief F2).

- These figures relate only to those in work whose pay increases in line with assumption for the average. For pensioners and the unemployed real disposable income depends on what happens to benefits (PEWP plans provide for real value to be maintained in November 1984 uprating).

5. **Indirect Taxes**

(i) VAT rate unchanged. Most excise duties increased broadly in line with inflation (except tobacco, and beer/wine because of EC judgement). Extension of VAT base to building alterations and hot take-away food and drinks.

(ii) Impact effect of all indirect tax changes is to add about ¾ per cent to the RPI. Fully taken into account in Budget forecast of 4½ per cent.

(iii) Payments of individual taxes depend on individual's spending pattern.

(iv) The extension of the VAT base to hot take-away food will increase VAT payments for most households. But the extension of VAT to building alterations will increase VAT payments for only a relatively small number of households, predominantly among the better off.

(v) VAT remains a mildly progressive tax because essentials, including most food are zero-rated.

Positive

(i) Real increase in basic income tax allowances of some 7 per cent. Low-paid have biggest percentage gains.

(ii) Proportion of income taken in income tax or in income tax plus NIC lower in 1984-85 than 1983-84 at all levels of income (on GAD's earnings assumption).

(iii) Real take-home pay increases for all (on GAD's earnings assumption and Budget price forecast).

Defensive

(i) Rich gain most? For those with earned income, biggest percentage gains are for low-paid. Higher rate thresholds only indexed, basic allowances increased by some 7 per cent more than indexation.

(ii) But abolishing IIS helps only the rich? Over half of gainers are elderly - for example, people who have saved for their retirement rather than contributing to a pension scheme. 70 per cent are either over 65 or basic rate taxpayers or both. Abolition of IIS means same tax payable on given income whatever its source.

(iii) Low-income pensioners hit by small increase in age allowance? Poorest pensioners don't pay income tax at all. Age allowances raised in line with prices. Still substantially more than personal allowance for non-aged taxpayer (£800 married, £485 single).

(iv) Tax cuts not enough to compensate for housing benefit reductions? Pre-supposes that housing benefit was at "right" level before changes made. Expenditure on housing benefit had been growing rapidly (over £4 billion) and had to be restrained. Restraint in expenditure generally has enabled Government to make progress on cutting income tax. And about 80 per cent of working HB losers will have cash gains from income tax reductions greater than HB losses in April (see also Brief F2).

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(v) Low paid will not get 6½ per cent pay increase? Some will do better, some not so well. Budget cannot compensate for changes in relative earnings dictated by market.

(vi) VAT changes regressive? VAT remains a progressive tax. Essentials such as most food zero-rated.

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H4 COMPARISONS WITH EARLIER YEARS

Factual

(i) Main personal allowances: 16 per cent higher in real terms than in 1978-79. Married man's allowance at highest level in real terms since war; single allowance at highest level in real terms since 1973-74.

	1961-62	1972-73 (post-war peak)	1978-79	1983-84	1984-85
Single allowance					
actual	203	591	985	1785	2005
constant prices, 1978-79 = 100	81	139	100	108	116*
% of average earnings**	22.8	29.2	20.1	20.0	21.1
Married man's allowance					
actual	332	771	1535	2795	3155
constant prices, 1978-79 = 100	85	116	100	108	117*
% of average earnings**	37.2	38.0	31.3	31.4	33.3

* assumes 4½ per cent inflation 1984-85 on 1983-84.

** average male all occupations earnings. 6½ per cent increase 1984-85 on 1983-84 assumed.

(ii) Proportion of earnings taken in income tax alone (less child benefit where appropriate) now lower for all households above ½ average earnings than in 1978-79. **BUT** income tax and NIC as a proportion of gross earnings higher for all except those on twice average earnings (£360 per week) or above:

	Income tax only*					**Income tax & NICs***				
x average earnings	½	¾	1	1½	2	½	¾	1	1½	2
SINGLE										
1963-64	7.6	13.4	17.6	21.8	23.9	13.9	19.0	22.6	25.1	26.4
1973-74	14.4	19.6	22.2	24.8	26.1	21.2	25.8	28.0	29.2	29.4
1978-79	17.3	22.5	25.2	27.8	29.7	23.8	29.0	31.7	33.3	33.8
1983-84	18.0	22.0	24.0	26.0	27.8	27.0	31.0	33.0	34.2	34.0
1984-85**	17.3	21.5	23.7	25.8	27.7	26.3	30.5	32.7	34.0	33.8
MARRIED										
1963-64	1.5	7.9	12.8	18.6	21.5	7.8	13.5	17.8	21.9	24.0
1973-74	9.7	16.5	19.9	23.2	24.9	16.5	22.6	25.7	27.6	28.2
1978-79	9.9	17.6	21.5	25.3	27.4	16.4	24.1	28.0	30.8	31.6
1983-84	11.2	17.5	20.6	23.7	25.5	20.2	26.5	29.6	32.0	31.7
1984-85**	10.0	16.7	20.0	23.3	25.2	19.0	25.7	29.0	31.6	31.4

MARRIED + 2 CHILDREN

1963-64	-4.3	-2.5	3.0	11.5	16.1	2.0	3.1	8.0	14.8	18.6
1973-74	-2.0	8.7	14.0	19.3	22.0	4.8	14.8	19.	23.7	25.3
1978-79	-3.6	8.6	14.7	20.8	23.9	2.9	15.1	21.2	26.3	28.0
1983-84	-3.0	8.0	13.5	19.0	22.0	6.0	17.0	22.5	27.2	28.1
1984-85**	-4.5	7.0	12.7	18.5	21.6	4.5	16.0	21.7	26.7	27.8

* less child benefit in case of family with children

** projection, assuming 6½ per cent earnings growth 1984-85 on 1983-84

(iii) Income tax and NIC payments (and take-home pay) have been affected by the following changes since 1978-79:

(a) Basic allowances 16 per cent higher in real terms - also higher as a proportion of average earnings.

(b) First higher rate threshold 10½ per cent higher in real terms; threshold for 60 per cent rate 67 per cent higher.

(c) Basic rate reduced from 33 per cent to 30 per cent

(d) Higher rates reduced and bands widened: top rate reduced from 83 per cent to 60 per cent.

(e) Investment income surcharge abolished.

(f) Mortgage interest relief ceiling raised from £25,000 to £30,000.

BUT

(g) 25p reduced rate band (on first £750 of taxable income) withdrawn.

(h) NIC rate (employees': contracted-in) up from 6½ to 9 per cent.

(i) NIC upper earnings limit (UEL) up by 18 per cent in real terms - as a result of this, and increase in rate, man above UEL paying at least an extra £8.80 per week.

(j) Life assurance premium relief abolished on new policies.

(iv) As a result of these changes:

(a) Proportion of earnings taken in income tax lower for all households above half average earnings:

BUT (b) Proportion of earnings taken in income tax and NIC higher for most households.

(c) All whose earnings have gone up in line with the national all occupations average have had significant increases in real take-home pay since 1978-79 (see table over).

(d) Income tax has fallen from 11.2 per cent to 10.4 per cent of GDP at market prices.

BUT: (e) Income tax and employees' NIC has risen from 13.5 to 13.8 per cent of GDP at market prices.

Percentage increases in real take-home pay 1978-79 to 1984-85*

multiples of average earnings:	½	¾	1	1½	2	5
single	6.2	7.4	8.2	8.6	9.8	27.1
married	6.3	7.5	8.2	8.6	10.0	26.0
married + 2 children	8.0	8.6	9.0	9.1	10.2	25.0

* assuming 4½ per cent inflation and 6½ per cent earnings growth 1984-85 on 1983-84

[Note. This table assumes earnings increases at all levels in line with the national male all occupations average over the period. However, evidence from the New Earnings Survey suggests that increases in earnings up to April 1983 have been smaller for the lower paid as well as for manual workers - partly because of the effects of the recession on weekly hours worked. Increases in real take-home pay over the period for these groups are correspondingly lower.]

Indirect taxes

(a) VAT rate raised from dual 8/12½ per cent rate to unified 15 per cent rate. Scope of standard rate (VAT base) extended. Registration threshold raised from £10,000 per annum to £18,700.

(b) Only petrol, derv, and tobacco duties raised in June 1979 Budget; most years thereafter all excise duties raised in line with inflation, with the exception of 1981 when duties as a whole were raised by twice the rate of inflation, and 1984 when some duties - eg beer, tobacco, cider, fortified wines - went up by more than the rate of inflation, and others - eg spirits, table wine - by less.

(c) All excise duties now higher in real terms than in 1978-79 except for table wine and spirits:

Percentage increases in duties(*) 1978-79 to 1983-84 and 1984-85

	1978-79 to: 1983-84		1984-85	
Beer (pint of bitter 1037°)	101	(20)	124	(27)
Cider (pint)	82	(8)	168	(53)
Table wine (75 cl bottle)	58	(-6)	27	(-28)
Fortified wine	77	(5)	91	(9)
Spirits (bottle of whisky)	44	(-14)	47	(-17)
Tobacco (20 king size cigarettes)	92	(14)	121	(26)
Petrol (gallon of 4 star)	147	(47)	160	(48)
Derv (gallon)	80	(7)	88	(7)
VED	70	(1)	80	(2)
cf: RPI	68		76	

(*) Excluding associated VAT. Real increase (per cent) in brackets.

Child Benefit

Intention is that increase from last week of November 1984 will be in line with rate of inflation in year to May 1984. Currently assumption is for 5½ per cent increase to £6.85 - compared to £3 per week pre-April 1979 and £4 per week post-April 1979. On this assumption the through-the-year average for years since 1978-79 are:

	1978-79	**1979-80**	**1982-83**	**1983-84**	**1984-85**
£ per week					
one child	2.57	4.00	5.47	6.09	[6.63]
two children	5.14	8.00	10.94	12.18	[13.26]

Figures for 1978-79 not comparable as a measure of child support, because child tax allowances were also available to taxpayers in that year - worth 63½p in respect of each child under 11, or 78p for each child aged 11 to 15, to basic rate taxpayer. Replaced in full by child benefit at end of 1978-79.

Poverty trap (See also Brief H5)

Highest theoretical marginal rate in trap has risen from 98 per cent post-November 1978 to 106½ per cent post-April 1984; and there will be a further rise to 108 per cent post-November because of housing benefit changes (see also Brief F2). Range of trap in which marginal rate is above 95 per cent has also widened from 35 to 53 per cent of average earnings post-November 1978 to 33 to 55 per cent of average earnings post-November 1984, mainly due to uprating of benefits <u>above</u> that needed to compensate for inflation over the last five years. Range of trap narrowed in 1984-85, compared to 1983-84, by 7 per cent real increase in married man's tax allowance this year.

Table summarises movements:

	highest rate in trap	**range of income in which marginal rate exceeds 95 per cent (married man's threshold to FIS run-out point)**	
		£ per week	**% of average earnings**
1978-79 post-Nov	98	33.40* - 50.00	35* - 53
1983-84 post-Nov	105½	53.75 - 95.00	31 - 55
1984-85 pre-Nov	106½	60.65 - 95.00	33 - 52
1984-85 post-Nov	108	60.65 - [100.00]**	33 - [55]**

* allowing for child tax allowances (see above) for 2 children under 11.

** estimate, assuming 5½ per cent uprating in November.

Positive

(i) Basic tax allowances 16 per cent <u>higher</u> in real terms since 1978-79; basic rate down from 33 per cent to 30 per cent. As result income tax as a proportion of earnings <u>lower</u> than in 1978-79 for all households above half average earnings.

(ii) Penal higher rates of tax inherited from Labour Government significantly reduced, to promote incentives; investment income surcharge - half of which is paid by elderly - abolished. Proportion of gross earnings taken in income tax (less child benefit where appropriate) <u>lower</u> now for most households than it was in 1978-79.

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(iii) Child Benefit now at highest ever real level - total child support higher in real terms than under Labour.

(iv) Real take-home pay now higher at all levels of earnings - by at least 6 per cent (8 per cent for families with 2 children) - than it was in 1978-79 for those whose pay has increased in line with the national average.

Defensive

(i) Tax and NIC burden still higher for most families than in 1978-79? NIC increases necessary to ensure proper financing of NI fund over period when outgoings have been increasing - effects of recession, increasing number of pensioners. NIC not a tax - buys rights for benefits.

(ii) Tax and NIC burden only reduced for highest paid? A result of the reduction in the higher rates of tax in June 1979 Budget - absolutely right to get rid of confiscatory rates of tax of 83 and 98 per cent. Lower paid have benefited from concentration on raising tax allowances by more than inflation in the last three Budgets.

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H4 supplement

SUPPLEMENT TO BRIEF H4

DISTRIBUTIONAL IMPLICATIONS OF CHANGES IN VAT AND EXCISE DUTIES

Factual

(i) Changes in excise duties cost married man on average earnings (with average expenditure pattern) about 90p a week more in cash terms; a single person about 70p a week. Relative to revalorisation, the extra tax payments will be about 36p and 22p a week.

(ii) The extension of the VAT base to hot take-away food and drinks will cost a married man on average earnings about 12p a week, a single person 13p a week and a married couple with two children 23p a week.

(iii) The extension to building alterations affects few households - less than 1 in 10 in any year. [But averaged over all households, would cost household on average earnings 29p a week.]

Positive

(i) Households at ¾ of average or average earnings gain overall taking account of income tax allowances, NICs, excise duties and VAT on take-away food - married couples by about £1 a week, single people about 50p a week in cash terms. Also gain in real terms by about 70p and 35p a week respectively. [Note: VAT on alterations will reduce these gains by 18p at ¾ average earnings, 29p at average earnings.]

(ii) VAT remains a progressive tax, because of zero-rating of essentials.

Defensive

(i) Increase in VAT wipes out benefit of income tax cuts? No, a married man on average earnings with average spending pattern gains £1.05 a week overall in cash terms, even after allowing for the VAT on take-away food and excise duty changes; a single person 43p. In real terms, these are gains of 73p and 34p. (Gains for MC+2 children about 20p less than married man.)

(ii) Increase in tobacco taxes makes excise duty changes very regressive? Impact on less well-off does not justify excusing smokers from appropriate share of increases. Strong health reasons for real increase. Regressivity reduced by nil increase for pipe tobacco.

(iii) Changes to VAT hit poor? No, the extension to the VAT base is not regressive, on average, the extra VAT payments increase with income. [NOT FOR USE: taxation of take-away food is regressive, and although extension to alterations is progressive the Family Expenditure Survey suggests that less than 1 household in 10 spend on alterations in any year.]

(iv) Changes make VAT system regressive? No, VAT remains a progressive tax, because of zero-ratings of essentials, like most foods.

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/2b

CHANGES IN VAT AND EXCISE DUTIES AND OVERALL EFFECTS OF BUDGET ON HOUSEHOLDS

The effects on households

1. How households are affected by changes in excise duties and VAT depends on their spending patterns. The illustrative figures given in the following paragraphs relate to average patterns for the households shown, as estimated from the Family Expenditure Survey (FES). But there is a great deal of variation among households of the same type and in the same income range. Statements about how the changes affect households at different income levels can therefore only be broad generalisations.

2. The figures in tables 1-6 below are 'first round' effects. They show for each household type how the cost of a typical and given basket of goods and services would be affected, but do not take account of changes in spending patterns resulting either from relative price changes or from increases in net income as a result of the income tax reductions announced in the Budget. The effects of the excise duty and VAT changes are illustrated for three household types (single person, married man with non-earning wife, married couple with 2 children) at three income levels, and also for pensioner households who are assumed to have the average income for such households indicated in the FES. The limitations of the information provided by the FES on which the indirect tax payments are based make estimates at higher or lower income levels than those shown in the tables unreliable.

Effects of the excise duty changes

3. Examples of the extra cost to households - compared with the position if there had been no changes in rates of duty - are given in Table 1 below.

Table 1

£ per week	Single Person	Married Couple	Married Couple with 2 children
Earnings multiple[1]			
¾	+0.62	+0.88	+0.98
1	+0.71	+0.91	+0.98
1½	+0.91	+1.00	+0.98
Pensioner[2]	+0.09	+0.24	-

[1] Average male earnings, all occupations.

[2] Households mainly dependent on state pensions.

4. No change on the duties would, however, mean that the duties fell in real terms. A more appropriate base is the conventional assumption that duties are revalorised in line with prices, so that the duty accounts for a roughly unchanged proportion of the final price. Relative to revalorisation, the changes in costs to households are smaller and are dominated by the increase in cigarettes. (6½p more than revalorisation), as table 2 below illustrates.

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Table 2

£ per week	Single Person	Married Couple	Married Couple with 2 children
Earnings multiple			
¾	+0.23	+0.40	+0.51
1	+0.22	+0.36	+0.45
1½	+0.19	+0.30	+0.34
Pensioner	+0.07	+0.15	-

Effects of the extension of the VAT base

Hot take-away food and drinks

5. There are large variations in average expenditure on hot take-away food and drinks by household type. Retired households spend about 30p a week, on average, much less than the non-retired households considered here (about £1.20 a week); and their expenditure is not related to income. For non-retired households, expenditure on hot take-away food increases as total expenditure increases. Married couples where the wife has a job spend significantly more, between 40p and 50p a week, than corresponding households where she does not.

6. Against this background, table 3 below illustrates the extra costs to households with average expenditure patterns of the extension of VAT to hot take-away food and drinks.

Table 3

£ per week

Earnings Multiple	Single person	Married Couple	Married Couple with two children
¾	+0.11	+0.10	+0.20
1	+0.13	+0.12	+0.23
1½	+0.17	+0.17	+0.29
Pensioner	+0.05	+0.06	-

7. Because VAT is a proportional tax on value added, the tax remains the same proportion of the final price unless the rate changes - that is, there is no need to revalorise it. As the extra costs illustrated in tables 3 and 4 arise from an extension of VAT, they are both an increase in cash payments and an increase in real terms.

Building alterations

8. Many households never spend money on alterations, for example because they are tenants. Households who do spend on alterations - the FES suggests these account for less than 1 household in 10 in any year - do so infrequently and may then spend large amounts. The available information suggests that averaged over all households, expenditure on alterations comes to under £3 per week, and it is incurred predominantly by the better-off. Expenditure on alterations increases as total expenditure rises, both absolutely and as a percentage of total expenditure. The data do not permit reasonable estimates for different household types. Table 4 can therefore only illustrate the estimated cost to all households of the extension of VAT to building alterations.

Table 4

£ per week	¾	1	1½
Earnings Multiple	+0.18	+0.29	+0.51

Combined effects of excise duty and VAT changes

9. Tables 5 and 6 below illustrate the combined effects of the excise duty and VAT changes. Table 5 shows the cash effects and table 6 the effects relative to revalorisation.

Table 5: Overall cash effects of changes in excise duties and VAT
£ per week

	(+ indicates additional payments)			Memo item
	Single Person	**Married Couple**	**Married couple plus 2 children**	**VAT on alterations**[1]
Earnings Multiple				
¾	+0.73	+0.98	+1.18	+0.18
1	+0.84	+1.03	+1.21	+0.29
1½	+1.08	+1.17	+1.27	+0.51
Pensioner	+0.14	+0.03	-	

[1] For the reasons explained in paragraph 14 these effects have not been included in the main body of this Table.

Table 6: Overall effects, relative to revalorisation, of changes in excise duties and VAT

£ per week

	(+ indicates additional payments)			Memo item
	Single Person	**Married Couple**	**Married couple plus 2 children**	**VAT on alterations**[1]
Earnings Multiple				
¾	+0.34	+0.50	+0.71	+0.18
1	+0.35	+0.48	+0.68	+0.29
1½	+0.36	+0.47	+0.63	+0.51
Pensioner	+0.12	+0.21	-	

[1] For the reasons explained in paragraph 14 above these effects have not been included in the main body of this table.

Combined effects of changes in income tax allowances, NICs, excise duties and VAT

10. The Budget also includes substantial reductions in income tax, through an increase in the main personal allowances in excess of the statutory indexation requirement. One way of looking at the overall effects of the Budget on households is to combine the various changes affecting their income and expenditure. Table 7 below does this in straight cash terms, while table 8 provides a comparison in real terms, illustrating the effects of both the indirect tax changes relative to revalorisation and the increase in income tax allowances

relative to statutory indexation. (But table 8 should not be taken as showing changes in real net incomes, as these also depend on factors outside the Budget, such as changes in gross earnings and prices.) Both tables include the effects of changes in National Insurance Contributions (NICs) in 1984-85 announced last November: there is no change in the rates of NICs, but the Lower Earnings Limit (LEL, which is set by reference to the level of the National Insurance pension) is increased from £32.50 to £34.00 and the Upper Earnings Limit (UEL) is increased from £235 to £250. For the purposes of the tables, "indexation" of NICs is taken to mean keeping the UEL the same multiple of the LEL as in 1983-84.

11. Table 8 indicates overall gains for households at ¾ average and average earnings. These are smaller than the cash gains in table 7, since the real increases in VAT payments have greater weight in the real comparison.

Table 7: Comparison of changes in income tax, NICs and indirect taxes in cash terms (£ per week)

(+ means increased payments, - means reduced payments)

	Single Person	Married Couple	Married Couple plus 2 children
½ average earnings			
Income tax allowances	-1.27	-2.08	-2.08
NICs	0.00	0.00	0.00
Excise duties	+0.62	+0.88	+0.98
VAT changes (except alterations)[1]	+0.11	+0.10	+0.20
TOTAL	-0.54	-1.10	-0.90
VAT on alterations[1]	+0.18	+0.18	+0.18
Average earnings			
Income tax allowances	-1.27	-2.08	-2.08
NICs	0.00	0.00	0.00
Excise duties	+0.71	+0.91	+0.98
VAT changes (except alterations)	+0.13	+0.12	+0.23
TOTAL	-0.43	-1.05	-0.87
VAT on alterations[1]	+0.29	+0.29	+0.29
1½ x average earnings			
Income tax allowances	-1.27	-2.08	-2.08
NICs	+1.35	+1.35	+1.35
Excise duties	+0.91	+1.00	+0.98
VAT changes (except alterations)	+0.17	+0.17	+0.29
TOTAL	+1.16	+0.44	+0.54
VAT on alterations[1]	+0.51	+0.51	+0.51

[1] Averaged over all household types (see paragraph 14).

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Table 8: Comparison of income tax, NICs and indirect taxes in real terms[2] (£ per week)

(+ means increased payments, - means reduced payments)

	Single Person	Married Couple	Married Couple plus 2 children
¾ average earnings			
Income tax allowances	-0.69	-1.21	-1.21
NICs	0.00	0.00	0.00
Excise duties	+0.23	+0.40	+0.51
VAT changes (except alterations)	+0.11	+0.10	+0.20
TOTAL	-0.35	-0.71	-0.50
VAT on alterations[1]	+0.18	+0.18	+0.18
Average earnings			
Income tax allowances	-0.69	-1.21	-1.21
NICs	0.00	0.00	0.00
Excise duties	+0.22	+0.36	+0.45
VAT changes (except alterations)	+0.13	+0.12	+0.23
TOTAL	-0.34	-0.73	-0.53
VAT on alterations[1]	+0.29	+0.29	+0.29
1½ x average earnings			
Income tax allowances	-0.69	-1.21	-1.21
NICs	+0.45	+0.45	+0.45
Excise duties	+0.19	+0.30	+0.34
VAT changes (except alterations)	+0.17	+0.17	+0.29
TOTAL	+0.12	-0.29	-0.13
VAT on alterations[1]	+0.51	+0.51	+0.51

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[1] Averaged over all household types (see paragraph 14).

[2] That is, relative to revalorisation and indexation.

H5 EFFECTS ON INCENTIVES AND TRAPS

Factual

Poverty trap describes situation where, for low-paid worker, combination of tax and NIC payments and withdrawal of means-tested benefits mean that increases in gross income produce very small (or negative) increases in net income. Worst part of trap is overlap of family income supplement (FIS) and income tax and NIC, where marginal rate 89 per cent or more. Unemployment trap describes situation where net income available out-of-work (from benefits) is close to or greater than net income available in-work.

(i) Increase in income tax allowances will take many people out of tax. (some 850,000 compared to no increase in allowances, 400,000 compared to indexation.)

(ii) This means fewer in the poverty trap. (Note: effect not large: about 160,000 families both receive FIS and pay income tax in 1983-84; indexation of allowances would have meant 160,000 in 1984-85 also; increase in allowances above indexation will mean approximately 150,000 in 1984-85; thus reduction of 10,000 achieved.)

(iii) No change in rate of income tax on earnings or in rate of NIC.

(iv) Real disposable income in work expected to be higher for most people in 1984-85 than 1983-84, while out-of-work benefits assumed to rise in line with prices. So unemployment trap will improve for most.

BUT

(v) Housing benefit changes mean that poverty and unemployment traps worsen for some. Marginal rate rises from 67 per cent to 74 per cent in April and 77 per cent in November for those around half to three-quarters average earnings who receive HB. They are not in worst poverty trap but still have high marginal rates. Unemployment trap will worsen for some of the same group.

Positive

(i) Increasing allowances by more than indexation takes 400,000 people of working age out of tax. Their marginal rate drops 30 percentage points.

(ii) Poverty trap eased. For example, 10,000 fewer families will receive FIS while at the same time paying income tax. This is a 6 per cent drop in the number so affected.

(iii) Net income in-work expected to rise faster than income out-of-work for most people. So incentive to take a job improved.

Defensive

(i) Raising allowances ineffective way of improving traps? Effect of one year's change not dramatic. But part of steady process of getting allowances back to sensible levels and making major impact on traps. Builds on progress made in last two years in raising real level of allowances. Overnight solutions simply do not exist.

(ii) Tax give-aways will make people work less? Have always emphasised importance of marginal rates of tax. Budget leaves 400,000 people with lower marginal rate (by taking them out of income tax), which is good for work incentives.

(iii) Housing benefit changes have worsened traps? True that marginal rates for some working families increased. But marginal rates reduced for others (those who lose HB altogether). So effect on poverty trap mixed. Effect on unemployment trap should not be exaggerated. (See Brief F2 for more on housing benefit).

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H6 INVESTMENT INCOME SURCHARGE

Factual

(i) Investment Income Surcharge (IIS) to be abolished from 1984-85.

(ii) For 1983-84 IIS was 15 per cent on investment incomes over £7,100. Under statutory indexation threshold would have risen to £7,500.

(iii) 280,000 taxpayers relieved from IIS (compared with indexation). Over half of these are 65 and over; 40 per cent are otherwise liable only at basic rate; over 70 per cent are either 65 and over or liable only at basic rate (or both).

(iv) Cost of abolition: £25 million in 1984-85; £220 million in 1985-86; £360 million in a full year (compared with no change in threshold).

(v) Discretionary trusts (ie where trustees have discretion on whether to distribute income) will still be liable to the additional rate of 15 per cent.

Positive

(i) Simplifies tax system and removes outdated charge on investment income which was a penalty on thrift and enterprise. Some (eg agricultural landlords, people letting self catering accommodation) liable to surcharge on income from business even though engaged full time in running it.

(ii) Removes one element of discrimination against direct savings and investment.

(iii) Surcharge bore particularly heavily on over 65s: for many income from savings built up during working life performs same function as occupational pension. (Caution. Because of previous £7,100 threshold, abolition only helps better-off elderly, and they also benefit from 12½ per cent increase in basic allowances.)

(iv) Cost of abolition (£360 million in a full year) small relative to cost of increasing main tax allowances (over £2 billion full year).

(v) Saves 230 Inland Revenue staff in full year (see Brief N2).

(vi) Abolition of IIS urged by large number of bodies representing business: CBI, IOD, ABCC, Association of Independent Businesses, National Federation of Self-Employed, Unquoted Companies Group etc.

(vii) Retention of additional rate for discretionary trusts means no new incentive for higher rate taxpayers to shelter income at lower tax rates in trusts.

Defensive

(i) Only benefits the rich?

- almost one-third of those benefiting gain less than £300 per annum (£6 per week). [If pressed: average gain overall about £1,200 per annum, over £20 per week.]
- nearly half those who gain have incomes less than £20,000 per annum. [If pressed: just over 15 per cent of those who gain have incomes over £40,000; just under half of total gain goes to these.]
- Budget gains to those on high incomes restricted by fact that higher rate thresholds only indexed while basic threshold (main personal allowances) raised by around 12½ per cent.

(ii) Earned income now taxed more heavily than investment income if NICs taken into account? NICs not a tax; contributions go to pay for benefits. Those who do not pay do not qualify for benefits.

(iii) Why not just raise threshold substantially so that better off will still pay surcharge? An increase to confine liability to those with large investment incomes would make coverage and yield derisory. Government's objective has always been abolition: now accomplished in Budget which concentrates greatest part of available resources on reducing tax for lower paid.

(iv) UK will be out of line with other countries? Many countries now have same top rate of tax for earned and investment income. [If pressed: accept that many other countries have either a wealth tax or some earned income reliefs.]

(v) Retention of IIS would pay for proposed cuts in housing benefit? Presupposes that housing benefit at "right" level before changes. Need to look at total expenditure on housing benefit scheme (over £4 billion) irrespective of changes in taxation. Review of housing benefit scheme announced (see also Brief F2).

(vi) Why keep additional rate for trusts? Though additional rate introduced at same time as IIS, justification wider than simply analogy with surcharge: right that income sheltered in trusts should be taxed at more than basic rate. Tax paid by trust can be set against beneficiary's liability on distributed income, and be wholly repaid if the beneficiary has no liability.

Note Illustrative gains for elderly married couples
£: 1984-85 compared to 1983-84: figures in brackets show gain from IIS abolition.

Total income	Income all investment		Income, £3,000 earned[1], rest investment		Income half earned,[1] half investment	
5,000	60	(-)	60	(-)	60	(-)
10,000[2]	543	(435)	108	(-)	108	(-)
20,000[2]	2,159	(1,935)	1,709	(1,485)	659	(435)

[1] Includes income from pensions

[2] Gains same as for non-elderly

Contact points: (IIS) B A Mace (Inland Revenue) 2541 6546
(Trusts) P W Fawcett (Inland Revenue) 2541 7414

H7 LIFE ASSURANCE

A. WITHDRAWAL OF LIFE ASSURANCE PREMIUM RELIEF (LAPR)

(See also Inland Revenue press notice)

Factual

(i) LAPR withdrawn from new qualifying life assurance contracts made after Budget Day.

(ii) LAPR continues for existing contracts unless terms of policy altered to enhance benefits secured.

(iii) Relief currently 15 per cent of premiums; deducted at source.

(iv) Revenue yield of £90 million in 1984-85 and £240 million in 1985-86. Eventual yield substantial: estimated cost of LAPR in 1983-84 £700 million.

(v) Qualifying policies broadly life policies with an even spread of premiums over a minimum of 10 years. Such policies held to maturity continue to enjoy freedom from income tax on the profit element.

(vi) In 1982 only one-third of life companies new premium income of £2.7 billion was from qualifying policies.

Positive

(i) Greater freedom of choice for investors provided by removal of fiscal distortion in favour of qualifying life policies.

(ii) Relief no longer justified: anachronistic. Now used predominantly for investment, not assurance against death.

(iii) Important part of tax reform package for savings and investment (see Brief G3) and provides resources for increase in income tax allowances.

(iv) Relief very costly - £700 million in 1983-84 and cost increased substantially in recent years. Almost trebled between 1978-79 and 1983-84.

Defensive

(i) Hits policyholders? Does not affect current policyholders; relief remains for existing policies if not altered.

(ii) Retrospective? No: will affect existing policies only if options etc exercised after Budget; and policyholder has no obligation to exercise such options: follows past precedent and very large amounts of tax involved.

(iii) Then why post Royal Assent right of recovery of relief? Merely technical means of ensuring relief not given in period up to Royal Assent. Existing law on life assurance complex.

(iv) Withdrawal will discourage saving? Removes distortion to savings decisions: no evidence that it will effect the total of savings. In 1982 two-thirds of life companies' new premium income was from non-qualifying policies.

(v) Relief available in other countries, why not here? True that most EC countries give tax relief for life assurance premiums. But usually subject to a maximum deduction equivalent to a few hundred pounds and most EC countries impose a stamp-duty type

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insurance tax. Netherlands, Sweden, USA and Canada give no premium relief and policy gains are taxed in Belgium, Netherlands and Canada.

(vi) Government (Inland Revenue) gave commitment that LAPR would not be withdrawn without advance notice? No such commitment. Revenue promise was that life companies would be given reasonable notice if there was any change in the rate of relief on existing policies: Budget change does not affect rate of relief on existing policies.

(vii) Why not maintain relief for straight life policies, to protect families on death of bread-winner? Sufficient provision can be made at low cost without distorting tax relief.

(viii) Hits saving for particular forms of family provision (eg school fees)? Many channels available for this sort of forward provision; change removes distortions between them.

(ix) Increases cost of endowment mortgages? Existing endowment mortgages not affected: withdrawal only effects new or altered policies. No need to provide two-fold tax relief - LAPR and mortgage interest relief - for house purchase. Purchasers now able to decide best route - endowment or repayment mortgage - free of LAPR distortion.

(x) Leaks of Government intentions enabled people to cash in (Guardian story of 1 March)? Emphasis on LAPR in life companies pre-Budget advertising showed how much the relief distorts gains on policies and saving decisions.

(xi) Adverse effects on life assurance companies? Only small proportion of companies new premium income affected (in 1982 new premium income was £2.7 million, of which only one-third qualified for relief). Premium income on existing contracts not affected, while life assurance companies benefit from halving of stamp duty and abolition of NIS.

(xii) Will this make any life offices go bust? Expect some reduction in new life assurance business, but this should not cause undue difficulty for any prudently run life assurance company. DTI will be monitoring the position of companies closely, as they would anyway in their supervisory role. If there are any problems for small companies, there should be time for DTI to take appropriate action to protect policy holders.

(xiii) **Withdrawal** of relief in Australia hit business? Business picked up fairly quickly.

Contact point: N C Munro (Inland Revenue) 2541-6487

B. REGISTERED FRIENDLY SOCIETIES

(See also Inland Revenue press notice)

Factual

(i) Under present law:

- 'tax exempt' Friendly Societies limits on life or endowment business £2,000 (sum assured) or £416 (annuities). Profits exempt.
- 'mixed business' Friendly Societies limits £500 (sum assured) or £104 (annuities). If limits exceeded, profits taxed.

(ii) Preferential regime for 'tax exempt' societies withdrawn in respect of post-Budget Day new life or endowment business.

(iii) Present rules continue in respect of existing life or endowment business.

(iv) Increase in 'mixed business' limits from £500 to £750 (sum assured) and from £104 to £156 (annuities).

Positive

(i) Counters increasing exploitation of present rules (unique combination of tax-free build-up and tax-free exit) by new commercial friendly societies marketing pure investment packages.

(ii) Commercial societies far removed from traditional role of friendly societies (mutual self-help organisations).

(iii) Change removes risk of commercial friendly societies gaining unfair competitive advantage over life offices following withdrawal of LAPR - see above.

(iv) 'Mixed business' societies will benefit from modest increase in their limits.

Defensive

(i) Limits for 'tax exempt' societies doubled only four years ago? Dramatic upsurge in exploitation as a result justifies reduction now.

(ii) Why not abolish exemption outright? Unfair to traditional societies who might go under as a result.

Contact point: N C Munro (Inland Revenue) 2541-6487

C OFFSHORE LIFE ASSURANCE

Factual

(i) As announced on 17 November, offshore life assurance policies for insurances made after 17 November 1983 cannot be qualifying policies.

(ii) UK residents liable to basic rate tax in addition to higher rate tax on gains from such offshore policies.

(iii) Pre-18 November policies caught if subsequently altered to enhance benefits.

(iv) Legislation also applies to offshore capital redemption policies issued after 22 February 1984.

Positive

(i) Remedies anomaly whereby offshore policies held by UK residents could enjoy tax-free build-up.

(ii) Prompt announcement last November removed risk of UK investment in offshore roll-up funds (see also Brief J8) from switching to offshore life assurance (potential tax loss up to £60 million).

Defensive

(i) Changes are retrospective?

- Ministers followed spirit of 'Rees rules': specific announcement; legislation published in advance.

- Not retrospective in relation to policies taken out before announcement. (Will affect existing policies only if options etc exercised after Budget Day; and policy holder has no obligation to exercise such options; follows past precedent.)

(ii) Unfair to expatriates?

- Special provisions to protect returning expatriates: gains attributable to period of non-residence not penalised; policy can be effectively transferred to UK on expatriate's return.

- Proposals not unfair on expatriates using such policies for pensions: tax regimes for pensions and life assurance very different.

D "CHARGEABLE EVENTS": AMENDMENT OF SECTION 394(3), TAXES ACT 1970

Factual

(i) At present, loophole in 'chargeable events' legislation concerning non-qualifying life assurance policies.

(ii) Investors may roll over gain from policy (and effectively escape tax altogether) by exercising built-in option to take out new policy with nominal premium.

(iii) Weakness applies both for individual policies and policies forming part of maximum investment bonds.

(iv) Legislation will deny roll over unless entire proceeds from old policy reinvested in new policy - for all such options exercised after Budget Day.

Positive

(i) Stops highly artificial avoidance device whereby higher rate taxpayers could escape tax on investment proceeds.

(ii) Clear signs that loophole about to be exploited on wide scale.

(iii) Completely closes off potentially serious loss of tax.

Defensive

(i) Retrospective? No - will affect existing policies only if options etc exercised after Budget Day; and policy holder has no obligation to exercise such options; follows past precedent.

(ii) Removes useful investment channel? In case of maximum investment bonds, closing of loophole means investors will be in same position as if they had taken out ordinary maximum investment plan.

Contact point: N C Munro (Inland Revenue) 2541-6487

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H8 COMPOSITE RATE FOR BANK INTEREST

(See also Inland Revenue press notice)

Factual

(i) Certain banks and other institutions to account to Inland Revenue for tax at a composite rate on interest paid or credited after 5 April 1985 to individuals ordinarily resident in the UK.

(ii) Depositors will be treated as if interest received after basic rate tax has been deducted at source, but no tax repayable. (This is similar to treatment of interest paid by building societies to individuals.)

(iii) Composite rate will be same as building societies (the rate for the building societies is currently 25 per cent).

(iv) Banks etc. to account for composite rate tax quarterly under the same arrangements now used by companies to account for income tax deducted from annual payments.

(v) Higher-rate taxpayers will pay any excess over basic rate liability direct to Inland Revenue.

(vi) Interest on Certificates of Deposit and Time Deposits in denominations of not less than £50,000 and for terms of at least 28 days outside the scheme.

(vii) Interest on National Savings facilities (NSB Ordinary Account and Investment Account; Income and Deposit Bonds) outside the scheme.

(viii) Local authorities to be included in the scheme but fuller consideration needed of how it will apply in their special circumstances. The implementation date for local authorities will therefore be 6 April 1986.

(ix) No quantifiable revenue yield as result of change. Deduction at source will ensure that full amount of tax due is collected, including tax which for one reason or another is not collected under present arrangements. But this yield cannot be quantified.

Positive

(i) Simplifies position for most taxpayers, since tax liability will be accounted for at source. Complications of present system (for example, preceding year basis of assessment) will be removed.

(ii) Gives parity of tax treatment for interest paid by banks and building societies to individuals. May well encourage move towards interest-bearing current accounts by banks, providing more options for savers.

(iii) And parity for banks and building societies may promote better deal for savers on deposit accounts; building societies currently offer a better return net than the banks do gross.

(iv) Results in substantial IR manpower savings (up to 1,000) and avoids future manpower costs otherwise arising from banks' move to interest-bearing current accounts, which could be up to 3,000 or more.

Defensive

(i) No repayment available to non-taxpayers? National Savings facilities remain outside the scheme, leaving an element of choice to taxpayers and non-taxpayers alike. (Note: many non-taxpayers already choose to invest in building societies in spite of the non-repayable composite rate tax paid on building society interest).

(ii) Composite rate redistributes income from poor non-taxpayers to better off? Still element of choice for non-taxpayers: higher-rate taxpayers pay at full marginal rate through subsequent assessment.

(iii) Risk to London as financial centre? Exclusion from scheme of non-resident investors, corporate investors and major money market instruments (large Certificates of Deposit and Time Deposits) should minimise any incentive for movement of funds offshore.

(iv) Short time allowed for implementation? An April 1985 start will allow Inland Revenue staff savings to be made as soon as possible. Consultation after Budget on any problems arising from the timetable.

(v) Composite rate should be abolished, not extended to banks? (National Consumer Council recommendation) Additional staff cost of abolition of composite rate for building societies would be up to 2,000. Taken together with loss of up to 4,000 staff savings (see Positive (iv) above) from extension, this would be totally unacceptable.

(vi) Is this last word on taxation of banks? There are no plans at present for special bank tax. Like any other, position of sector will be kept under review.

(vii) Composite rate extension designed to benefit Government funding via National Savings? National Savings target held at £3 billion in 1984-85 and future holdings limits for INVAC and Income Bonds reduced (from £200,000 to £50,000).

(viii) Introduces distortion in financial system rather than eliminates distortion? Clearly change will produce some readjustments in savings market, but in increasing parity between banks and building societies it will reduce distortions in this sector.

(ix) Composite rate will increase cost of borrowing? Difficult to predict. Any effect should be small. Banks losing personal deposits through competition already.

Contact point: G H Bush (Inland Revenue) 2451-6722

H9 FOREIGN EARNINGS AND EMOLUMENTS

A. FOREIGN EARNINGS

(See also Inland Revenue press notice)

Factual

(i) Currently, UK residents working or trading abroad can claim tax relief on their "foreign earnings" (foreign earnings deduction) on the following basis:-

(a) 25 per cent for absence from the UK of at least 30 qualifying days in the tax year, for employments/trades exercised partly or wholly abroad;

(b) 25 per cent for absence from the UK for employment with non-resident employers and for trades exercised wholly abroad; and

(c) 100 per cent for absence from the UK for a continuous period of 365 days.

Reliefs introduced by Labour Government in 1974, and apply to both employees and self-employed, though Crown Servants have never qualified.

(ii) 25 per cent relief to be withdrawn from 1985-86. For 1984-85 a reduced rate of 12½ per cent will apply.

(iii) 100 per cent relief to stay - at least for the time being.

(iv) Reliefs (10, 50 and 100 per cent) for foreign pensions not affected.

(v) More generous travel expenses rule proposed for journeys home for expatriate employees. Consultation leading to Committee Stage new clause.

(vi) Yield: £15 million in 1984-85 and £60 million in a full year.

Positive

(i) Relief introduced in 1974 at time of absurdly high marginal rates (top rate 83 per cent). No longer justified: UK top and average tax rates no longer out of line with competitors.

(ii) Removes complex reliefs, much abused at expense of employers, tax revenue and balance of payments. Reliefs introduced to help those at "sharp-end" of exporting. Have equally benefited those involved in importing (eg, textiles from Far East, French apples, pornography), while widespread evidence of unnecessary travel abroad to qualify eg conferences. Reliefs favour people whose work happens to take them abroad: distortion of tax system in favour of foreign travel. In particular, 25 per cent relief has become a component of executive "tax planning". By contrast, reliefs never benefitted those who worked to produce exports (visible and invisible) at home.

(iii) Removes sense of grievance on part of Crown Servants, who never qualified for relief, even when working abroad to promote exports.

(iv) New travel rules will allow employers to provide more journeys home for expatriate employees, including employees in the shipping industry whose ships ply between foreign ports.

Defensive

(i) People working abroad shouldn't pay UK tax? 100 per cent relief remains for those spending long periods abroad. Those paying overseas tax may get additional credit against UK tax.

(ii) Change too sudden? Phasing-out of 25 per cent relief will help employers/employees to adjust to loss of relief. (Note: some individuals will lose heavily eg an employee earning £60,000 per annum spending 6 months abroad loses £2,250 in 1984-85 and another £2,250 in 1985-86). For most employees tax losses are relatively small - normally no more than £200-£300.

(iii) Imposes extra costs on those who must travel? Does not affect right of employee to claim necessary extra expenses of travel etc. Most get tax-free reimbursement from their employers. This will remain and may be extended to cover more holiday etc visits home for expatriate workers.

(iv) Why not liberalise travel expenses rule for UK travel? No justification for tax relief for cost of travel to work in UK. Current proposal is for modest relaxation of existing special rules for overseas travel.

(v) How are Crown Servants affected? They never benefited from reliefs - source of inequality removed. New relaxed travel rules will apply to Crown Servants as to other employees (although generally Crown Servants travel from foreign service to UK exempt under existing rules).

Contact point: P J A Driscoll (Inland Revenue) 2541-6303

B. FOREIGN EMOLUMENTS

(See also Inland Revenue press notice)

Factual

(i) The "foreign emoluments" deduction is the tax relief given on the UK earnings of "foreign" employees of foreign companies. Introduced in its present form in 1974, the relief is at 50 per cent, but is reduced to 25 per cent for any year if the employee has been resident in the UK for nine of the preceding ten years.

(ii) 50 per cent and 25 per cent relief to be withdrawn:-

- for newcomers from Budget Day;
- for people resident in UK for nine out of ten preceding years from 6 April 1984.

(iii) Five-year transition period for existing beneficiaries (and people "in transit" on Budget Day). Nine year cut-off works as follows:-

	1984-85	1985-86	1986-87	1987-88	1988-89
Rate of relief	50	50	50	25	25

Relief no longer available if resident in UK for nine out of preceding ten years.

(iii) Yield: £7 million in 1984-85: the eventual yield will be some £100 million.

Positive

(i) Removes complex relief, full of anomalies: distortion favouring "foreign" employees (including many born in UK but not domiciled here under legal definition) at expense of UK-domiciled, and foreign firms at expense of UK resident firms - for example, second generation Commonwealth immigrants working for foreign airline.

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(ii) Encouraged "fiddles" - for example, UK bank employing foreign staff via Channel Islands company.

(iii) Meant that people doing same job in same company at same rate of pay could have substantially different tax payments and hence take-home pay. Cause of considerable grievance and adverse incentive effects. For example, in 1983-84 a married man earning £10,000 would have paid £2,161 in tax: a married man earning £10,000 with the 50 per cent deduction would have paid only £661.

(iv) Following cuts in top tax rates, UK no longer a high tax country - the 50 per cent relief in fact made it a tax haven for "foreign" employees. Reliefs simply provided tax shelter for people who are here to work anyway.

Defensive

(i) Withdrawal too abrupt? Transition protects those who have recently come to UK for short/medium-term stays or are in transit. Note: will affect (among others):-

- overseas executives working here for overseas companies; and
- Norwegian workers in Frigg Field employed by Norwegians.

But transitional arrangements will help both groups (all Norwegians should get full five-year relief as they are not resident in UK). Immediate "losers" are those who have already been resident in UK for 9 years (out of preceding 10).

(ii) Anti-foreign, reprisal against US over unitary tax? Certainly not. Decision quite independent of unitary tax dispute. Removes discrimination in favour of foreigners - complementary to withdrawal of foreign earnings deductions for UK residents.

(iii) Will hurt foreign banks etc in UK? Puts their foreign employees in same position as UK employees. Attractions of UK as financial centre quite sufficient without unjustified personal tax relief. (Note. Estimated that following changes, employees of financial institutions will pay about £2½ - £3 million extra tax in 1984-85 than would otherwise have done. But likely that some institutions will make tax equalisation payments to employees.)

Contact point: P J A Driscoll (Inland Revenue) 2541-6303

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H10 FRINGE BENEFITS

A. CARS AND PETROL

(See also Inland Revenue press notice)

Factual

(i) Scales for 1985-86 will be about 10 per cent higher than those applying for 1984-85 (announced in 1983 Budget).

(ii) The main scales proposed for 1985-86 are (1984-85 in brackets):

(a) Cars

Up to 1300cc	410	(375)
1301cc to 1800cc	525	(480)
Over 1800cc	825	(750)
Original market value:		
£17,500-£26,500 (£16,000-£24,000)	1,200	(1,100)
Over £26,500 (£24,000)	1,900	(1,725)

(b) Car Fuel

Up to 1300cc	410	(375)
1301cc-1800cc	525	(480)
Over 1800cc	825	(750)

(iii) Treasury Order will be laid during summer 1984. No legislation needed in Finance Bill.

(iv) Yield: £30 million in 1985-86, £35 million in a full year.

Positive

(i) Increases represent a further, considered step towards taxing these benefits on a realistic basis.

(ii) Increase 10 per cent shows Ministers' concern not to move to realistic level of taxation of car benefits too fast. Compares with 15 per cent increase in 1984-85.

(iii) Tax paid by 1600cc company car user receiving free fuel and paying basic rate tax only £6.06 a week - cost of say 3½ gallons of petrol.

Defensive

(i) Increase too high? Car scales still fall far short of cost to individual of running own car privately. Independently estimated that to run a 1600cc car an individual would have to earn an extra £3,000 a year; though this figure overstates the taxable value to most individuals of a company car, benefit clearly considerable. Increase in actual tax paid by a 1600cc company car user receiving free fuel and paying basic rate tax only 52p per week.

(ii) Further increases in future? No particular target figures in mind; aim is to arrive gradually at realistic figures.

(iii) Adverse effect on UK motor industry? Ministers satisfied proposals will not harm UK motor industry.

(iv) Hits "real" business motorist? Scales halved for those who drive 18,000 business miles a year.

(v) Should be lower scales for diesel cars? Companies already benefit substantially from differential in duty on diesel and petrol, increased in this Budget (see Brief M6).

(vi) Benefit should be taxed more heavily, company cars encourage unnecessary car travel? Government's aim to gradually reach realistic taxation of benefit, to remove such distortions.

Contact point: P Savage (Inland Revenue) 2541-7764

B. FRINGE BENEFITS: SCHOLARSHIPS

Factual

(i) Technical amendments to legislation on employer-provided scholarships (Section 62A of the Finance Act 1976, as amended by Section 20 of the Finance Act 1983).

(ii) Details announced in Inland Revenue press notice of 24 January.

(iii) Cost negligible in both 1984-85 and full year.

Positive

(i) Technical amendments to existing legislation. Extends the transitional provisions for existing scholarships awarded before 15 March 1983 and taken up before 6 April 1984. These will remain exempt from tax until 5 April 1989 or the expiry of the scholarship, whichever is the sooner. The 1983 legislation brought into tax the benefit directors and higher-paid employees receive where their children are provided with scholarships by reason of their parents' employment.

(ii) Meets representations from companies about 1983 legislation, enacted without benefit of full Committee Stage because of announcement of General Election (see also Brief N3).

Defensive

Tightens up rules which give exemption to 'fortuitous' awards (ie, those where the connection between the award and the parents employment is fortuitous). Necessary to prevent inequity and abuse.

Contact point: P Savage (Inland Revenue) 2541-7764

C. LONG-SERVICE AWARDS: EXTRA-STATUTORY CONCESSION (ESC)

[See also Inland Revenue press notice.]

Factual

(i) Limit on tax-free awards to be doubled from Budget Day from £10 (fixed in 1980) to £20 for each year of service. Minimum 20 years' service.

(ii) Concession extended to include gifts of shares in employing (including group) company.

(iii) Cost: negligible in both 1984-85 and full year.

Positive

(i) Minor easing of rules helping good employers to mark important occasions in lives of employees (and companies eg centenaries).

(ii) Extension to include shares encourages employers to go beyond "gold watch". Small but worthwhile stake in employing company.

Defensive

(i) Why encourage companies to make such expenditure? Even in times of high unemployment many employers like to mark 20-30 years service. Emphasises mutual loyalty of employer/employee.

(ii) Why not legislate in Finance Bill? Could perhaps be subject of legislation but ESC works well and legislation could prove disproportionately complex for very minor matter.

Contact point: P Savage (Inland Revenue) 2541-7764.

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H11 SHARE OPTIONS

[See also Inland Revenue press notice.]

Factual

(i) SAYE share option limit.

(a) Present £50 upper limit for monthly contributions under approved savings-related share option schemes to be increased to £100.

(b) Starting date (to be fixed by Treasury Order) probably in the Autumn.

(c) Cost: nil in 1984-85 and for next 4 years, then might approach £5 million (in respect of extra contributions in first full year).

(ii) New approved share option schemes.

(a) Gains on the exercise of share options granted by companies to directors and employees charged currently to income tax, with facility to pay tax in instalments over 3 years.

(b) From 6 April gains on options granted under approved schemes which comply with new legislation not to be charged to income tax. Instead, the whole gain (represented by the difference between the cost of shares obtained under such options and the disposal proceeds) to be charged to capital gains tax on share disposal.

(c) Cost: nil in 1984-85 and immediately succeeding years, then might be £35 million in 1989-90, though highly uncertain.

(iii) Unapproved share option schemes.

(a) No change in tax treatment of gains from existing unapproved share options, except facility to pay income tax by instalments over 3 years extended to 5 years where option exercised after 5 April 1983.

(b) Instalment payment facility to be abolished for options granted after 5 April 1984.

(c) Cost: negligible in 1984-85 and £5 million in a full year.

Positive

(i) Share option schemes by directly linking benefit to performance enable:-

- small and growing companies to attract key personnel (eg specialists in advanced technology) by prospect of high rewards in future rather than large salaries now.
- ailing companies to attract new management with new ideas by offering chance of rich "prizes" for success.
- large and established companies to retain and motivate highly-valued executives.

(ii) Share options give employees the chance of accumulating capital to start own businesses.

(iii) Actions show Government's continuing commitment to employee involvement and wider share ownership.

(iv) Increase in SAYE share option limit. Like 1983 increase in limit for profit-sharing schemes, will encourage further spread in approved all-employee share schemes. Nearly

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½ million employees have obtained over £550 million interest in shares under 670 schemes of both types approved to date.

(v) New relief for approved options. Assists all companies to improve motivation of key executives, and to retain valued employees. Helps small companies to attract staff. Capital accumulation by individuals facilitates new private enterprise. Share options directly link increased effort with higher rewards.

Defensive

(i) Timing of increase in SAYE limit? Must await enactment of 1984 Finance Bill.

(ii) New relief for approved options

(a) Benefits uncertain? True that cannot be measured directly. But all sectors of industry and commerce can only gain from increased motivation of employees generally and key executives in particular. Representatives of large and small businesses (CBI, IOD, ABCC, Small Business Bureau) and the Wider Share Ownership Council (WSOC) unanimous in pressing for change. Need to match the "competition" (success of similar schemes in USA).

(b) Rewards too high, executive share options popular enough with existing tax regime? True that rewards can be high. But that is why executive share options motivate so effectively and why such schemes have proliferated since 1979 when top rates of income tax reduced [evidence available suggests that there may be up to 1,000 schemes in existence]. Every reason to encourage their spread by further tax relief.

(c) Better to target relief on small companies? Proposed relief will especially help small and growing companies to attract key people. But it would be wrong not to help bigger companies to retain or attract able and valued executives. Safeguards are built into the new tax rules to discourage the use of options by employers as a form of "alternative salary".

(d) Executive share schemes should only be approved when linked to all employee schemes (a WSOC recommendation.)? All-employee schemes are flourishing - over 670 schemes now approved (30 in 1979), almost half a million employees have benefited, and the initial value of shares allocated totals £550 million. Apart from practical difficulties, wrong to constrain companies in this way - small companies with limited shares on issue and limited resources would face particular problems.

(iii) Why abolish instalment relief? Abolition appropriate in context of generous new relief for approved options. Abolition only for future option grants. Previous grants to benefit from extended instalment period.

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H12 MORTGAGE INTEREST RELIEF

A. MORTGAGE INTEREST RELIEF LIMIT FOR 1984-85

Factual

Mortgage interest relief limit remains at £30,000 for 1984-85: increased from £25,000 in 1983 Budget.

Positive

The Stamp Duty changes will help home buyers (see Brief L1).

Defensive

(i) Limit should be regularly increased? Last year's increase from £25,000 to £30,000 still ensures that most loans are unaffected by the limit. Latest published Building Societies Association figures indicate that over 95 per cent of new building society loans to first-time buyers are below £30,000.

(ii) Raising limit is cheap way to help housing market? Raising the limit is expensive: for example, increase to £35,000 would cost £60-80 million in 1984-85, reducing resources available for eg Stamp Duty reductions which directly reduce cost of house purchase.

(iii) Increase necessary to maintain MIRAS staff savings? Although increase in number of loans above the limit will have some effect on the new arrangements for mortgage interest relief, this does not significantly reduce the staff savings at present.

(iv) Government acting on LAPR, why not abolish costly mortgage interest relief? Increased private ownership of housing a social and political priority: Government has made it clear that relief is to stay. (Note: relief cost £2.7 billion in 1983-84.)

(v) Need to clamp down on equity withdrawal? Some withdrawal a natural part of housing market, for example, elderly people moving to smaller homes. No evidence of widespread abuse of relief to finance non-housing consumption.

B. BRIDGING LOANS

Factual

(i) Borrower moving house can get relief temporarily on both old and new houses if loans overlap. Present rules are intended to allow relief up to £30,000 on each; but because of technical defect, there are some circumstances in which limit ceases to apply to loan on old house. Proposal is to amend rules so that limit applies in all cases.

(ii) Yield negligible, because only small number of cases potentially involved.

Positive

(i) Cures a minor technical defect which was never intended: ensures that all borrowers are treated in the same way and that the limit is applied in all circumstances.

(ii) It is not right that the amount of relief available should depend on the way in which the change of residence is made.

Defensive

(i) Change will hit people needing bridging loans? No - relief for both houses remains where necessary during "bridging" period.

Contact point: C Stewart (Inland Revenue) 2541-6218

C. SELF-EMPLOYED IN JOB RELATED ACCOMMODATION

Factual

(i) Relief to be extended, with effect from 1983-84 (because measure originally announced in 1983 Budget, see Brief N3), to self-employed taxpayers who are under a contractual requirement to live in accommodation provided for them as part of the terms of their trade (eg pub tenants or tenant farmers) but are buying their own house elsewhere. CGT exemption for main residence to be similarly extended.

(ii) 1984-85 cost £6 million (including some delayed cost for 1983-84); £5 million in full year.

Positive

Removes discrimination against self-employed. Employees living in job-related accommodation can already get relief.

Defensive

Relief should be extended to second homes generally? No justification for extending relief further to cover second or holiday homes.

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J1 CORPORATION TAX RATES

[See also Inland Revenue press notice)

Factual

(i) Rates to be reduced for Financial Year 1983 (ie year ended 31 March 1984) and following 3 years:

Financial Year	Main CT Rate
1983	50 per cent
1984	45 per cent
1985	40 per cent
1986	35 per cent

(ii) 40 per cent special rate for building societies etc and 37½ per cent "pegged" rate for insurance companies' life business removed as main rate falls.

(iii) Cost: £190 million in 1984-85 and £930 million in 1985-86.

Positive

(i) Substantial cuts in CT rate will lighten tax burden on companies leaving them freer to make their own decisions. Enterprise will be rewarded and risk-taking encouraged.

(ii) Rate reductions together with changes in capital allowances and stock relief will give an incentive to better quality investment, by removing distortions which subsidise unprofitable ventures, leading to more efficient use of resources. Very profitable projects will gain.

(iii) In early years, combination of still high capital allowances and low CT rates will provide slightly greater incentive to invest than at present.

(iv) Tax system will become more even-handed as between sources of finance (debt/equity).

(v) Announcing CT rates for 3 years ahead will provide certainty for future business planning.

(vi) Some simplification of CT system as special rates for Building Societies and life assurance companies disappear.

(vii) 35 per cent rate will be significantly lower than in almost any of our major competitors (see annex).

(viii) Inward investment - effect should, in general, be favourable because of the attraction of CT rates which are low by international standards.

Defensive

(i) What happens to CT rates beyond 1987? Government offering a real incentive to business to expand - a receipe for sustained national growth. Supply side effects should enable CT rate to be held in longer term.

(ii) Government bashing manufacturing? Because of stock relief/capital allowances changes, not all companies will gain - but successful ones will be able to make the most of the opportunities created by reducing distortions and tax subsidies. Aids winners not losers.

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(iii) Outward investment? - simplistic to assume that impact will be unfavourable. Reduction in CT rates will directly benefit companies receiving profits from outward investment. In the longer term a combination of low rates in UK and higher rates overseas might reduce attractiveness of outward investment for some companies, but impossible to generalise on this - much would depend on movements in overseas tax rates and effect of double taxation agreements.

(iv) EEC harmonisation? In line with general aim to harmonise on basis of imputation system. Rates will fall below currently recommended level but other EEC countries may reduce their rates over next few years. Capital allowance rates, after removal of incentive element, now more attuned to average rates of commercial depreciation; moves in direction recommended by EEC.

(v) Changes conflict with previous Chancellor's response to CT Green Paper? He accepted the need for stability in the structure of CT, ie retention of the imputation system. But he did not rule out all possible changes..

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Annex International comparisons

CORPORATION TAX : INTERNATIONAL COMPARISONS

	UK	Ireland	France	West Germany	Netherlands	USA	Japan
A. RATES OF TAX							
Rate of Corporation tax	52	50 (1)	50 (2)	56	48 (3)	46	42
lower rate for distributed profits	N/A	N/A	N/A	36	N/A	N/A	32
local taxes on profits (typical effective rates)	No	No	No	Yes (8.5)	No	Yes	Yes (12)
B. TREATMENT OF DISTRIBUTED PROFITS							
Tax credit allowed to dividend recipients (as percentage of income ie dividend + credit)	30	35	33^1/3	36	0	0	10 (5)
C. SMALL COMPANIES RELIEF							
Average rate of tax on retained profits of							
£ 500	38	40	50	0	45	15	30 (4)
£ 1,000	38	40	50	0	45	15	30
£ 5,000	38	40	50	56	45	15	30
£ 10,000	38	40	50	56	46½	15	30
£ 20,000	38	41	50	56	48	15	30
£ 50,000	38	50	50	56	48	20	36
£100,000	38	50	50	56	48	32	39
£200,000	46½	50	50	56	48	39	41
£500,000	52	50	50	56	48	43	41

Notes

(1) 10% rate for manufacturing : small companies rate reduced proportionately

(2) for industrial firms less than 5 years old, profits exempt from tax for first three years and reduced by half before charging to tax for next two years.

(3) proposed to be reduced to 43% for 1984 and 40% for 1985

(4) a small company is defined in terms of issued capital

(5) reduced to 5% where dividends exceed 10M Yen (£30,000)

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J2 CORPORATION TAX: SMALL COMPANIES

[See also Inland Revenue press notice]

Factual

(i) "Small companies" corporation tax rate reduced from 38 per cent to 30 per cent for Financial Year 1983 (ie year ended 31 March 1984) and fixed at 30 per cent for Financial Years 1984, 1985 and 1986.

(ii) Profits limits used to determine entitlement to relief remain at present levels of £100,000 and £500,000.

(iii) Marginal rate on profits between £100,000 and £500,000 will come down - to 55 per cent for Financial Year 1983, 48¾ per cent for Financial Year 1984, 42½ per cent for Financial Year 1985 and 36¼ per cent for Financial Year 1986.

(iv) Cost: £90 million in 1984-85. £170 million in 1985-86.

Positive

(i) Very substantial reduction in rate will have liberating effect on small companies.

(ii) Immediate benefit to small companies. Reduction in rate takes effect before stock relief/capital allowances changes bite: boost to liquidity will help entrepreneurs.

(iii) 30 per cent rate removes distortions as to means of finance. Now no difference in treatment of debt and equity finance; and small companies rate now the same as basic rate of income tax.

(iv) System of special measures and reliefs for small companies already generous by international standards (see annex to Brief J1 for comparison of rates). Reduction in rate to 30 per cent will improve comparison still further.

Defensive

(i) Because of stock relief/capital allowances changes many small companies will lose eventually - but low CT rate creates a better climate for enterprise and consequent growth for most small companies.

(ii) Reduction of rate below 30 per cent not sensible - would discriminate excessively against unincorporated sector and would require substantial structural changes to imputation system.

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J3 CAPITAL ALLOWANCES AND IMPLICATIONS FOR LEASING

[See also Inland Revenue press notice]

1. CAPITAL ALLOWANCES

Factual

(i) Main capital allowances to be reduced as follows:

	First year allowances (100%) for machinery and plant	**Initial allowances (75%) for industrial buildings**
From 14 March 1984	75%	50%
From 1 April 1985	50%	25%
From 1 April 1986	nil (25% writing down allowances only)	nil (4% writing down allowances only)

For legislation this year

Yield: Nil in 1984-85, £150 million in 1985-86.

(ii) Secondary allowances. Proposed changes contained in Revenue press notice.

Assured tenancies allowance: as above for industrial buildings, legislation this year.

Films: entitlement to capital allowances as machinery and plant made permanent; rate of allowance as above; legislation this year.

Agricultural buildings: initial allowance (20 per cent)) to be abolished and annual writing down allowances reduced from 10 per cent to 4 per cent; from 1986.

Hotels: initial allowance (20 per cent) to be abolished from 1986; writing down allowances (4 per cent) to remain as at present.

Mining/mineral rights/oil wells/scientific research: already under review (announced last year); need to be considered in context of new capital allowances reforms; proposals in due course.

Rented TV Sets: no change; phasing out of first year allowances already taking place (eg viewdata and teletext sets will continue to qualify for 100 per cent first year allowances until 31 March 1984, thereafter reducing to 75 per cent, 50 per cent and nil on same timescale as now proposed for machinery and plant generally).

Ships: free depreciation (ie carry-forward of first year allowances) for new ships will continue to operate in respect of first year allowances pro tem.

Enterprise zones: no change; 100 per cent initial allowances on all business buildings (not plant and machinery) to continue.

Small industrial workshops: no change; 100 per cent initial allowances to continue to run until 1985 when scheme ends.

Dredging: initial allowance (15 per cent) to be abolished from 1986; then 4 per cent writing down allowances only.

Patents: new annual writing down allowances of 25 per cent from 1986 (reducing balance basis) to replace existing write-off over 17 years.

Know-how: new annual writing down allowance of 25 per cent from 1986 (reducing balance basis) to replace present write off over 6 years.

Except for assured tenancies and films, legislation on these allowances will be in 1985 Finance Bill.

(iii) Writing down allowances for machinery and plant: to be given when expenditure "incurred" instead of when asset "brought into use". This will tend to advance the allowances, especially for large long-lead time assets such as ships or rigs, where some prior payment is customary.

(iv) Pre-Budget Day contracts. Expenditure under a contract entered into on or before 13 March 1984 and incurred before 1 April 1987, will be entitled to the pre-Budget rate of first year allowance (machinery and plant) or initial allowance (industrial buildings and assured tenancy properties).

(v) Transitional relief for certain regional projects for which government financial assistance already promised. The current rates of first year and initial allowances will continue to apply to future expenditure which is incurred on a project located in a development or special development area, which qualifies for regional development grant, and in respect of which an offer of selective assistance has been made between 1 April 1980 and 13 March 1984 under Sections 7 or 8 of the Industrial Development Act 1982.

(vi) Discouragement of financial forestalling. There will be provisions to restrict the amount of first year allowance due in the case of expenditure which is artificially advanced into an earlier year in order to obtain the benefit of a higher rate of allowance. See Inland Revenue press release for an example.

Positive

(i) Full reform programme announced now, and legislation this year covering all 3 phases of the reduction in the main allowances. Will provide certainty for business planning purposes.

(ii) Discouragement of wasteful investment in projects which can only be made profitable through excessive tax subsidisation. Investment funds will be attracted to the more productive projects, which are profitable pre-tax. Better allocation of resources for the country. Better value for taxpayers. And better for those companies and projects which are winners.

(iii) Makes room for very substantial reduction in corporation tax rates.

(iv) Opens way to simplification of capital allowances system, possibly in 1986.

Defensive

(i) Hits investment? Some investment, yes. But impact will be largely on projects with negative or very small pre-tax returns. Must be seen in conjunction with reductions in rate of tax on the return from the investment. Other projects, currently penalised by the tax system, will be more attractive. And very profitable projects will also gain from the new system. Quality of investment more important than quantity. During 1984-85 while first year allowance 75 per cent, combination with lower CT rate actually provides slightly bigger incentive than present system.

(ii) Hits manufacturing? Depends on the particular company and particular project. Pointless to subsidise uneconomic schemes. Better to help winners.

(iii) Why protect regional projects where offers of assistance made, but no work yet started? Regional policy considerations - protect existing schemes for investment in the poorest areas. Selective assistance offers are pitched at the minimum necessary for the

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project to go ahead. The assessment of the project therefore assumed the benefit of current tax allowances, and their removal without redress would, by definition, jeopardise continuation of the project. Similar arrangements were announced for regional development grants when these were altered last December.

(iv) Why protect enterprise zones? Small in number and limited in size: so cost limited. People will have been attracted to zones by reliefs, often with future intention to construct premises; wrong to withdraw them in those circumstances.

(v) International comparisons? After Budget changes rates for medium life assets will be broadly comparable with those in most other countries. Still some element of accelerated depreciation, in particular for longer life assets. System still attractive by comparison with Japanese system. (See Annex).

Background

Attached:

- (i) Note on history of capital allowances.
- (ii) International comparison of tax incentives for capital investment.

2. IMPLICATIONS FOR LEASING

Factual

(i) New leasing business now running at £3¼ billion a year; covers one-quarter of ICC's investment. Used to acquire wide range of assets, mainly plant and machinery, but also ships, oil rigs, cars, office machinery, computers.

(ii) Main lessees are manufacturing and industrial companies (nearly half); ~~main~~ lessors are subsidiaries of clearers (60 per cent), merchant and other banks, finance houses subsidiaries and (a few) large industrial companies. Average life of leases 6-7 years.

(iii) Reduction in capital allowances will hit leasing industry. In short run, leasing will become more attractive (acceleration of investment to secure benefit of relatively high capital allowances before they are phased out from April 1986); but in longer run (say 2-3 years) attraction will be sharply reduced (especially for leases of less than 5 years).

(iv) Cost of financing investment for tax exhausted companies will rise.

(v) From 1986-87, may be a shift out of leasing into bank lending, to finance investment. But since leasing is indirectly financed by bank lending now, no net effect on monetary growth.

Positive

(i) Leasing will continue, though it will change. Shorter term leasing will still be useful means of providing off-balance sheet finance; long leases will still have tax advantages.

(ii) Company tax package necessary to end wasteful subsidy of projects not earning proper rate of return. Will improve quality of investment and together with abolition of NIS, reduces bias towards employment of capital, against labour; should help employment. No case for protecting leasing from side effects of desirable tax changes.

Defensive

(i) Measures will kill off leasing? No. See positive (i).

(ii) Increased cost of leasing will damage investment (especially by manufacturing)? Number of tax-exhausted companies (principal beneficiaries of leasing) should fall. Retained earnings should be higher as a result of lower CT rate and abolition of NIS. Budget measures (stamp duty, corporate finance package, general strategy) will improve companies' access to longer term finance.

(iii) Changes will hurt new expanding companies that have no tax liabilities? Such companies often plough back their profits into the business and this source of finance is unaffected. And no worse off than their taxpaying competitors.

(iv) Concealed way of taxing banks? No; changes affect all projects, not just those financed through bank leasing. Would be wrong to exempt leasing. Banks have claimed that most of the benefits of leasing are passed on. Exposure to tax will be increased; but can't complain about paying tax like every one else. And they will pay at lower CT rate, and benefit from abolition of NIS. Unlikely to lose lending business on balance (see defensive (vi)).

(v) Banks will now have to provide in profit and loss account for deferred tax which means higher interest rates or higher bank charges? No problem where banks have been making adequate provision already. Where they have not (this applies to the clearers), the lower Corporation Tax rate reduces the required level of provision.

(vi) Replacing leasing with bank lending pushes up monetary growth requiring higher interest rates to keep within targets? No. The measures may result in a switch from leasing to bank lending, but since leasing already counts as bank lending (to "other financial institutions") total bank lending will be unchanged.

(vii) No advance consultation with leasing industry; who assumed it was official policy to encourage investment by tax-exhausted companies via leasing? No. But changes are phased over several years. Reduction in capital allowances applies to all investment not just leasing.

HISTORY OF CAPITAL ALLOWANCES

Capital allowance system dates from 1945, when initial allowances (ie acceleration) first introduced as incentive to investment, on top of pure depreciation.

Additional form of tax incentive has been tried on two occasions. Investment allowances - which provide tax relief for amounts over and above full asset cost - given between 1954 and 1956 and between 1959 and 1966. Replaced by a generalised system of cash grants for new assets in manufacturing and extractive industries, thought at time as more cetain and effective incentives than investment tax allowances.

Grants system withdrawn in 1970, principally on grounds of cost and failure to achieve objectives. Replaced by new accelerated tax depreciation as incentive to investment; first year allowances for machinery and plant (other than cars) and enhanced initial allowances for industrial buildings and mining works introduced.

Machinery and plant (not cars) allowances increased in 1972 to 100 per cent. Initial allowances for industrial buildings have increased since then from 40 per cent to present 75 per cent (100 per cent for small workshops and enterprise zone buildings). Scope of industrial building allowance widened to cover hotels (1978) and assured tenancy properties (1982). New ships given preferential treatment from 1957 onwards (free depreciation from 1965).

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Writing down allowances for machinery and plant based on useful asset life until 1962, when reduced to only 3 categories; reduced in 1970 to 1 only (25 per cent).

Writing down allowances for industrial buildings have been 4 per cent since 1962.

Contact point: C W Corlett (Revenue) 2541-6287
G A A Elmer (Revenue) 2541-7507

RATES OF MAIN CAPITAL ALLOWANCES FROM 1970

	Plant and Machinery (First year allowance) (writing down allowances 25% reducing balance basis)	Industrial buildings (initial allowance) (writing down allowances 4% straight line)
1970	60*	30+
1971	80	30
1972	100	40
	(Imputation system of corporation tax introduced w e f April 1973)	
1974	100	50
1975	(Stock relief introduced)	
1978	100	50 (new allowance of 20 for hotels)
1980	100 (new rate of 25 wda for foreign and certain other leasing)	50 (new allowance of 100 for small workshop and enterprise zone buildings)
1981	100 (Stock relief changed to present form)	75
1982 onwards	100 (new rate of 10 wda for foreign leasing)	75 (new allowance of 75 for assured tenancies)

* free depreciation for new ships 100 for certain assets in development areas or N. Ireland, and 25 wda for cars.

\+ 40 for expenditure incurred in development or intermediate areas or in N. Ireland.

DEPRECIATION, CAPITAL ALLOWANCES AND INVESTMENT GRANTS: INTERNATIONAL COMPARISONS

	UNITED KINGDOM	IRELAND	USA	JAPAN	FRANCE	WEST GERMANY	NETHERLANDS
1. DEPRECIABLE ASSETS	Machinery and plant; industrial buildings; business buildings in enterprise zones, scientific research assets; industrial know-how and patents; extraction industries agricultural, or forestry buildings and works; hotels; assured tenancies.	Fixed asset investment (excluding goodwill, quarries or similar wasting assets)	Tangible personal property and certain real property (not land). Also intangibles such as patents, etc.	All tangible and intangible fixed assets.	Fixed asset investment (excluding land, business goodwill trade-marks and long leases).	Fixed assets (tangible and intangible) with an expected life of more than one year.	Compulsory depreciation for all assets.
2. DEPRECIATION SYSTEM a) Incentive element included?	YES. Accelerated depreciation (not patents).	YES. Accelerated depreciation (not patents).	YES. "Accelerated Cost Recovery System" for tangible assets.	NO. Economic Life (except as in 3).	NO. Economic Life (except as in 3).	NO. Economic Life (except as in 3).	NO. Economic Life.
b) Rates of depreciation.	FIXED eg IA WDA IBA 75% 4% ABA 20% 10% M+P 100% - SRA 100% -	FIXED eg New plant - 100% (free dep'n) Certain industrial buildings - 100% (free dep'n) Agricultural) IA 20% buildings) WDA 10%	Tangible assets classified into 4 categories: properties written off over 3,5,10 or 15 years. eg light trucks, R+D equipment - 3 years most other machinery - 5 years structures etc - 10 or 15 years.	FIXED Statutory rates based on normal useful life - account can be taken of exceptional usage/obsolescence.	NEGOTIABLE Declining balance dep'n of a given fixed asset is a multiple of the straight line dep'n. (Multiplying factor is 2.5 if asset has expected useful life of more than 6^{2}/3 years.)	NEGOTIABLE Where declining balance is used, annual rate is limited to twice the rate allowable under the straight line method, with an overriding maximum of 25%.	NEGOTIABLE
c) Writing-down methods allowed.	Machinery and plant - Declining balance Most other assets - straight line	Plant - Declining balance Buildings and intangible assets - straight line	Tangible property - taxpayers can elect for straight line basis and for a longer recovery period. Intangible property - straight line	Tangible assets - straight-line or declining balance. Intangible assets - straight line (Depletion method for mining.)	Usually straight line but industrial companies may adopt declining balance method for most fixed asset investments (not industrial buildings).	Immovable fixed assets - straight line Movable fixed assets - straight line or declining balance.	Straight line, declining balance, unit of production or depletion method, as appropriate.
3. SPECIAL DEPRECIATION TREATMENT (Not specified above).			First $7500 of investment can be expensed. ($10,000 - 1986 and after). Taxpayers may elect for unit of production basis - mainly used for equipment in extractive industries.	Special first year or accelerated dep'n for:- i) plant used to prevent pollution, save energy and supply water, ii) aircraft, iii) integrated electronic equipment for data analysis or industrial machinery, iv) expenditure in under-developed areas, v) equipment used by "small and medium sized corporations" in "approved lines of business" eg manufacturing and construction.	Exceptional dep'n is available for:- i) All investments on machinery and plant between 1/1/83 and 31/12/85 (40%); ii) Buildings constructed to combat pollution (50%) Special first-year dep'n is allowable for:- i) Buildings constructed under regional or local development plans (25%); ii) Buildings for scientific research (50%);	Accelerated dep'n allowances are available for:- i) New items of machinery and plant purchased by small businesses. ii) R+D: new machinery and plant (40%) and buildings (10%/15%). iii) Anti-pollution equipment (60% f.y.a.; 10% in following years) iv) Mining equipment and facilities. (Up to 50% in first 5 years.)	

	UNITED KINGDOM	IRELAND	USA	JAPAN	FRANCE	WEST GERMANY	NETHERLANDS
				vi) equipment brought by specified cooperatives and industries as part of rationalisation projects.	iii) Scientific research assets acquried by small firms employing less than 2,000 (50%).	v) Fixed asset expenditure in Berlin and areas bordering the GDR qualify for accelerated depreciation over first 5 years.	
4. TAX CREDITS FOR INVESTMENT	NO	NO	YES Applied to tangible assets (generally not buildings) used in manufacturing, production or certain other activities. 3 year property - 6% credit other eligible assets - 10% credit Both payable at 2% per annum	YES Only available for investment in energy saving facilities and increases in R&D expenditure over previous accounting periods.	YES Limited to firms who have increased R&D investments. Only payble on the excess over previous accounting periods.	NO (Optional tax credit for certain expenditure- see 5. below)	YES Tax credits for all investment in depreciable assets costing more than 2400 Dfl. Reduces tax liability but not the depreciable base of assets. Companies operating at a loss may opt for cash. Rates: New Buildings - 14% Old Buildings - 8% Plant, etc - 12% Additional credits payable on regional environmental and policy grounds.

J4 STOCK RELIEF

[See also Inland Revenue press notice.]

Factual

(i) Stock relief to be abolished for periods of account commencing on or after Budget Day.

(ii) Relief for periods of account which end on or include Budget Day to be based on rise in "all stocks" index up to March 1984.

(iii) Stock relief recovery charges abolished for business cessations on or after Budget Day.

(iv) Farmers given new opportunity to opt for "herd basis" treatment of livestock.

(v) Yield: Nil in 1984-85, £500 million in 1985-86 and £900 million in a full year.

Positive

(i) Right to get rid of this relief - a relic of years of high inflation - now Government has inflation firmly under control.

(ii) Yield from abolition to be used to cut business taxes and create better climate for entrepreneurial activity.

(iii) Abolition removes tax subsidy for investment in stocks financed by borrowing - judgment on stock levels will now be influenced more by market forces.

(iv) Abolition will simplify the tax system.

(v) New opportunity to opt for "herd basis" will help some farmers.

Defensive

(i) Company profits still affected by inflation? Best way to deal with this in time of continuing low inflation is by cutting taxes, not perpetuating distorting reliefs.

(ii) Cost of stockholding will rise? But changes to CT will help improve overall profitability where investments are commercially sound.

(iii) Runs contrary to inflation accounting? Abolition of stock relief to some extent a move away from current cost accounting back to historical cost accounting. This does not mean Government opposed to accountancy profession's attempt to find acceptable successor to the current cost accounting standard SSAP16. But what is right for accountancy practice is not always right for tax. And accountants themselves not agreed on new standard.

(iv) International comparisons? The table annexed shows that the present UK stock relief scheme is more generous than other countries' reliefs in most circumstances. This advantage will obviously disappear after the Budget, particularly comparing the UK with countries which allow a LIFO basis of stock valuation (which, very broadly speaking, has the effect of relieving price increases in stocks from tax). Even so, UK companies may often be no worse off than those operating in France or West Germany where stock relief is not allowed other than for increases of more than 10 per cent in stock prices.

Contact point: R I McConnachie (Inland Revenue) 2541-6252
S W Jones (Inland Revenue) 2541-7517

[ANNEX - history and international comparison]

J4

History

(a) Relief for increases in stock values introduced in Autumn 1974 Budget in response to ~~serve~~ severe liquidity pressures on companies caused by high inflation. Scheme continued in much the same form as before until -

(b) recession in 1979-80 led to heavy destocking which precipitated temporary reform of scheme (FA 1980) to allow clawback charges to be deferred, followed by major changes (FA 1981) relating the relief directly to price changes and eliminating clawback for continuing businesses. As in 1974, inflation was high and liquidity poor when these reforms were announced.

STOCK RELIEF : INTERNATIONAL COMPARISONS

	UK	Ireland	France	West Germany	Netherlands	USA	Japan
Stock valuation							
LIFO allowed for tax purposes?	No	No	No	No	Yes	Yes	Yes
If LIFO allowed, are other bases with stock relief available as option?	-	-	-	-	Yes	No	Yes
Stock relief							
Is relief permanent (P) ?	P				P	-	
or deferral of tax (D) ?		D	D	D			D
Is relief based on - a percentage of stocks	Yes	No	Yes	Yes	Yes	-	Yes
or the rise in stock values	No	Yes	No	No	No	-	No
Examples of relief							
If (i) opening stock value is £m5 (ii) profits are £m1 (iii) stock volumes are constant - then relief in £000s is, for rise in stock prices of							
5%	250	37(1)	0	0	200	-	79(2)
10%	500	225	0	0	200	-	83
15%	750	412	262	250	200	-	86

NB figures are amounts of relief, not reductions in tax payable

Notes (1) It is proposed to change to a permanent stock relief system similar to the UK's, but with relief restricted to one-third of the price changes in stocks.

(2) The relief applies to certain stocks only and is due to be phased out by 1985/86.

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J5 NATIONAL INSURANCE SURCHARGE

[See also Treasury press notice]

Factual

(i) NIS (rate currently 1 per cent) abolished from 1 October 1984, except for local authorities for whom abolished from 6 April 1985.

(ii) Rate was cut from 3½ per cent to 2½ per cent in Finance Act 1982, to 1½ per cent in National Insurance Act 1982 and to 1 per cent in Finance Act 1983.

(iii) Levied and collected as a percentage surcharge on earnings liable to employer's national insurance contributions.

(iv) 1983-84 revenue yield: £1.7 billion.

1984-85 cost of abolition is £455 million (£335 million to private sector). Benefit to central government and nationalised industries will as usual be clawed back - through reductions in cash limits and external financing limits.

Full year cost of abolition £1,350 million (£865 million to private sector).

(v) Local authorities will pay at 1 per cent in 1984-85 only.

(vi) NIS not applicable to self-employed or charities.

Positive

(i) Rate was 3½ per cent when Government came to office. If this rate had continued, private sector would have paid £3 billion in 1984-85. Equivalent to 3 percentage point reduction in basic rate of income tax or 18 per cent increase in personal allowances: indicates priority Government attaches to assisting business.

(ii) Even taking account of employer's NIC increases since 1978-79, overall effect of NIC and NIS changes worth £2.4 billion to private sector employers in a full year.

(iii) Overall employer's NIC/NIS rate on contracted-in employees increased from 8½ per cent to 13½ per cent under previous Labour Government. Abolition of NIS brings rate down to 10.45 per cent. Contracted-out rate down from 9 per cent to 6.35 per cent.

(iv) Beneficial economic effects from cost reductions. Increases profitability and reduces cost of employing labour. (See Brief G2 for effect of business tax package as a whole.)

(v) Public expenditure reduced by about £120 million in 1984-85 and about £450 million in full year.

Defensive

(i) Why public sector clawback? As with earlier NIS reductions, public sector benefit recouped. Best to target assistance on the private sector.

(ii) Why delay abolition until October? Cannot afford to abolish earlier and meet PSBR objective.

(iii) Why should local authorities pay NIS until April 1985? Not practicable to claw-back the benefit through the rate support grant in 1984-85. No reason why local authorities should get windfall bonus from abolition of NIS.

(iv) Local authority direct labour organisations will pay NIS at 1 per cent for whole of 1984-85 while private sector competitors will pay nothing from October? Competitive disadvantage only temporary and local authorities can take account of it in judging acceptability of tenders.

(v) Benefit to private sector exaggerated because tax payments will increase? Depends upon what businesses do with the amount saved by abolition.

Contact point: J H Reed (FP) 233-5757

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J6 CARRY-BACK OF ADVANCE CORPORATION TAX

[See also Inland Revenue press notice]

Factual

(i) At present ACT which is "surplus" (ie which cannot be set against current year's CT liability) may be carried back and set against CT paid on previous two years' profits.

(ii) For accounting periods ending on or after 1 April 1984, this carry-back period is being extended from two to six years.

(iii) Cost: £1 million in 1984-85 and £30 million in 1985-86; declining thereafter.

Positive

(i) Maximum improvement to similar measure introduced in the 1983 Budget which proposed progressive extension of the carry-back period. Government have been as generous as possible in introducing full 6 year carry back right away.

(ii) Ensures smoother working of the imputation system by helping companies which maintain their dividends when taxable profits are low.

Defensive

(i) Some limit on carry-back period needed for practical reasons. Six years is a normal limit for tax reliefs.

Contact point: R I McConnachie (Inland Revenue) 2541-6252
S W Jones (Inland Revenue) 2541-7517

J7 CORPORATE FINANCE PACKAGE - EUROBONDS, DEEP DISCOUNT ETC.

[See also Inland Revenue press notice]

A. General

There are a number of measures (listed below) to make it easier for companies to obtain long-term finance.

(i) CGT exemption - on lines of gilts exemption - for most corporate loan stock issued after Budget Day.

(ii) New tax regime for deep discount securities issued by companies - see below.

(iii) Provisions to allow companies to pay Eurobond interest gross - see below.

(iv) Relief for discounts on bills of exchange (acceptance credits) - see below.

(v) Relief for incidental costs of convertible loan stock issues - see below.

(vi) Inland Revenue have confirmed that loan stock which carries a right of conversion into other loan stock is exempt from stamp duty - see below.

(vii) Cost for all items, negligible first year; £18 million full year (of which £15 million for deep discount securities).

Positive

(i) Capital market reviving - 1983 a record year (£2.8 billion of net new issues by UK listed companies). Main factor is Government's success in bringing about stable financial conditions. But these specific measures should provide a useful modest stimulus to the corporate bond market. This is good for companies as it helps them to strengthen their balance sheets. And it is good for monetary policy if short term bank lending is displaced.

(ii) Greater flexibility in the ways in which companies raise finance.

(iii) Complements Budget measures (notably Stamp Duty cut) to encourage equity finance. Overall effect should be to build on revival of capital markets already under way.

Defensive

(i) Purely presentational? Minor but useful measures. Will aid revival of corporate bond market.

(ii) Not enough? Not Government's intention to provide tax subsidy for corporate borrowing.

Contact point for effect on financial markets: D L Willetts (Treasury) 233-4533

B. CGT Exemption for certain corporate bonds

Factual

Details in Inland Revenue press notice.

(i) Exemption of gains - and disallowance of losses - on most corporate loan stock held for more than twelve months.

(ii) Will apply only to new issues after Budget Day

(iii) Cost: Nil in 1984-85, negligible in 1985-86.

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Positive

(i) Brings tax arrangements for corporate loan stock broadly into line with Government securities; gains on disposals of gilt edged stock have been exempt since 1969.

(ii) Provides measure of simplification where exemption applies - particularly in respect of indexation provisions.

(iii) Will give modest stimulus to the corporate bond market.

Defensive

(i) No real benefit? True that gains on such stock would normally be covered by indexation relief. But some benefit and avoidance of need to apply complicated indexation provisions.

(ii) Abuse? Measures will be introduced to prevent any exploitation of this exemption.

(iii) No relief if borrower defaults? True. This is the corollary of exemption of gains.

(iv) What about unquoted companies? Probably do not issue much fixed interest loan stock. But Ministers have open minds and will consider any constructive suggestions and respond in Committee.

Contact point: J P B Bryce (Inland Revenue) - 2541-7427

C. **Deep discount securities** (carried over from 1983)

Draft clauses published December 1983. New regime applies to securities issued after Budget Day by companies at a discount of more than ½ point a year (or more than 15 points overall). Borrower will get relief against income annually for the accrued discount. Investor will be taxed on disposal or redemption - income tax on accrued income, capital gains treatment for any balance of gain or loss.

New rules provide more satisfactory tax regime and make deep discount securities more useful to borrowers. Treatment of investor different from gilts - but (a) with gilts, no need to consider borrower's tax position, and (b) withdrawal of exemptions for gilts (discount taxed as capital gain) would not help private sector because interest rates on gilts would rise to produce same net yield.

Contact point: C Stewart (Inland Revenue) 2541-6218

D. **Eurobond interest** (carried over from 1983)

UK companies to be allowed to pay interest on Eurobonds gross if bonds are quoted on recognised Stock Exchange and interest is paid through overseas paying agent or (where bond-holder shows he is non-resident) through UK paying agent.

Proposal enables companies to issue Eurobonds from UK without using foreign subsidiary. Deals with a particular problem over issue of Eurobonds; any wider changes in rules on deduction of tax and interest relief would need fuller study.

Contact point: C Stewart (Inland Revenue) 2541-6218

E. **Acceptance credits** (carried over from 1983)

Relief to be extended to companies for discounts on bills of exchange accepted by banks (and for incidental costs). (Relief already available for borrowing for trading purposes.)

Relief will give companies greater flexibility in using bill finance as alternative to ordinary bank borrowing. Relief now to be backdated to 1983-84.

Contact point: C Stewart (Inland Revenue) 2541-6218

F. **Convertible loan stocks** (carried over from 1983)

Relief for the incidental costs (fees, commissions,etc) of business loan finance to be extended to convertible stocks to the extent that conversion does not take place within 3 years of issue. Will reduce companies costs of raising business loan finance. Relief now to be backdated to 1983-84.

Contact point: R Lusk (Inland Revenue) 2541-6412

G. **Stamp duty on convertible loan stock**

Section 126 of the Finance Act 1976 exempted from stamp duty transfers of loan stock. The exemption does not apply to convertible loan stock ie loan stock which carries a right to conversion into equities. Doubts were expressed about the position of loan stock which can only be converted into other unconvertible loan stock. The Inland Revenue are issuing a Statement of Practice confirming that this type of convertible loan stock is within the exemption.

Contact point: D G Draper (Inland Revenue) 2541-6646

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J8 OTHER COMPANY TAXATION

A. OFFSHORE AND OVERSEAS FUNDS

Factual

(i) Legislation in Finance Bill on offshore and overseas funds as announced by Chancellor on 15 September 1983.

(ii) Further, more detailed, announcements on 17 November 1983 and on 22 February 1984 (when draft clauses published).

(iii) Funds used to roll-up income offshore into capital (so reducing tax liability of investors).

(iv) Investors' gains accruing from 1 January 1984 will be taxed as income.

(v) New charge will not apply where fund qualifies as a distributing fund. But if fund operates "equalisation" (can be applied where price of investment reflects accrued income), accrued income distributed on redemption etc will be taxed as income from 6 April 1984.

(vi) Yield estimated to be negligible in 1984-85 and £60 million in a full year.

(vii) Restriction on offshore life assurance see Brief H7B.

Positive

(i) Stops major avoidance route whereby relatively highly-taxed income was converted to lowly-taxed capital gain through "roll-up" funds.

(ii) Use of "roll-up funds" mushroomed - estimated that by August 1983 UK investors may have had £1,500 million invested - with tax loss to Exchequer of £60 million.

(iii) Modifications announced on 22 February 1984 to meet genuine difficulties some funds would have in qualifying as distributors.

Defensive

(i) Ministers followed "Rees rules" - specific announcements, advance notice, legislation published in advance.

(ii) Investors given plenty of notice so ample time to move out of funds.

(iii) Legislation extends to all offshore funds: not confined to money funds. Wrong to single out a type of fund simply on basis of its investments.

(iv) Funds with equalisation would have had difficulty in qualifying as distributors. New charge on redemptions etc in such funds was only way of meeting these difficulties while protecting Exchequer.

Contact point: M Cayley (Inland Revenue) 2541-6372

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J8 OTHER COMPANY TAXATION

B. CONSORTIUM RELIEF

[See also Inland Revenue press notice on Group relief: consortia]

Factual

(i) A company with current profits can obtain relief by claiming the losses for the corresponding accounting period of another company in the same group. Similar relief is available between a company owned by a consortium of companies and the companies which own it.

(ii) Consortium relief presently available only where five or fewer UK companies own all share capital in the consortium company.

(iii) Ministers announced on 19 July 1983 a review by the Inland Revenue of the tax treatment of groups of companies and invited representations.

(iv) Proposal is to change definition for consortium relief so as to increase (up to a maximum of 20) the permitted number of UK member companies, and also to allow consortia where some of the members are non-UK companies or individuals.

(v) Cost depends on how companies respond - perhaps £10 million a year.

Positive

(i) Recognises importance of consortia for big projects.

(ii) Meets frequent representations from a wide range of companies (e.g. Cable TV).

Defensive

(i) Transitional period for those existing consortia in which a member company has a less than 5 per cent interest.

(ii) Too soon for decisions on other changes in tax treatment of groups etc: they depend on outcome of review which has received many lengthy and complex submissions.

Contact point: M Prescott (Inland Revenue) 2541-6442

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J8 OTHER COMPANY TAXATION

C. TAXATION OF INTERNATIONAL BUSINESS

Factual

(i) Finance Bill to contain provisions on "controlled foreign companies" (CFCs) designed to counter companies using tax havens to avoid UK tax. Provisions will apply from 6 April 1984.

(ii) Provisions will be broadly the same as the revised draft clauses issued last October, but Government to introduce a number of detailed modifications to meet points made by business community in consultations.

(iii) Provisions expected to yield around £100 million a year in the medium term (£25 million in 1985-86).

(iv) New version of the provisional list of countries which would not normally be within scope of CFC provisions (list of "non-havens") to be issued before legislation is discussed in Committee.

Positive

(i) As law stands, system biased in favour of companies which divert profits from UK to tax havens or accumulate in tax havens overseas profits surplus to needs.

(ii) Case in principle for dealing with tax haven abuse generally accepted, including by British business.

(iii) CFC provisions already been the subject of extensive consultation with British business. As a result they have been modified in a number of important respects to provide more certain safeguards for all "genuine" overseas operations of UK companies.

Defensive

(i) Because of wide-ranging protection for all bona fide activities, CFC legislation should have no effect on the international competitiveness of British business generally.

(ii) CFC provisions are not "blunderbuss". Instead they are carefully structured so as to protect the position of genuine enterprises, whilst still encompassing all types of tax haven abuse.

(iii) Section 482 Government recognise Section 482 is not entirely appopriate in its present form. Will be reviewed in the light of the final shape of the CFC provisions.

(iv) Upstream loans, profit and loss importation, the "Delaware link" All these matters still under review, but important to deal with tax haven problem first.

(v) Reduction in corporation tax rate (see Brief J1) should lessen impact of CFC provisions, while not rendering them unnecessary, since low or nil rate tax havens would remain unattractive.

(vi) Furniss v Dawson? Has limited relevance to tax haven proposals, therefore in no sense renders them unnecessary.

Contact point: I R Spence (Inland Revenue) 2541-6497

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J8 OTHER COMPANY TAXATION

D. UNITARY TAX IN USA

Factual

(i) Government have been pressing US administration to stop the application of Unitary Tax by individual states (twelve including California) to international business. We oppose it because it imposes unreasonable tax and compliance burdens on UK businesses in the States, and damages international trade.

(ii) Treasury Secretary Regan is chairing a Working Party which has been established to resolve the issue. Established in October. Expected to finish its work in April. Membership of Working Group - representatives of US administration, individual states, and US businesses.

Positive

(i) Secretary Regan's Working Group established as a result of strong international pressure, led by United Kingdom. Prime Minister and Chancellor pressed on President Reagan and Treasury Secretary Regan the urgent need for a resolution of the problem.

(ii) Secretary Regan has assured the Chancellor that the Working Group had made encouraging progress, and that he hopes the Working Group will soon reach a satisfactory solution which will be implemented by the individual states.

(iii) Evidence that individual states are increasingly concerned about the damage that Unitary Tax is causing to investment in Unitary states. (eg recommendation for abolition of Unitary Tax by Florida Governor's Study Group, in light of decisions by IBM and Sony to invest elsewhere.)

Defensive

(i) Retaliatory action would be premature and counter productive at this delicate stage of the Working Group's deliberations. But Government will monitor progress on Working Group very carefully and keep up pressure on US administration.

Contact point: I R Spence (Inland Revenue) 2541-6497

J9 BUSINESS EXPANSION SCHEME - FARMING

[See also Inland Revenue press notice]

Factual

(i) Scheme offers income tax relief (at full marginal rates) for individuals investing up to £40,000 a year in new full-risk equity of unquoted trading companies with which they are not otherwise connected. Wide range of eligible trades, with certain exceptions: eg dealing in land, commodities etc; leasing and letting; banking, insurance and other financial services.

(ii) There has been widespread criticism about the use of the Scheme for investments in farmland: over £15 million thought to have been invested in 1983-84.

(iii) It is therefore proposed to exclude farming as a qualifying trade under the Scheme. Tax relief will not be available for shares in farming companies issued after 13 March 1984.

(iv) Yield. Negligible, if make other BES investments.

(v) Covers all "land occupied for the purposes of husbandry" and also includes tenant farmers. But not eg processing of agricultural produce or market gardening.

Positive

(i) Exclusion of farming will help ensure no diversion of funds from new or expanding high risk businesses for which Scheme is intended.

(ii) Response to Scheme as a whole most encouraging. Signs are that substantial amounts have been raised already, and for investment in other than farming companies. (Firm figures not available. But BES Approved Funds alone thought to have raised over £25 million of new money in 1983-84 (not known whether any of this has gone into farming); with further sums, not yet quantifiable, invested directly.)

Defensive

(i) No retrospection: no withdrawal of relief on shares in farming companies issued on or before 13 March 1984.

(ii) Action is timely because scale of the problem has emerged only recently but is growing fast.

(iii) Why include tenant farmers? Could not sensibly discriminate.

(iv) Why not introduce Small Firms Investment Companies? Aim is to encourage individual investment. Approved investment funds already meet demand for a spread of investment.

(v) Why no other changes (e.g. overseas subsidiaries, takeovers)? BES needs time to settle down.

Contact point: M Prescott (Inland Revenue) 2541-6442

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K1 FARMOUTS (SALES OF INTERESTS IN OIL FIELDS)

[See also Inland Revenue press notice on Oil taxation)

Factual

(i) PRT restriction on farmouts announced by Chancellor on 13 September 1983. Now accompanied by parallel corporation tax restrictions on post Budget Day farmouts.

(ii) PRT appraisal and exploration expenditure (and unrelieved field losses) before a purchase of a mature (producing) field to be denied relief against PRT on that field.

(iii) Loophole which let out of CGT gains by non-residents on tangible assets used in the North Sea to be closed (not confined to farmouts).

(iv) Capital gains on farmouts brought within North Sea corporation tax ring fence.

(v) Buyer's capital allowances for plant and machinery to be limited to seller's cost.

(vi) Abolition of ACT repayment under Section 17(3) OTA 1975 - see Brief K2 - complements package by removing incentive to buy up additional PRT sources to get repayment of ACT overhang.

Positive

(i) Yield (ie prevents loss of tax) assuming continuing 1983 level of farmouts of £35 million in 1985-86 - first full year (PRT change protects against substantial but unquantified further loss).

(ii) Changes consistent with ring fence principle that non-North Sea losses etc should not reduce tax on North Sea activities.

Defensive

(i) Action has only recently become necessary as farmouts increased considerably in 1983 (eg BP's sale of over 11 per cent of Forties).

(ii) Should not affect North Sea development or commercially justified farmouts - not tax penalty, just removal of uncovenanted tax advantages.

(iii) Does not stop small companies planning to re-arrange interests to take advantage of tax reliefs for future activities but ensures Government takes fair share of benefits (through charge on seller).

Contact point: M A Johns 2541-6018 or
S J McManus 2541-7437

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K2 ACT REPAYMENT TO OIL COMPANIES

[See also Inland Revenue press notice on Oil taxation]

Factual

(i) Present law PRT is deductible for CT. To extent deduction reduces possibility of ACT set-off (because of reduction in CT), under Section 17(3) Oil Taxation Act 1975 ACT is repayable.

(ii) High Court case in 1983, requiring repayment to be made as soon as facts clear, created two problems: substantial repayments could become due to be made before ACT could have been set off against CT liability under normal ACT/CT rules: administrative uncertainty about date when facts clear.

(iii) In consequent review, Ministers conclude no good case for retaining Section 17(3). Section 17(3) is therefore being repealed.

(iv) Yield £100 million 1984-85; full year £150 million (unless ACT not repaid can be set-off against CT).

Positive

(i) No reason why collection of economic rent via PRT should be eroded by repaying ACT (ie as a result of company distribution policy).

(ii) Abolition complements farmout package (Brief K1) - removes incentive to buy up additional PRT sources to get repayment of ACT overhang.

Defensive

(i) In principle, CT package means wider CT base (due to reduction of capital allowances) and therefore less likely in future for ACT not to be able to be set-off against CT.

(ii) All sectors, including North Sea, are expected to have higher after-tax profits as a result of the Budget over the next 2 years.

Contact point: D Y Pitts (Inland Revenue) 2541-6576

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L1 STAMP DUTY: MAIN PROPOSALS

[See also Inland Revenue press notices]

Factual

(i) Share deals: cut from 2 per cent to 1 per cent.

(ii) Land and buildings: ½ per cent reduced rate band abolished. 1½ per cent and 2 per cent rates cut to 1 per cent. £25,000 threshold for house sales raised to £30,000.

(iii) All these changes take legal effect on 20 March; transfers on or after Budget Day can benefit as Stamp Offices will not stamp any documents presented over the next few days unless specifically asked to do so. New rates apply to Stock Exchange deals in the current Stock Exchange account.

(iv) Costs estimated in £ million:

	1984-85	Full Year
Land and Buildings	-290	-295
Total	-450	-460

(v) Measures to prevent avoidance of duty on house sales to take effect on 20 March.

Positive

(i) Stamp duty at 2 per cent a clog on mobility and investment. Rate was doubled to 2 per cent by Labour Government in 1974.

(ii) The cut in the cost of buying shares will:

- increase volume of transactions;
- encourage direct share ownership;
- reduce cost of raising new equity finance;
- and help to maintain international competitiveness of UK stock market.

(iii) In letter to Chancellor, 22 February, Sir Nicholas Goodison, Stock Exchange Chairman, said stamp duty "compromises the ability of London to compete effectively as an international financial centre". In an annex, he said that in its present form it "is probably the single most important deterrent to direct investment in shares".

(iv) Third increase in threshold for house purchase since 1979. 90 per cent of first time home buyers will now be exempt, as will 70 per cent of all buyers.

(v) Value of cuts to certain house buyers:

	House Price	Benefit of SD cut
Average UK buyer	£28,500	£142.50
Average Greater London buyer	£37,000	£185.00

Reductions make it easier for people moving house to new jobs: assist labour mobility.

(vi) Simplification of tax system: single, lower rate of 1 per cent.

Defensive

(i) Stamp duty loopholes should have been closed at the same time? Measures to prevent avoidance of duty on house sales to take effect on 20 March. Lower rate will reduce incentive to avoidance.

(ii) Cuts should have been timed to coincide with the introduction of negotiated commissions on share deals? No need to wait for this. It is right to act now to encourage direct investment in shares and improve London's international competitiveness.

(iii) Changes do nothing for people buying houses in £30,001 - £35,000 range? Less than 10 per cent of sales in this band.

(iv) Why no action on lease duty rates and thresholds? Lease duty needs complete recasting. No consensus in responses to Consultative Document and further consultation required.

(v) Duty should have been abolished? Too expensive.

(vi) Duty on shares should be cut to ½ per cent? (Stock Exchange proposal). Budget necessarily revenue neutral. Given other priorities, could not afford greater cut. 1 per cent cut restores competitiveness; major boost to trading.

(vii) Cuts will push up house prices? SD normally paid by purchaser - but there could be a marginal effect on prices, especially in conjunction with other Budget measures (see Brief G6D).

(viii) Why no action on Consultative Document? Need time to consider substantial response received.

Contact point: D G Draper (Inland Revenue) 2541-6646

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L2 CAPITAL GAINS TAX

(See also Inland Revenue press notice)

A. ANNUAL EXEMPT AMOUNT

Factual

(i) Increased in line with increase in RPI in 1983 (5.3 per cent) to £5,600 for individuals and £2,800 for most trusts. In accordance with statutory indexation requirement (Section 80 of Finance Act 1982).

(ii) Cost: nil in 1984-85; £15 million in a full year.

Positive

(i) Evidence of commitment to keep down burden of capital tax.

(ii) Exempts about 6,000 taxpayers who would otherwise come into CGT: resulting staff saving of 25 units (building up gradually from 1985-86).

Defensive

(i) Why increase already generous threshold? Some compensation for the limited application of indexation provisions to pre-1982 capital gains.

(ii) Why not simplify the tax instead? This is a most effective simplification - gains clearly below the exempt amount do not have to be calculated; and annual aggregate disposal proceeds less than twice exempt amount do not need to be returned.

B. INCREASE IN RETIREMENT RELIEF

Factual

(i) Maximum relief for those aged 65 or over increased from £50,000 to £100,000: proportionate increase in reduced measure of relief for those retiring between 60 and 65.

(ii) Originally introduced in 1983 Finance Bill, but not enacted because of General Election (see also Brief N3). Increase therefore takes effect from April 1983.

(iii) Cost: £4 million in 1984-85 (including some delayed costs from 1983-84): £10 million in a full year.

Positive

(i) Provides encouragement to business owners to reinvest profits in business rather than put them in eg pension scheme.

Defensive

(i) Retirement reliefs should be overhauled? Under consideration, with view to public consultation.

C. AMENDMENT TO MARKET VALUE RULES

Factual

(i) The CGT rules substituting market value of an asset for actual consideration are now to apply to acquisitions and disposals of assets from certain categories of taxpayer, broadly those who are not liable to CGT (eg overseas residents). Announcement of change made on 21 December 1983.

(ii) New rules apply after 6 April 1983, but old rules available for a further two years primarily for certain non-resident companies which could otherwise be disadvantaged.

(iii) Cost: negligible.

Positive

(i) Meets representations about the possible harsh effects of the revised "market value rules" introduced in Finance Act 1981.

(ii) Provides modest element of simplification in complex part of the tax code.

(iii) Recognition given to special position of non-resident companies trading in UK.

Defensive

(i) Will create new avoidance loophole? Defence against artificial devices countered by the 1981 legislation has been strengthened by eg Court decisions (Ramsay) and transfer of value provisions. Legislation can be simplified as a result. But new rules will be kept under review to monitor any unforseen exploitation.

D. EXEMPTION FOR HOUSING ASSOCIATIONS AND SELF-BUILD SOCIETIES IN NORTHERN IRELAND

Factual

(i) Provides exemption from tax on rental income from members and on gains when land sold to members, and provides deferral of CGT if land passed between associations.

(ii) Provides relief for Northern Ireland bodies comparable to those which have been available to similar GB bodies for a number of years.

(iii) Cost: Nil in 1984-85, negligible thereafter.

Positive

Will sustain widespread interest in and enthusiasm for housing associations and the self-build concept in a region of the UK where housing situation is particularly poor.

E. INDEXATION: AMENDMENTS TO PARALLEL POOLING PROVISIONS

Factual

(i) Two technical amendments - one entirely relieving - to the provisions introduced in Finance Act 1983 enabling companies to "pool" certain securities for purposes of calculating CGT indexation allowance.

(ii) Nil cost.

Positive and defensive

Need for these amendments was recognised last year but election intervened. Have been discussed and agreed with the Life Offices' Association.

F. REPEAL OF CGT RELIEF FOR TRANSFERS TO HERITAGE MAINTENANCE FUNDS

Factual

(i) This special relief for transfers to maintenance fund trustees has been largely superseded by the general rollover relief for gifts. Repeal allows the gifts relief to apply.

(ii) Cost: negligible in 1984-85 and a full year.

Positive

(i) Repeal urged by Historic Houses Association, to allow gifts to maintenance funds to be treated like other gifts.

(ii) Useful simplification of CGT code.

G. CAPITAL GAINS TAX: TRADED OPTIONS

Factual

(i) (a) Prior to 1980, all traded options were treated as wasting assets for CGT purposes, thus artificially increasing gains and minimising allowable losses. Also, option holders who abandoned their investments could not claim their loss as a deduction in computing tax.

(b) In 1980, traded options in shares on the Stock Exchange were exempted from this treatment; thus full acquisition cost was allowed in calculating loss or gain on disposal.

(c) Similar exemption is now to apply to new types of options on the Stock Exchange, and to options traded on London International Financial Futures Exchange.

(ii) Cost: difficult to estimate - without exemption new options would be unattractive and yield little tax - likely to be negligible.

Positive

Removes CGT penalty on option trading, allowing London markets to compete internationally in a fast expanding market.

Defensive

(i) Why give reliefs for speculation? Options fulfil useful economic function. Proposed new treatment does not remove options from tax, but applies the normal rules.

(ii) Why no figure for revenue effects in FSBR? See Factual (ii). For same reasons, no figure was given in 1980 FSBR when the original exemption for traded options in shares was made.

H. EXEMPTION FOR CERTAIN CORPORATE BONDS

See J7 - measures to assist corporate financing.

Contact points: J P B Bryce (Inland Revenue) 2541-7427
M J G Elliott (Inland Revenue) 2541-6334 (Heritage Maintenance Funds)

L3 CAPITAL TRANSFER TAX

[See also Inland Revenue press notice]

A. THRESHOLDS AND RATE BANDS

Factual

(i) Threshold and lower to middle rate bands, in accordance with statutory indexation, increased in line with RPI increase in 1983 - 5.3 per cent - both for transfers on death and during life. Minimum rate to apply at £64,000 in place of current £60,000.

(ii) For transfers on death, top three rate bands (75 per cent, 70 per cent and 65 per cent) to be abolished. New top rate of 60 per cent to apply for transfers over £285,000.

(iii) For lifetime transfers, rate scale to be half death rate scale throughout range. Thus top rate to be cut from 50 per cent to 30 per cent.

(iv) Changes to take effect for transfers on or after Budget Day.

(v)

Cost in £ million:	**1984-85**	**Full year**
Cost of indexation:	-16	-40
Cost above indexation:	-3	-9
Total costs:	-19	-49

(vi) CTT yield after changes estimated £680 million for 1984-85 (£610 million for 1983-84).

(vii) Staffing effects negligible.

Rate scales and table illustrating effects of changes at end of Brief.

Positive

(i) Tax thresholds now 40 per cent higher than 1978-79 in real terms.

(ii) Lowest top rate of death duty since 1940.

(iii) Reduced top rates ease burden on larger estates, which often include productive assets.

(iv) Reduced lifetime rates will encourage lifetime transfers; hence family businesses and farms can pass to younger hands.

(v) Change to top rates and lifetime scales meets widespread representations from business and agriculture interests.

(vi) No direct tax on people now levied at more than 60 per cent.

(vii) Lower burden of capital taxes encourages people to build up businesses and to work for the future.

Defensive

(i) Further tax cut for rich? Previous top rates absurd and confiscatory. Out of line with other countries' rates. Past attempts at redistributing wealth through penal taxation have stifled, not helped, wealth creation.

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(ii) Before Budget, top rates of CTT were, as a result of fiscal drag, biting much earlier than even Labour Government had intended in 1975. (Before Budget, 75 per cent rate started at £2.65 million; revalorised Labour Government top rate scale would have started at £5½ million.)

(iii) Why not raise rate-bands to restore their real value to 1975 levels? Would cost an extra £35 million. Thresholds now 40 per cent higher than 1978-79 in real terms.

(iv) Why not balance rate reductions with reductions in reliefs? Winners and losers do not match. Leaving nobody worse off as a result of reducing reliefs would be very expensive.

B. SETTLED PROPERTY: DISCRETIONARY TRUSTS

Factual

(i) Three technical points carried over from original 1983 Finance Bill. See Brief N3 and Treasury Press Notice. One new point, giving relief from tax on death for property left in discretionary trusts but redirected to charity within 2 years.

(ii) Cost/yield negligible for all changes.

Positive and Defensive

(i) Provisions intended to complete 1982 recasting of discretionary trust provisions. Fourth (new) point should encourage flow of funds to charity from discretionary trusts.

Contact point: Rates, thresholds, etc: C D Sullivan (Inland Revenue) 2541-6478
Discretionary trust provisions: M J G Elliott (Inland Revenue) 2541-6334

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L4 DEVELOPMENT LAND TAX (DLT)

(See also Inland Revenue press notice.)

Factual

(i) DLT annual exemption increased from £50,000 to £75,000. Cost £1 million for 1984-85 and £9 million in a full year.

(ii) Right to defer tax on development for the owner's use extended without time limit, and deferred tax extinguished after 12 years. Cost for 1984-85 £1 million and £4 million in a full year.

(iii) Amended rules relating to notification of disposals following deferment.

(iv) Housing Corporation and registered Housing Associations to be exempted from charge on deemed disposals. Cost for 1984-85 as for a full year, negligible.

Positive

(i) Some help for the construction industry and employment.

(ii) Increasing exemption reduces DLT assessments by a third, resulting in staff savings of 19 units by 1986.

(iii) If threshold had merely been indexed from its original (1976) level of £10,000, it would now be only £20,400.

(iv) Extending the deferment for an owner's own use, and extinguishing deferred liability after 12 years, will further industrial and commercial development.

(v) Cut-off for deferment liability will reduce uncertainty about future tax bills and simplify the system.

(vi) Exemption for Housing Corporation and registered Housing Associations will reduce administrative work at little cost.

Defensive

(i) Increase in annual exemption should have been bigger? The 1979 annual exemption increase was from £10,000 to £50,000 - well in excess of inflation and designed to give a stable base for some time. Further increase to £75,000 broadly equates with the effects of revalorisation (June 1979-December 1983 £78,000).

(ii) DLT should be abolished? No - it is right to keep a special tax on gains that result from the grant of planning consent, a value created by the community.

(iii) Why help Housing Associations? They provide low cost housing for less well off members of the community. They already had special treatment with the existing deferment provisions (Section 26 Development Land Tax 1976).

Measures carried over from 1983 - see Brief N3, and Treasury press notice.

(i) Extension of instalment period

(ii) Disposals by non-residents

(iii) Deferment of charge on deemed disposals. See Factual (ii) and Positive (iv).

Contact point: B K Lakhanpaul (Inland Revenue) 2541-7498

M1 EXCISE DUTIES AND VAT: MAIN POINTS

[See also Treasury and Customs and Excise press notices]

Factual

(i) Excise duties and VAT package reflects need to maintain real value of the excise duties, and to raise revenue to finance reduction in direct taxation within £7¼ billion PSBR.

(ii) Main excise duty changes as follows (approximate price effect, including VAT):

beer	+2p on a typical pint (11.1 per cent duty increase)
table wine	-18p a bottle (-19.9 per cent)
sherry	+10p a bottle (8 per cent)
spirits	+10p a bottle (1.9 per cent)
cider	+3p a pint (47.4 per cent)
cigarettes	+10p a packet of 20 (15.2 per cent)
petrol	+4½p a gallon (5.3 per cent)
derv	+3½p a gallon (4.8 per cent)
car licence	+£5 a year (5.9 per cent, see Brief M7)

VED revenue from goods vehicles increased broadly to maintain its real value, but duty reductions for many lighter lorries offset by increases for heavier lorries (see Brief M7).

(iii) No change in VAT rate (15 per cent), but following changes made to coverage of VAT (see Brief M2):

- hot take-away food and drink: taxed at 15 per cent from 1 May 1984
- alterations to buildings: taxed at 15 per cent from 1 June 1984.

(iv) Alteration in arrangements under which VAT is charged at importation. New arrangements, effective from 1 October 1984, require importers to pay VAT due at importation in the same way as customs duties (see Brief M3).

(v) VAT registration limit increased to £18,700 and deregistration limits also increased (see Brief M4).

(vi) 1p duty on kerosene (including paraffin used for home heating) abolished. No change in duty on heavy fuel oil or other rebated oils. Duties on aviation gasoline (AVGAS) and road fuel gas (LPG) remain at one half of that on petrol (see Brief M6).

(vii) No change in betting duty, pool betting duty, bingo duty or gaming machine licence duty, but duty rates for gaming licence duty adjusted as follows:

Gross gaming yield half year	**Rate of duty**
The first £375,000	2½%
The next £1,875,000	12½%
The next £2,250,000	25%
The remainder	33 $^{1}/3$%

(viii) No change in car tax.

(ix) Revenue yield as follows:

- excise duties £840 million in 1984-85, £865 million in full year;
- extending VAT base £375 million in 1984-85, £650 million in full year;
- changes in payment arrangements for VAT on imports, once and for all revenue yield in 1984-85 of £1,200 million.

(x) RPI impact effect of all changes of about ¾ per cent - included in RPI forecast published with Budget.

(xi) Excise duty and VAT changes likely to add about £200 million to business costs in 1984-85 and £300 million in a full year. More than offset by NIS abolition.

Positive

(i) Additional revenue necessary to provide acceptable PSBR: forwards aim of switching burden of taxes from earnings to spending, to improve incentives (see Brief G3).

(ii) Extension of VAT base consistent with need for broad tax base. Removes anomalies and confusing distinction between building repairs and improvements. VAT system still mildly progressive.

(iii) Withdrawal of postponed accounting for VAT on imports removes financial advantage current arrangements give to imports over home-produced goods.

(iv) Road fuel increases balance revenue need against effect on industry and rural motorists. Small widening of tax differential in favour of derv from 13p to 14p a gallon helps limit impact on business costs.

(v) Heavy fuel oil duty rate left unchanged for fourth successive year. Real duty burden reduced by a quarter since 1980, thus assisting industry with its energy costs.

(vi) Abolition of kerosene duty helpful to old age pensioners and others who depend on premium kerosene (domestic paraffin) for winter heating.

(vii) Real increase in tobacco duty desirable on health grounds.

(viii) Increase in spirits duty (less than revalorisation) recognises problems faced by the industry in recent years.

(ix) Adjustment to gaming licence duty provides relief for small casinos (some of which are in financial difficulties) and introduces a more realistic rate on large casinos.

(x) Increase in VAT registration limit will keep small traders out of VAT net.

Defensive

(i) EC pressure caused VAT base changes? Extension of VAT base not a response to pressure from EC Commission.

(ii) Will changes be made to other zero ratings? Government aware of importance of zero-rated items to families, and would be reluctant to place new and heavy burden on family budgets. But there can be no commitment to an indefinite freeze of VAT structure. Must be considered in the light of economic circumstances at the time.

(iii) VAT changes regressive? Not overall. [If pressed. Taxation of building alterations progressive, although taxation of take-away food regressive.]

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(iv) Change in VAT arrangements for imports will increase business costs? In cash flow terms importers will indeed have to find £1200 million extra in 1984-85. Some of this may come from adjustments in overseas suppliers' terms. Part will impose an interest burden. Nevertheless, looking at this "Budget for two years", business generally gains substantially in net terms.

(v) Why increase excise duties? Essential revenue need. Chancellor has carefully weighed revenue needs against price effects and EC requirements.

(vi) Excise duty and VAT changes will hit businesses? Increases in business costs resulting from increases in derv, VED and petrol broadly in line with inflation: no real increase. VAT changes will be borne largely by consumers, not companies.

(vii) Why bash the motorist again? Government not "anti-motorist". Increase in road fuel duties takes account of essential nature of transport in rural areas (petrol) and business and distribution costs (derv). Rounded £5 increase in VED on cars only marginally more than revalorisation.

(viii) Why have beer/tobacco been singled out for large increase? Increases in alcoholic drinks carefully differentiated between products to reflect a range of policy considerations. Increase on beer minimum necessary to comply with EC judgement whilst maintaining revenue. Real increase on tobacco justified on health and revenue grounds.

(ix) Why no reduction in betting duties? Representations from trade carefully considered, but no conclusive evidence that current problems not a result mainly of economic recession or that present rates of betting duty (both on and off-course) are unduly onerous.

(x) Why no reduction in car tax? Cost of abolition would be about £750 million in a full year, (including consequential VAT). Other Budget measures (eg NIS abolition) benefit car industry and demand looks to be buoyant for 1984.

(xi) Why no proposal for recovery by charities of VAT on their purchases? Scheme for relief would probably involve 100,000 charities. It would be indiscriminate in its effects and necessitate a substantial addition to Customs and Excise manpower. Relief for disabled and for charities serving them extended in previous Budgets, and this year (see Brief M5).

Contact point: D F O Battle (Customs and Excise) 2913-2113

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M2 VAT - EXTENSION OF THE TAX BASE

(See also Treasury and Customs and Excise press notices)

Factual

(i) Extends the scope of the 15 per cent standard rate of VAT to cover:-

- alterations to buildings (and to civil engineering works);
- hot take-away food (and hot take-away drinks).

(ii) Revenue yield:

	£m	
	1984-85	Full year
Building alterations	250	450
Hot take-away food	125	200
Total	375	650

(iii) Taxation of hot take-away food takes effect from 1 May. Introduction of taxation of building alterations delayed until 1 June to mitigate effect on pre-Budget contracts.

(iv) Extension of standard rate to building alterations also applies to erection of buildings such as sheds and garages in private gardens, and to certain fixtures in new buildings, but not to new buildings generally.

(v) Net effect of extending VAT register not thought to be very great, (but about 50,000 traders are expected to switch from repayment to payment).

(vi) RPI impact effect of about 0.1 per cent - included in Budget forecast.

(vii) Changes are overall not regressive. VAT system as a whole still mildly progressive.

Positive

(i) Extension of VAT base provides revenue towards financing income tax reductions; part of overall Budget strategy to switch taxes from earnings to expenditure.

(ii) VAT system still mildly progressive.

(iii) Extension of VAT base preferable to raising standard rate, which would have to go up to about 16 per cent to achieve same full year revenue yield.

(iv) Same VAT treatment for hot take-away food and drink as for other forms of catering.

(v) Taxation of building alterations removes the major source of confusion for traders (particularly between "repairs" and "alterations") and litigation in the practical operation of the tax.

(vi) Delay in introducing VAT on alterations mitigates effect of taxation on existing contracts.

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Defensive

(i) Changes forced by EC pressure? No - nothing whatsoever to do with EC. Items brought into standard rate are not on the whole those on which UK has been challenged by EC Commission: for example, Commission pressing for taxation of commercial property development. Sales of new buildings (commercial and domestic) remain zero-rated.

(ii) Extension of VAT base increases UK contribution to EC? Contributions reflect fixed base set out under EC Sixth VAT Directive: UK extensions do not increase our contributions.

(iii) Future of remaining zero-ratings? Government aware of importance of zero-rated items to families and would be reluctant to place new and heavy burdens on family budgets. But there can be no commitment to an indefinite freeze on VAT structure. Must be considered in light of economic circumstances at the time.

(iv) Taxing alterations will increase business costs? Alterations where VAT not deductible by customers only account for $^1/_8$th of construction industry output. Over three-quarters of construction industry output still either zero-rated or tax deductible by the purchaser.

(v) VAT on hot take-away food will hit poor/working mothers/single parents hard? Food generally, including convenience and other cold prepared food, remains zero-rated.

(vi) Continue relief for take-away fish and chips? Not possible to zero-rate fish and chips but tax other hot take-away food. Borderline would be impossible to control.

(vii) Could revenue be raised from other sources? To raise equivalent revenue from existing duties would require very large increases, eg 8p on a pint of beer, over and above the Budget increase of 2p. Increases at this level would be unsupportable.

(viii) Zero-rating should have been extended to building repairs and maintenance, not removed from alterations? Cost would be substantial (about £200 million a full year); would create difficult new borderline between repair and maintenance supplied by builders and materials supplied to consumers direct by DIY trade; and would erode what is designed to be a broad-based tax.

(ix) Builders will be driven into black economy? Change will not increase moonlighting. Work now taxable is on the whole done by bigger firms - harder to suppress in accounts. Greater incentive to fraud, admittedly, by removal of unclear borderline between alterations and repairs will make it easier for Customs to tackle.

(x) Practice in other EC countries? These items (building alterations and take-away food) are already subject to a positive rate of VAT in other EC countries. UK will retain extensive list of zero-rated items which - except in Ireland - are generally taxed at positive rates in other EC countries. (The attached table gives a simplified outline of the treatment in other EC countries of those items which are zero rated in the UK - because of necessary over simplification the information should be used with caution.)

(xi) Extension of VAT to civil engineering works will hit necessary improvements to infrastructure? Largely technical change. Not many alterations to civil engineering works: most done for companies who would be able to recover VAT.

Contact point: P Smith (Customs & Excise) 2913-2321

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VAT RATES IN THE EC ON GOODS AND SERVICES ZERO-RATED IN THE UK

COUNTRY (1)	BELGIUM	DENMARK	FRANCE	W GERMANY	IRELAND	ITALY	LUXEMBOURG	NETHERLANDS
Standard rate:	19%	22%	18.6%	14%	35%	18%	12%	19%
Group 1 Food	6% (2)	22%	7%,5.5% (3)	7% (2)	0%	2%, 8%, (4) 10%, 15%	3%, 6% (3)	5% (2)
Group 2 Sewerage services	19% (5)	Exempt	7% (5)	14% (5)	23% (5)	2% (5)	6% (5)	19% (5)
Water	6%	Exempt	5.5%	7%	0%	10%	6%	5%
Group 3 Books	6%	22%	7%	7%	0%	2%	6%	5%
Group 4 Talking books for the Blind	NO INFORMATION AVAILABLE							
Group 7 Fuel and Power	6%	22% (6)	18.6%	14%	5% (7)	8%	6%	19%
Group 8 (8) Construction of Buildings	17%	22%	18.6%	Exempt	5%	(9) 2%,10%,18%	12%	19%
Group 9 International Services	SIMILAR RULES APPLY IN EACH MEMBER STATE, ALLOWING FOR EXEMPTION WITH CREDIT FOR TAX PREVIOUSLY PAID							
Group 10 Transport (internal) (10)	6%	Exempt	7%	7% (11)	Exempt	Exempt (11)	6%	5%
Group 11 Caravans and Houseboats	25%	22%	18.6%	14%	35%	18%	12%	19%
Group 12 Gold (12)	0%	Exempt	Exempt	0%	0%	Exempt	0%	0%
Group 13 Banknotes (13)	Exempt	Exempt	Exempt	Exempt	Exempt	0%	Exempt	Exempt
Group 14 Drugs (Excluding prescription charges)	6%	22%	7%	14%	0%	8%	6%	5%
Aids for the disabled	6%	22%	18.6%	7%	0%	2%	6%	5%
Group 15 Imports/Exports	TECHNICAL ZERO-RATING UNDER THE EC SIXTH DIRECTIVE							
Group 16 Charities	NO MEMBER STATE EXEMPTS OR ZERO-RATES SUPPLIES BY CHARITIES GENERALLY, BUT MOST DO PROVIDE FOR SUPPLIES BY VARIOUS TYPES OF CHARITABLE, NON-PROFIT MAKING ORGANISATIONS TO BE EXEMPTED							

NOTES

1. Greece has not yet introduced a VAT.

2. Apart from certain 'luxury' foods

3. Lower rate applies to more basic foods

4. 2% rate applies to agricultural and fish products; higher rates to less essential foods

5. In most cases exempted when supplied by Public Authorities

6. Exempt if supplied to rented property

7. Except electricity (zero-rated)

8. In every state except the UK the same rate applies to both new construction and maintenance/repairs

9. 2% - public residential buildings,
10% - low-priced dwellings; 18% - others

10. These rates are for the transport of passengers and not goods

11. But standard-rated if over a distance of more than 50kms

12. These rates are for gold supplied to central Banks or authorised dealers - otherwise taxable at positive rate

13. Legal tender, excluding collectors' items which are taxable at positive rate

M3 VAT ON IMPORTS

(See also Customs and Excise press notice)

Factual

(i) VAT on imports to be charged earlier - payment arrangements brought in line with customs duties from 1 October 1984. Change is once-for-all bringing forward of tax payments that already have to be made.

(ii) VAT registered traders to be required to pay VAT due on imports either

- at the time and place of entry, or
- by direct debit (covered by bankers' guarantee) on the 15th of the following month (that is, on average one month after the goods have come into the country - current system allows average of 2½ months before payment is due).

(iii) VAT on imports can be offset against VAT due on next VAT return (financing period average 2½ months after time of import for importers paying at time of entry, average of 1½ months for importers using direct debit arrangements).

(iv) About 50,000 regular importers directly affected.

(v) Imports by non-VAT registered traders not affected by changes (VAT still payable at time of importation).

(vi) Detailed arrangements will be discussed between Customs and trade interests before the change.

Positive

(i) Brings forward the date when VAT due on imports by an average 1½ months - once-for-all PSBR gain in 1984-85 of the order of £1,200 million; ongoing financing gain to Exchequer equivalent to about £120 million a year at current interest rates. Helps to finance reductions in personal taxation and reform of company taxation (see Brief G1).

(ii) Follows representations from sectors of British manufacturing industry about discriminatory effect of present system in favour of imports.

(iii) Change not against EC rules; postponed accounting not used by our major EC competitors France, Germany and Italy.

(iv) Removes discrimination in favour of importers. No reason why importers should get VAT credit from Government while purchases from domestic suppliers must be at VAT-inclusive prices. Leaves UK producers on more equal competitive footing.

(v) UK will reintroduce postponed accounting if other EC countries agree on it as basis for harmonisation.

Defensive

(i) What effect on importers? Importers' cash flow will suffer by one-off £1200 million though adjustments in suppliers' terms may mitigate this. Nevertheless, business as a whole gains considerable net benefit from this "Budget for two years" looking at 1984-85 and 1985-86 together (see Brief G6).

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M3 (Cont.)

(ii) Why not exempt raw materials? Would involve difficult definitions and problems with borderlines, increased manpower requirements and congestion at ports.

(iii) Change will cause "Brenner Pass" blockade at Dover? Charging VAT at import will increase potential for congestion at some ports where pressure is already heavy on port facilities, but most importers will not have to pay VAT on the spot: it will be deferrable in the same way as customs duties. There will be six months (until 1 October) for transport and importing interests to prepare and discuss problems with Customs to iron out potential difficulties.

(iv) Change damages prospects for EC harmonisation? EC Commission's attempts to get agreement on general introduction of postponed accounting have made little headway. Ireland abandoned postponed accounting in 1982 and only partially restored it in 1983; some other EC partners have never operated it. UK will reintroduce postponed accounting if all Member States agree to adopt it.

(v) Is change cost-effective? An additional 100 Customs staff required, but cost of this only just over 1p in the £ in relation to ongoing financing gain to Exchequer of £120 million a year.

(vi) More administrative burdens for importers? Increased compliance costs for importers inevitable, (but justified in terms of overall gains from Budget measures). But for most importers payment of VAT will be deferrable for average of 4 weeks in same way as customs duties.

Contact point: P Smith (Customs and Excise) 2913-2321

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M4 VAT REGISTRATION AND DEREGISTRATION THRESHOLDS

(See also Customs and Excise press notice)

Factual

(i) Changes in VAT registration and deregistration thresholds as follows:

(a) Registration threshold (below which small traders are not obliged to register) raised from £18,000 to £18,700 a year. Previous quarterly limit of £6,000 taxable turnover raised to £6,200.

(b) Deregistration threshold for voluntary deregistration of small traders revised from £18,000 to £18,700 (where past turnover is concerned) and from £17,000 to £17,700 (where estimated future turnover is concerned).

(ii) Registration limits change effective midnight Budget day. Deregistration limits change effective from 1 June.

(iii) Revenue cost negligible.

Positive

(i) Increases helpful to small businesses. Provides about 40,000 traders with opportunity to deregister if they wish. Helps to keep new businesses out of VAT net as long as possible.

(ii) Thresholds increased for fifth successive year.

(iii) Helps to keep down level of Customs and Excise manpower (see Brief N1).

Defensive

(i) Why not a bigger increase in the threshold? Scope for increases in registration threshold limited by EC Sixth VAT Directive. Increase proposed is maximum permitted on most favourable interpretation of Directive which only allows increases in line with inflation since introduction of tax. (Note: EC Commission interpretation of Directive - increases must be limited to inflation since January 1978 or 1979 - not acceptable to UK Government).

(ii) Why is change in deregistration limit not effective immediately? Delay in implementation of change in deregistration limits necessary for administrative reasons and follows the usual practice.

(iii) Why not abolish VAT between registered traders (recommendation of National Federation of Self-Employed)? Studied previously by working party including trade representatives. Working party recommended against this change. Would mean increased burden for retail sector and increased opportunities for evasion. Considerable efforts made to reduce compliance burden on traders, through simplified VAT return forms and special schemes for retailers.

Contact point: P Smith (Customs and Excise) 2913-2321

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M5 VAT AND CAR TAX RELIEFS FOR THE DISABLED AND VAT RELIEF FOR THE ROYAL NATIONAL LIFEBOAT INSTITUTION (RNLI)

(See also Customs and Excise press notice)

Factual

(i) Existing VAT relief (zero rating) for "personal ambulances" extended to cover vehicles designed or adapted for carrying a handicapped person in a wheelchair or on a stretcher. (Relief dispenses with former restriction that there should be no seats to the rear of the driver to qualify for zero rating.)

(ii) New car tax relief introduced covering same vehicles as the VAT relief.

(iii) VAT relief for lifeboats extended to lifeboat carriage and launching equipment supplied to the RNLI.

(iv) VAT and car tax relief for motor vehicles effective from 1 May 1984. Extension of relief for RNLI will take effect from an early date to be agreed.

(v) Revenue cost negligible in both 1984-85 and full year.

Positive

(i) Changes small, but nevertheless a useful tidying up of anomalies (aligning VAT and car tax reliefs) and will be of significant benefit to the disabled and the RNLI.

(ii) VAT reliefs for the disabled and charities serving them also extended in 1981 and 1982.

Defensive

(i) Why not wider reliefs for the disabled? Not possible to extend VAT, car tax and VED reliefs to all cars used by disabled people. Such reliefs would be very costly and also open to considerable abuse.

(ii) Full VAT relief for charities? Not possible to provide for recovery by charities of VAT on their non business purchases. A scheme of relief would probably involve at least 100,000 charities. It would be indiscriminate in its effects, require substantial addition to Customs and Excise manpower, involve a high revenue cost (£40 million - £100 million for total relief) and have adverse repercussive effects.

Contact point: P Smith (Customs and Excise) 2913-2321

M6 PETROL, DERV AND OTHER HYDROCARBON OILS

(See also Customs and Excise press notice, particularly for details of new duty rates.)

Factual

(i) Taxation (duty plus 15 per cent VAT) increased as follows:

- Petrol: up by about 4½p a gallon (1p a litre)
- Derv: up by about 3½p a gallon (under 0.8p a litre)
- AVGAS: (aviation gasoline) and LPG (road fuel gas): up by just over 2p a gallon (about 0.5p a litre); duty remains half rate on petrol.
- Heavy fuel oil: unchanged (remains 3½p a gallon or slightly less than 0.8p a litre, equivalent to about £8 a tonne)
- Other rebated oils: 1p duty on premium and standard kerosene (paraffin for home heating) abolished. Duty on gas oil and AVTUR (aviation turbine fuel) remains at 3½p a gallon.

(ii) Duty increases in percentage terms about 5.3 per cent (petrol) and 4.8 per cent (derv).

(iii) All changes apply to fuel delivered from refineries and bonded warehouses from 1800 hours on 13 March.

(iv) Duty differential (including VAT) favouring derv over petrol (introduced July 1981) widened slightly from 13p to 14p, a small increase in real terms.

(v) Annual petrol bill of typical private motorist (driving 7,500 miles a year and averaging 30 m.p.g) will increase by just over £11. For typical rural motorist (driving 9,500 miles a year at an average 35 m.p.g) petrol bill up by just over £12. (Also £5 increase in VED in each case: see Brief M7).

(vi) Revenue Yield: £265 million in 1984-85 and same in full year, of which petrol yield £225 million and derv £45 million, offset by abolition of duty on paraffin which costs £5 million.

(viii) RPI impact effect: about 0.1 per cent all from petrol increase (Derv effect nil as not bought by households). Included in Budget forecast.

Positive

(i) Increase in revenue, to maintain real value.

(ii) Small widening of duty differential in favour of derv helps to limit impact on business and distribution costs.

(iii) Effect of petrol duty change is not regressive.

(iv) Absence of increase for heavy fuel oil means continuing fall in real duty burden on industrial users which assists with their energy costs. Real duty burden now about 25 per cent less than after 1980 Budget when last increased.

(v) The abolition of the 1p per gallon duty on domestic paraffin will give some benefit to old age pensioners who may depend on it for winter heating. (Note: 1p small in comparison with price of a gallon of paraffin of £1.40, users of certain "oil-fired" central heating systems will also benefit.)

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M6 (Cont.)

Defensive

(i) Increases too high? Not sensible to do less than 4½p on petrol and 3½p on derv given presumption of revalorisation and continuing need for energy conservation.

(ii) Motorists hit again? Petrol increase does little more than replace recent 4p reduction by oil companies.

(iii) This Government has been hard on petrol and derv? Real value of petrol and derv duties roughly maintained at post-Budget 1983 level. Total tax burden (duty plus VAT) on petrol remains in real terms below both January 1975 Labour Government peak and June 1970 level. Real value of derv duty well below June 1970 level.

(iv) UK prices high compared with other EC countries? Budget increase will still leave UK petrol price third lowest in EC after Luxembourg and Germany (see attached table).

(v) Effects on business? Increase in business costs thinly spread over wide range of commercial activities. Careful balance achieved between minimising effect on business costs and movement towards transport policy objective where each class of lorry at least covers its road costs through its tax contribution.

(vi) Relief for rural motorists? Prices stabilised in 1983 and the oil companies' withdrawal of selective price support for urban garages means that the differences between urban and rural prices are no longer so marked. No practical means of giving duty relief to rural motorists only.

(vii) Impact of petrol/derv differential? Small widening of differential in favour of derv should not harm UK motor manufacturing industry (which makes few diesel cars).

(viii) Abolish heavy fuel oil duty? Abolition or reduction of duty would add more to PSBR than industry would receive in benefit because of effects on price of certain gas supply contracts. More cost effective therefore to give industry direct help by other means. (Questions about the gas supply contracts: refer to Department of Energy.)

(ix) Why benefit rich people with central heating systems? For technical reasons not feasible to abolish duty on premium kerosene (domestic paraffin) without also abolishing that on standard kerosene (standard burning oil or vaporising oil).

(x) Duty changes mean increased bus fares? Grant to operators of stage bus services remains at 100 per cent. Should be no increase in bus fares as a result of duty increases.

Contact point: P Smith (Customs and Excise) 2913-2321

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M6 (Cont.)

EXCISE DUTY AND VAT ON PREMIUM PETROL AND DERV IN THE EC(1) - 20 February 1984

		Factor Cost(2)	Duty	VAT(3)(4)	RSP	Tax as % of RSP	Effective Price To Business Users
(i)	**Premium Petrol**						
	BELGIUM	86	64	38	188	54	169
	DENMARK	92	75	37	204	55	204
	FRANCE	85	75	30	190	55	190
	GERMANY	81	60	20	161	50	141
	IRELAND	100	86	43	229	56	229
	ITALY	85	120	41	246	65	246
	LUXEMBOURG	84	48	16	148	43	132
	NETHERLANDS	81	75	30	186	56	156
	UK Pre-Budget	82	74	23.50	179.50	54	156
	Post-Budget	82	78	24	184.0	55	160
(ii)	**Derv**						
	BELGIUM	83	30	28	141	41	127
	DENMARK	91	13 (5)	23	127	28	127
	FRANCE	85	40	23	148	43	141
	GERMANY	83	52	19	154	46	135
	IRELAND	100	62	37	199	50	162
	ITALY	84	20 (5)	16	120	30	120
	LUXEMBOURG	85	16 (5)	12	113	25	101
	NETHERLANDS	85	21 (5)	20	126	33	106
	UK Pre-Budget	84.50	63	22	169.50	50	147.50 (6)
	Post-Budget	84.50	66	22.50	173.0	51	150.50

(1) Excluding Greece, for which insufficient information is available.

(2) Maximum in the case of Belgium, otherwise average.

(3) VAT on petrol deductible by most business users, but fully blocked in Denmark, France, Ireland and Italy; and 50% blocked in Belgium.

(4) VAT on DERV fully blocked in Denmark and Italy, 70 per cent blocked in France and 50 per cent blocked in Belgium.

(5) The duty on DERV is low, but higher duties (VED) apply to diesel-powered vehicles than to petrol-driven ones.

(6) Pump prices. Most UK business users buy DERV under contract at up to 15p a gallon less. Information on similar practices in the rest of the EC is not available.

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M7 VEHICLE EXCISE DUTY

(See also Department of Transport press notice)

Factual

(i) With effect for licences taken out on or after 14 March:

- annual rate on cars and light vans (not exceeding 1½ tons) up £5 to £90 (5.9 per cent);
- 9 to 13 per cent reduction in rates on lightest lorries (about 277,000 vehicles affected);
- no duty increase for lorries of 12-13 tonnes weight (about 24,000 vehicles);
- 7 to 9 per cent increase in duty for some heavier lorries (about 150,000 vehicles affected);
- rates on most other vehicles increased roughly in line with last year's increase in prices.

(ii) RPI impact effect of VED changes: negligible (about 0.05 per cent, included in Budget forecast).

(iii) Revenue yield: £110 million in 1984-85 and in full year (£90 million cars/light vans; £20 million heavy lorries, buses, coaches, motorcycles, haulage vehicles etc).

(iv) Increase in revenue from lorries broadly maintains its value in real terms.

(v) Rates on certain haulage vehicles in N Ireland increased to align them with rates on similar vehicles in GB.

(vi) Most tax bands for heavy lorries changed from 1 tonne to 2 tonne bands to simplify the structure.

(vii) Concessionary rate of VED (£60) extended to all pre-1947 cars (about 10,000 vehicles).

(viii) VED exemption extended (retrospectively) to recipients of War Pensioners Mobility Supplement (about 11,000 pensioners).

Positive

(i) Additional revenue. Helps provide acceptable PSBR.

(ii) Lorries as a whole continue to pay more in tax than their allocated road costs. Margin of taxation (VED and fuel duty) over track costs rises from £30 million in 1983-84 to £160 million in 1984-85.

(iii) VED burden on lightest least damaging lorries reduced by 9 to 13 per cent (about 55 per cent of lorry population will benefit). Second reduction in successive years.

(iv) No increase on lorries of 12 to 13 tonnes weight.

(v) Impact of VED increases greatest on some heavier lorries reflecting Government policy that all classes of vehicles should at least cover their road costs, and the Armitage Report recommendation that any excess of taxation over road costs should be taken mainly from the heaviest lorries since in general these create more environmental problems.

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(vi) Tax structure simplified by changing from 1 tonne to 2 tonne tax bands - less pressure on manufacturers to produce numerous models simply on account of tax differentials; and by aligning rates on haulage vehicles in N Ireland and GB.

(vii) Existing exemption for disabled drivers extended retrospectively to recipients of War Pensioners Mobility Supplement (see also Inland Revenue press notice for capital allowances relief); exemption of electric vehicles maintained.

(viii) Concessionary (£60) rate for pre-1947 small horsepower cars extended to all pre-1947 cars (about 10,000 cars will benefit) - removes an anomaly left by previous VED structure.

(ix) Farmers', showmen's vehicles etc continue to be given concessionary rates.

Defensive

(i) Government anti-motorist? Allowing for rounding, £5 (5.9 per cent) increase on cars/light vans only broadly compensates for past year's inflation: duty still lower in real terms than level set by previous Labour Government in 1975; if duty had been increased in line with inflation since 1977 (the last time the Labour Government increased the rate (to £50)), it would now stand at about £96.

(ii) Lorries hit again? Increase in revenue from lorries does no more than maintain its real value. Only about 30 per cent of lorries (150,000 vehicles) suffer increases in duty greater than that needed to adjust for last year's change in prices.

(iii) Effects on business costs? Increases in VED add about £50 million to business costs in 1984-85 (a minimal addition to total costs). Increases in motoring taxes add about 0.5 per cent to total road freight operating costs. Overall real burden on industry not increased.

(iv) Why have some lorries suffered very large increases? Some large increases in duty for a small number of lorries needed in order to achieve simplification of tax structure (2 tonne tax bands). (About 7,000 lorries affected - only 1.4 per cent of total lorry fleet.) Proposal fully aired in Department of Transport consultation exercise at end of 1983.

(v) Why change taxation of N. Ireland haulage vehicles? Previous 10 per cent rate differential in favour of these vehicles removed because no justification for such favourable treatment. (Only 70 vehicles affected.) Proposal fully aired in Department of Transport consultation exercise at end of 1983.

(vi) Why not abolish VED? Government fully aware of problem of VED evasion (possibly up to £170 million a year). Arguments both for and against abolishing VED and collecting revenue through increased petrol taxation (31p extra a gallon), eg adverse effect on essential high mileage business users. Evasion being countered by increased enforcement effort and "blitz" campaigns in selected areas. Number of prosecutions in 1983 some 50 per cent higher than in 1982.

(vii) Lorries still not paying enough? Social and environmental costs are partly taken into account in calculating road track costs since roads expenditure includes measures taken to deal with these problems. Any remaining costs cannot be quantified, but are reflected in the £160 million margin which lorries pay in taxation in excess of road costs.

(viii) Why was 1983 Budget estimate of VED revenue so low? FSBR (Table 6.8) contains an error (£1850 million). Correct figure for 1983-84 estimate is £1940 million.

Contact point: I Walton (FP2) 233-5237

M8 ALCOHOLIC DRINKS DUTIES

(See also Customs and Excise press notice, particularly for details of new duty rates)

Factual

(i) Taxation (duty plus 15 per cent VAT) increased as follows:

- Beer : by about 2p per pint of average strength
- Spirits : by about 10p a bottle of whisky
- Cider : by about 3p per pint
- Sherry and port : by about 10p a 75cl bottle
- Sparkling wine : by about 10p a 75cl bottle
  Surcharge on sparkling wine replaced by new duty rate

(ii) Taxation of table wine reduced by about 18p a 70cl bottle (duty plus 15 per cent VAT).

(iii) Taxation of made-wine (wine produced in the UK from imported grape juice) aligned with that of wine.

(iv) All duty changes effective on clearances from midnight Budget Day.

(v) Total net revenue yield from duty changes on all alcoholic drinks: £140 million in 1984-85 and £145 million in a full year. Full year revenue yield made up as follows (£ million):

Beer	+180
Wine/made wine	-60
Spirits	+10
Cider and perry	+15
	145

(vi) RPI impact effect: less than 0.1 per cent, included in Budget forecast.

(vii) Duty changes in percentage terms:

+ 11.1 per cent on beer
- 19.9 per cent on wine
+ 8 per cent on sherry
+ 6.8 per cent on port
+ 47.4 per cent on cider
+ 1.9 per cent on spirits

Positive

(i) Package provides overall additional revenue needed for revalorisation of drinks duties whilst complying fully with European Court judgement on wine and beer.

(ii) Reduction in wine duty produces wine/beer duty ratio of 2.98:1 necessary to comply with European Court judgement.

(iii) Alignment of made-wine duty with wine duty complies with EC requirements (Commission has started infraction proceedings against UK, alleging discrimination against imported wine in favour of UK produced made-wine).

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(iv) Increase on spirits low in recognition of problems suffered by spirits industry in recent years. Nevertheless, not appropriate to let duty fall too much in real terms.

Defensive

(i) Why has beer suffered such a large increase? Increase on beer minimum necessary to comply with EC judgement whilst maintaining revenue. Other alternatives for complying with judgement could have involved as much as 7p per pint increase on beer. Total tax in price low compared to most other drinks and less than it was in 1970. Only drinks candidate for producing significant additional revenue. Increase raises £180 million. (Fall in consumption in recent years mainly due to depth of recession rather than duty increases.)

(ii) Why not phased implementation of wine/beer judgement? Phasing over two Budgets not appropriate. Phasing would be open to legal action by UK wine importers as being contrary to European Communities Act 1972.

(iii) Why has this Government been so hard on beer? [Wyman-Harris Research figures suggest Budget increase will mean price of beer doubled under Conservatives (Times 23.2.84)]. But typical prices published annually by Customs and Excise suggest price has risen from 36p a pint prior to 1979 Budget to 65p a pint post-1984 Budget. Price more than doubled from 16p to 36p under 1974-79 Labour Government.

(iv) Beer/wine changes favour better off? No escaping need to adjust relative levels of duty on beer and wine and Government has struck a balance which will not hit the price of beer as much as some alternative solutions.

(v) Why increases for fortified and sparkling wine? Tax on fortified wine and sparkling wine not affected by EC decision. Wine/beer judgement applies only to light table wines, not to fortified or sparkling wines. Fair to recoup some revenue lost from table wine from fortified and sparkling wines.

(vi) Damage to British wine industry? Alignment of made-wine duty to wine duty not detrimental to British wine industry. Over 80 per cent of made-wine clearances are of less than 15 per cent alcoholic strength, on which duty has been reduced.

(vii) Damage to cider industry? Large percentage increase on cider justified in context of increased consumption (in contrast to beer). Increase still leaves cider duty at about 48 per cent of beer duty on average strength (most cider slightly stronger than average strength beer). Cider increasingly competing with beer and increase provides reasonable balance between revenue needs and the interests of the industry.

(viii) Why not get more revenue from home beer and wine kits? Not significant in terms of overall beer and wine consumption. No practical ways of taxing home brewing. Duty on kits could be avoided by buying ingredients separately. Duty on ingredients would mean taxing goods which are used for purposes other than beer making. Kits are liable to VAT.

(ix) Effect on health? Overall package should be "alcohol neutral" in health terms. Estimate that package will leave total alcohol consumption unchanged.

(x) Budget revenue estimates too low? Comparison of 1983-84 estimated outturn with 1984-85 Budget forecast misleading. 1983-84 outturn inflated by the introduction of duty deferment in February 1983 which is thought to have increased 1983-84 receipts by about £275 million.

Contact point: D F O Battle (Customs and Excise) 2913 2113

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M8 (Cont.)

EXCISE DUTIES ON BEER, WINE AND WHISKY IN EC COUNTRIES AT 24 FEBRUARY 1984

	BEER(1) at 3.5% alcohol by volume 1038° OG (pence per pint)	TABLE WINE not exceeding 12% alcohol by volume (pence per 70cl bottle)	FORTIFIED WINE at 18% alcohol by volume (pence per 75cl bottle)	WHISKY at 40% alcohol by volume (pence per 75cl bottle)
Belgium	2	11	23	213
Denmark	16	53	105	(552) (2)
France	½	1	77	192 (3)
Germany	2	0	89	197
Greece	8	0	0	10
Ireland	28	109	161	557
Italy	5	0	5	52
Luxembourg	1	6	17	143
Netherlands	5	13	26	218
UK Pre-Budget	15 ½	79	109	456
Post-Budget	17	63	118	464

Notes:
1. Some figures for beer are approximate
2. The duty on spirits in Denmark consists of a specific element (£8.92 per litre of pure alcohol) and an ad valorem element (37.5 per cent of the taxable value)
3. Plus "health levy" on alcoholic drinks over 25 per cent alcohol by volume of £0.67 for a 75cl bottle.

M9 TOBACCO PRODUCTS DUTY

(See also Customs and Excise press notices, particularly for details of new duty rates)

Factual

(i) Taxation of cigarettes (duty plus 15 per cent VAT) increased by 10p on a packet of 20. Specific rate of duty on cigarettes raised by 15.2 per cent.

(ii) Increase (duty plus 15 per cent VAT) on other tobacco products equivalent to about 6p on 5 whiffs and 15p on a 25 gram pack of hand-rolling tobacco. Increase in duty on minor products in percentage terms: cigars 15.1 per cent, hand-rolling tobacco 14.1 per cent. No increase on pipe tobacco.

(iii) All duty increases effective on goods cleared from midnight 15-16 March 1984.

(iv) Revenue yield: £330 million in 1984-85 and £340 million in a full year.

(v) RPI impact effect: about 0.4 per cent, included in Budget forecast.

Positive

(i) Increase in revenue necessary in context of overall Budget strategy - eg to help make room for income tax cuts.

(ii) Strong health arguments for real duty increases - Royal College of Physicians recent "Health or Smoking?" report recommended steady annual tax increases above rate of inflation. Real tax level restored to 1965 value, when health risks first made public.

(iii) As in 1983, no increase in duty on pipe tobacco. Pipe tobacco used proportionately more by the elderly.

Defensive

(i) Why increase tax on cigarettes more than revalorisation? Strong health reasons for real increase.

(ii) Burden falls more heavily on less well-off? Impact on less well-off (duty is regressive) does not justify excusing smokers from appropriate share of increases. Regressivity is reduced by nil increase for pipe tobacco.

(iii) Increased taxation causing decline in smoking? 1983 a good year for tobacco companies. But tobacco consumption is declining owing to long-term trend against smoking. Overall demand for tobacco products has fallen gradually since its peak in 1973. Duty increase will make some contribution to decline.

(iv) Taxation has damaged employment in tobacco industry? Employment falling steadily over time due to long-term trend and increased automation. Now estimated at between 25,000 and 30,000. Almost 3,000 job losses over the next 12 months recently announced reflect these trends. No increase for pipe tobacco helps employment in Liverpool and Northern Ireland, where much of this product is processed.

(v) Cigars being treated harshly? The burden of duty and tax on cigars substantially lower as a proportion of the retail selling price (around 50 per cent) than that on cigarettes (about 75 per cent post-Budget). The health risk from inhalation of cigar smoke is also no less than that from cigarettes.

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(vi) UK out of line with other EC countries? Total tax burden (duty plus VAT) on cigarettes as a proportion of retail selling price is about average for the EC (see table below).

(vii) Why are changes not made immediately on Budget day? Some delay in implementation normal to meet manufacturers' planning needs - the "ad valorem" component of the duty on cigarettes has to be levied by reference to the new retail price, and time is needed to reprogramme computer-based documentation systems.

(viii) Should not the additional £340 million from tobacco duties be spent on the NHS? Such an increase in public spending would require a further increase in either Government borrowing or taxation. Plans for the NHS were announced in last month's public expenditure White Paper and they amount to a total increase of some £2½ billion on the NHS over the next 3 years.

(ix) Special treatment of pipe tobacco justified? Smoked proportionately more by the elderly and production concentrated in areas of high unemployment (Northern Ireland and Liverpool).

EXCISE DUTY AND VAT ON CIGARETTES IN THE MOST POPULAR PRICE CATEGORY - 24 February 1984

	Specific Duty £ per 1,000	**Ad Valorem Duty (%)**		**VAT (%)**	**Total Tax as % of RSP**
Belgium	1.03	61.41		6	70
Denmark	35.56	21.68		22	87
France	(a)	50.50 10.00	(excise duty) (health levy)	33 1/3	85
Germany	14.06	31.50		14	73
Greece	0.77	50.16		-(b)	56
Ireland	23.38	15.39		23	76
Italy	0.22	54.79		20	72
Luxembourg	0.77	57.55		6	66
Netherlands	6.75	39.52		19	74
UK Pre-Budget	21.67	21.00		15	72
Post-Budget	24.97	21.00		15	75

(a) The ad valorem rates shown are the legal rates. Both taxes are however deemed to include specific elements equivalent to £0.76 (excise duty) and £0.09 (health levy)

(b) Greece has not yet introduced VAT

Contact point: P Smith (Customs and Excise) 2913-2321

N1 STAFFING IMPLICATIONS

A. GENERAL

(i) 1984-85. Effect of Budget (increased staff requirement of order of 180) will be absorbed within the manpower ceiling for the Chancellor's departments as a whole.

(ii) Later years. Budget makes substantial saving. Effect on manpower targets will be considered during Public Expenditure Survey (PES) 1984.

Contact point: J H Reed (FP) 233-5757

B. INLAND REVENUE

Factual

(i) The effects of the Budget on numbers of permanent staff are:

	1984-85	**1985-86**
1. Increases in income tax thresholds including higher rates:	-80	+30
(a) These figures show the combined effects on existing Inland Revenue manpower numbers of forecast changes in taxpayer numbers and the Budget measures.		
(b) If the 1983-84 tax regime had continued unchanged, Inland Revenue numbers would have needed to increase by 120 in 1984-85 and 555 in 1985-86 because of extra taxpayers: so as compared with no change in tax threholds, the manpower need is down by 200 (1984-85) and 525 (1985-86).		
(c) With statutory indexation, Inland Revenue numbers would have needed to increase by 5 in 1984-85 and 225 in 1985-86 - ie the Budget proposals need 85 fewer staff in 1984-85 and 195 fewer in 1985-86 than would have been required with statutory indexation.		
2. Abolition of IIS	Nil	-120
In 1986-87 and later years there will be a saving of 230.		
3. Share options	+10	+10

	1984-85	1985-86
4. Foreign earnings	Nil	Nil
Saving of 45 by 1987-88. Some temporary increases in 1984-85		
5. Foreign emoluments	Nil	Nil
Ultimate saving of 90, of which 70 by 1987-88. Some temporary increases in 1984-85 and 1985-86.		
6. Composite rate	Nil	- around 850
Temporary extra staff resources will be required to implement composite rate (perhaps 325 man-years in 1984-85 and 450 in 1985-86) but these should have little effect on end of year manpower numbers.		
7. DLT	Nil	-10
Ultimate saving will be 20.		
8. Capital allowances/stock relief	Nil	Nil
Saving of 45 by 1987-88		
9. Other minor changes which can be costed	+100	+90
Total	+30	-850

(ii) On the assumption that future Budgets up to April 1988 are staff neutral, the 1984 Budget is estimated to save 1,130 staff by April 1988. This will contribute in full to the existing 1988 manpower target.

(iii) After the Budget measures Inland Revenue numbers will increase by 30 in 1984-85 but reduce by 850 in 1985-86. These figures exclude temporary extra staff requirements in 1984-85 and 1985-86, mostly for introducing composite rate. Existing manpower targets for 1984-85 will be unchanged. Future targets for consideration during PES.

Positive

(i) This Budget saves around 1,100 staff in longer-term.

(ii) Inland Revenue manpower has come down by nearly 15,000 since Government took office and is scheduled to reduce by a further 7,000 by April 1988.

Defensive

(i) Income tax threshold changes have little effect? But for the Budget, Revenue numbers would have needed to increase by 200 in 1984-85, 555 in a full year, to cope with the extra 600,000 people who would have been brought into tax if the tax thresholds had been left unchanged. Statutory indexation alone would also have resulted in increased numbers of taxpayers in 1984-85, and required 225 more staff in a full year.

(ii) Composite rate creates work? Temporary extra requirements in 1984-85 and 1985-86 to introduce a composite rate scheme for bank deposit interest which should subsequently give substantial staff savings. These temporary extra requirements should have little or no effect on numbers of permanent staff at April 1985 or 1986.

Contact point: John Battersby (Inland Revenue) 2541-6113

CUSTOMS AND EXCISE

Factual

(i) Customs and Excise manpower ceilings to be increased by 150 staff in 1984-85, rising to 160 in succeeding years, to cope with increased work resulting from the Budget. To be met by offsetting savings in Chancellor's other departments.

(ii) 50 additional staff to be deployed in 1984-85 (60 in succeeding years) on control and enforcement of VAT payments resulting from extension of tax base (see brief M2) and 100 on increased work resulting from the changes in arrangements for collecting VAT on imports (see brief M3).

Positive

(i) Careful assessment of Customs and Excise manpower requirements reflects Government's determination to maintain firm control of Civil Service numbers, while matching manpower closely to the needs of the work.

(ii) Extension of VAT base is highly cost-effective. The marginal cost of collecting VAT on the areas newly taxed will be about 0.1 per cent. For VAT as a whole the average cost was just over 1 per cent in 1983-84.

Defensive

(i) Confident that Customs and Excise will be able to cope with new tasks within the increased resources allocated to them. True numbers have fallen by 11 per cent to 25,150 over five years to 31 March 1984, but this has been met by careful ordering of priorities and redeployment of staff to achieve the most effective results. Increase of 200 already announced for 1984-85. Extra staff for Budget work additional to that.

(ii) Increased staffing for withdrawal of postponed accounting for VAT on imports not bureaucratic empire-building. Essential concomitant of sound revenue and economic reasons for withdrawal (see brief M3).

(iii) Extension of VAT base will save work on some aspects (mainly on administering the present awkward borderline between alterations and repairs), increase it on others (mainly enforcement because of greater amount of money at stake). The staff allocated to the net additional work strikes balance between maximising tax yield at the margin on one hand and keeping Civil Service numbers within reasonable bounds on the other.

Contact point: D Howard (Customs) 2913-2834

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N2: INTERNATIONAL TAX COMPARISONS

General

International comparisons are not always particularly illuminating because (a) statistics hide different underlying tax systems (and size of public sector) and economic conditions in different countries, (b) countries can be selected to support virtually any argument. Tables below give general comparisons between UK and a selection of main competitors.

A BALANCE AND BURDEN OF TAXATION

A(i) BURDEN OF TAXATION 1982 (latest available year)

	UK	France	W Germany	Netherlands	Sweden	Japan	US
Total tax as % of GDP at market prices	39.7	43.7	37.0	45.4	50.3	(1981) 26.9	(1981) 31.2

Source: Economic Trends (December 1983), OECD Revenue Statistics (1982 figures are provisional)

A(ii) BALANCE OF TAXATION 1981 (latest available year)

	UK	France	W Germany	Netherlands	Sweden	Japan	US
Direct taxes	46.3	32.8	51.6	54.8	44.4	56.1	58.2
Indirect taxes	53.7	67.2	48.4	45.2	55.6	43.9	41.8

Source: OECD Revenue Statistics

Note: Employees' and self employed social security contributions are included in direct taxation: employers' in indirect. Taxes on mixed tax-bases are included in indirect taxes.

For UK data on balance and burden of taxation for later years, see Brief G7 (figures given on a financial year basis so not strictly comparable with those above).

Points to make

(i) UK burden as % of GDP about average for EC countries; but higher than US and Japan

(ii) Balance between direct and indirect taxation in UK about average for countries shown.

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B DIFFERENT TAXES AS PERCENTAGE OF TOTAL TAXATION 1981 (latest available figures)

	UK	France	W Germany	Netherlands	Sweden	Japan	US
% of total taxation							
Household income & profits	29.3	13.3	29.0	24.7	39.9	24.7	37.6
Corporation income & profits	9.2	5.0	5.0	7.0	2.9	15.9	8.6
Employees' social security contributions (& self-employed)	7.1	13.7	16.5	22.1	1.1	14.7	10.9
Employers' social security & payroll tax	12.9	31.2	19.1	17.9	31.3	15.4	15.5
Taxes on property (exc. rates)	1.4	2.0	1.6	2.1	0.9	3.4	1.1
Taxes on consumption (goods & services)	28.4	29.7	27.1	24.4	23.9	15.9	17.6
Rates, and other	11.6	5.0	1.7	1.9	-	9.9	8.5

Source: OECD Revenue Statistics

Points to make

(i) Taxes on household income about average for EC countries, higher than Japan but lower than US and Sweden. Employees' social security contributions low.

(ii) Taxes on corporate income higher than Sweden, US and most EC countries, lower than Japan. But employers' social security and payroll taxes low in UK and combined take of taxes, contributions and payroll lowest of countries shown.

(iii) Taxes on expenditure higher than in Sweden, Japan and US but about average in EC.

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C. INCOME TAX AND SOCIAL SECURITY CONTRIBUTIONS

In general, the UK shows up better in the following comparisons where:-

(a) The "average production worker" earnings (APW) basis is used (Tables C(i) and (ii)) rather than foreign currency equivalents of UK average earnings (Tables C(iii) and (iv)) since APW earnings in most countries are higher than in UK

(b) Combined tax and social security rates are given, since contributions in UK are low.

C(i) STARTING TAX RATE ON EMPLOYMENT INCOME AND THRESHOLDS IN £

	Single Person				Married without children			
	Rate	Including SSC	Threshold	Threshold as % of APW earnings	Rate	Including SSC	Threshold	Threshold as % of APW earnings
France	14	26	3,725	53	7	20	4,110	59
Germany	18	36	1,920	19	18	36	3,350	33
Italy	18	25	2,000	32	18	25	2,300	37
Japan	14	23	2,580	19	14	23	3,530	26
Netherlands	15	36	2,380	26	15	30	3,910	42
Sweden	33	33	750	9	33	33	1,215	15
USA (Federal)	11	18	2,290	18	11	18	3,740	30
UK 1983/84	30	39	1,785	24	30	39	2,795	37
1984/85	30	39	2,005	24	30	39	3,155	37

MAXIMUM MARGINAL TAX RATE ON EMPLOYMENT INCOME AND THRESHOLDS IN £

	Single Person				Married without children			
	Rate	Including SSC	Threshold	Threshold as % of APW earnings	Rate	Including SSC	Threshold	Threshold as % of APW earnings
France	70	73	46,350	660	70	73	51,495	735
Germany	56	56	35,185	350	56	56	69,940	690
Italy	65	68	227,185	3,660	65	68	227,185	3,660
Japan	88	88	256,180	1,900	88	88	257,315	1,910
Netherlands	72	72	56,440	610	72	72	57,715	625
Sweden	82	82	29,825	360	82	82	29,825	360
USA (Federal)	50	50	57,500	455	50	50	114,170	900
UK 1983/84	60	60	37,785	501	60	60	38,795	515
1984/85	60	60	40,105	474	60	60	41,255	487

NOTES

1. Income of married couple wholly that of husband, and UK employees contracted in to State pension scheme.
2. All thresholds take account of minimum deductions for expenses and other flat rate reliefs etc.
3. Local income tax, at typical rates, included for Japan and Sweden. For USA, maximum rate and threshold includes Californian tax, but starting rate and threshold is Federal tax only as California threshold is much higher
4. Conversions at exchange rates 15 February 1984.
5. 1983 thresholds and rates for France and Japan; 1984 for Germany, Italy, Netherlands, Sweden and USA
6. See Table C(ii) for sterling equivalent of APW earnings.

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Points to make

(i) Following the 1979 Budget, top rates of tax reduced from previous absurd levels to about average of main competitors.

Defensive

(i) Starting thresholds still low by international standards but related to APW earnings (to reflect differences in national income levels) UK position about average.

(ii) UK starting rate high but continues over a very wide income band and differences less marked when SSC also taken into account. A reduced rate band not much help until threshold themselves can be raised considerably. It would be the marginal rate for relatively few people - mainly part-time working wives and juveniles - and has high administrative cost.

C(ii) AVERAGE RATES OF INCOME TAX AND SOCIAL SECURITY CONTRIBUTIONS FOR AVERAGE PRODUCTION WORKER (APW)

	Sterling equivalent of APW earnings (forecast 1.4.84)	Combined rate
France	6,990	17
Germany	10,140	30
Italy	6,215	22
Japan	13,500	20
Netherlands	9,270	38
Sweden	8,255	34
USA	12,655	17
UK	8,466	28 (1984/85)

Notes

1. Average Production Worker assumed married with non-earning wife and no children

2. For other notes, see Table C(i)

C(iii) AVERAGE RATES OF TAX AND TAX PLUS SOCIAL SECURITY CONTRIBUTIONS ON EMPLOYMENT INCOME OF £9,500 (ROUNDED ESTIMATE OF UK AVERAGE EARNINGS IN 1984)

	income tax			income tax with social security contributions		
	Single	Married	Married + 2 children	Single	Married	Married + 2 children
France	14	7	0	25	18	10
Germany	19	12	6	37	29	24
Italy	19	18	16	27	26	24
Japan	9	7	4	19	17	14
Netherlands	14	10	3	42	38	31
Sweden	38	36	30	38	36	30
USA	14	8	6	20	15	13
UK 1983/84	24	21	13	33	30	22
1984/85	24	20	13	33	29	22

Notes

1. For M+2 children, child benefits, where payable, are taken into account, as well as any child tax allowances

2. For other notes, see Table C(i)

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C(iv) MARGINAL RATES OF TAX AND TAX PLUS SOCIAL SECURITY CONTRIBUTIONS ON EMPLOYMENT INCOME OF £9,500 (ROUNDED ESTIMATE OF UK AVERAGE EARNINGS IN 1984)

	income tax			income tax with social security contributions		
	Single	Married	Married + 2 children	Single	Married	Married + 2 children
France	14	14	7	21	21	15
Germany	36	22	22	54	36	36
Italy	27	27	27	33	33	33
Japan	20	18	15	28	27	24
Netherlands	32	32	32	53	53	53
Sweden	55	55	55	55	55	55
USA	23	16	16	30	23	23
UK 1983/84	30	30	30	39	39	39
1984/85	30	30	30	39	39	39

Notes

1. For M+2 children, this table takes account of child tax allowances, where given, but not child benefits which cannot be shown in marginal rate tables.

2. For other notes, see Table C(i)

Points to make

(i) UK's position is broadly average for both average and marginal rates when social security contributions and local income tax are taken into account. This applies to all three comparisons - S, M and M+2.

(ii) Long basic rate band and upper earnings ceiling on NIC make UK position much more favourable at roughly 1½ to 2 times average UK earnings.

(iii) Substantial threshold increases over last three years are steps in the right direction, towards lower average rates at all income levels. Will particularly help low paid - those most affected by UK's relatively low thresholds and high starting rate.

Defensive

(i) Straight comparison with foreign counterpart with same pre-tax income misleading because UK earner likely to be higher in UK income distribution than foreigner in his country's income distribution.

(ii) On comparisons including children - regard should also be had to social security contributions (low in UK) and child benefits (high in UK) when UK's position becomes average (Table C (iii)).

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D. EFFECTIVE RATE OF VAT* IN EC COUNTRIES IN 1981

UK	7.7
Italy	8.0
Luxembourg	8.9
Ireland	9.2
W Germany	11.2
Belgium	12.1
Netherlands	11.7
France	13.8
Denmark	18.4

*total VAT receipts as a proportion of consumers' expenditure.
Source: OECD Revenue Statistics and OECD National Accounts.

Points to make

(i) Overall effective rate lowest in EC.

(ii) Structure of VAT different in different EC countries. Apart from UK, only Denmark has single positive rate. Coverage of VAT in UK only about half of consumers' expenditure (rest is zero-rated/exempt) - less than other EC countries.

Contact Point:	D. Shaw	(IR)	2541 6832	(Table A, B and C)
	Brenda Holman	(DEU4)	233 4188	(Table D)

N3 TAX CHANGES ANNOUNCED BEFORE BUDGET DAY

Factual

As he indicated in a written reply on 25 July 1983, the Chancellor proposes to include in this year's Finance Bill a number of measures which were dropped from the 1983 Finance Bill, or could not be added to it, as a result of the announcement of the General Election last summer and the dissolution of Parliament. Some other tax changes have been announced since the Election. Treasury press notice of 13 March 1984 lists all the items concerned under the following headings:-

a) Measures dropped from the 1983 Finance Bill following the announcement of the General Election (26 items).

b) Proposals on which the Government had announced that new clauses would be added to the 1983 Bill (7 items).

c) New measures announced since the General Election and before the Budget (16 items).

Together these measures will amount to about half of this year's Finance Bill. The direct revenue effects of all these changes are taken into account in the Budget arithmetic and in Table 4.2 of the Financial Statement and Budget Report.

Positive

(i) The time between announcement and appearance in 1984 Finance Bill has given opportunity for full consultation. Draft clauses or revised draft clauses were published on 13 of the topics which were either in the original 1983 Finance Bill or were subsequently announced. And there has been informal consultation on a great many of the other clauses. The large number of changes made to the proposals shows that the consultative process was put to good use, not just a presentational exercise.

Defensive

(i) The 1984 Finance Bill will be extremely long as a result of all these measures carried over? True, but the degree of consultation enabled by the delay means that there has been ample opportunity for consideration of the draft legislation, so that many of the potential problems have been ironed out.

(ii) Shows need for "Technical Taxation Bill"? Government not attracted to various ideas for splitting the Finance Bill; contents need to be considered as a whole; splitting would make Parliament's consideration more difficult and add to demands on its time.

Contact point: Mrs C Hubbard (Inland Revenue) 2541-6302
D Battle (Customs & Excise) 2913-2113

N4 FREEPORTS

Factual

(i) Legislation to be introduced in 1984 Finance Bill permitting the designation and operation of experimental freeports. (A freeport is a secure area treated as being outside the customs territory where goods can be manufactured, processed and stored without payment of customs duties and subsequently exported to third countries. There is no special relief from excise duty for goods in free zones. Customs duties, agricultural levies and VAT are chargeable when goods are delivered to or processed for the UK domestic market.)

(ii) Government announced on 2 February that freeports would be established at Belfast, Prestwick, Cardiff, Liverpool, Birmingham and Southampton.

(iii) Legislation necessary to permit freeports to be designated and to provide an appropriate system of customs control; designation orders will be introduced after Royal Assent.

(iv) Revenue effect: neutral

Positive

(i) No tariff advantages under EC legislation, but possibility of simplifying procedures and achieving economies of scale. Marketing and presentational advantages could also be significant.

Defensive

(i) Why these sites? They provide a suitable mix to test freeport concept in practice.

(ii) More freeports to be announced? Decision on further sites would depend on performance of chosen zones, which will be closely monitored.

(iii) What about prohibited imports? Prohibition and restrictions applying to drugs, pornography etc, and animal and plant health, will continue to be strictly enforced.

(iv) Lack of restrictions means less safety for environment, employees etc? No impact on existing legislation for employment, planning, health and safety etc.

Contact point: R W MacLachlan (Customs and Excise) 2516-306

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N5 BUDGET RESOLUTIONS

Budget Resolutions are required to give effect to Budget measures (under the Provisional Collection of Taxes Act 1968) before the Finance Bill receives Royal Assent. A specific Ways and Means Resolution is required for each provision imposing a new tax, renewing an annual tax, or increasing or widening the burden of an existing tax. The Amendment of the Law Resolution (ALR) covers all provisions not requiring specific Resolutions.

1. <u>Amendment of the Law</u>

The ALR gives effect to Budget provisions for reducing taxation, for dealing with the machinery of tax administration, and for amending the law dealing with the National Debt. It also defines the scope of the Finance Bill debates by:

(i) allowing Members to move amendments and new clauses not otherwise covered by a specific Resolution;

(ii) precluding amendments or new clauses likely to have consequences unacceptable in fiscal or administrative terms.

This year the ALR excludes amendments seeking to zero-rate or exempt new items from VAT, or to refund VAT; but it permits amendments seeking to reduce the general rate of VAT.

2-6. <u>Alcoholic Drinks</u> (see Brief M6)

Duties on spirits, beer, cider and perry increased. Duty on wine changed; and duty on made-wine aligned with that on wine. All changes effective from midnight 13-14 March 1984.

7. <u>Tobacco Products</u> (see Brief M7)

Duty rates on tobacco products increased from midnight 15-16 March 1984.

8. <u>Hydrocarbon Oils</u> (see Brief M4)

Rate of duty on petrol and derv increased. Rate of duty on aviation gasoline (half that on petrol) also increased. Duty on rebated kerosene, other than aviation turbine fuel, abolished. All changes take effect from 6pm on 13 March 1984.

9. <u>Vehicles Excise duty</u>. (see Brief M7)

Changes in rates of duty apply to all licences taken out on or after 14 March 1984.

10. <u>Gaming licence duty</u> (see Brief M1)

Rates of gaming licence duty adjusted in respect of licence periods beginning on or after 1 April 1984.

11. <u>Gaming Machine Licence Duty</u>

Provides for changes in the periods for which whole-year gaming machine licences are to be granted.

12. <u>Free Zones</u> (see Brief N4)

Provides for the establishment and regulation of freeports.

13. <u>VAT: Take-away food</u> (see Brief M2)

Standard rate of VAT to be applied to hot take-away food and drink from 1 May 1984.

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14. VAT: Alterations to buildings (see Brief M2)

Standard rate of VAT to be applied from 1 June 1984 to all alterations to existing buildings and civil engineering works; to the erection of such buildings as sheds and greenhouses in private gardens; and to certain goods installed as fixtures in new buildings.

15. VAT: zero-rating (supplies outside the United Kingdom)

Restricts recovery of input tax in connection with supplies by overseas branches of UK companies.

16. VAT: discretionary registration

Allows standard conditions of discretionary registration to be included in regulations rather than imposed individually.

17. Customs and excise duty and value added tax (reliefs)

Provides for UK alignment with new Community legislation covering duty and VAT reliefs on imports of personal and household effects by private individuals.

18. Car tax and value added tax (distress and poinding)

Provides for the recovery of the costs incurred in levying distress or poinding for unpaid VAT or Car Tax.

19-20. Income Tax. (see Briefs H1 and H6)

Provides for unchanged basic and higher rates of income tax; and for increased personal allowances and higher rate thresholds and bands. Provides also for retention of additional rate tax charge on discretionary trusts etc; but investment income surcharge not reimposed.

21. Relief for Interest (see Brief H12)

Fixes mortgage interest relief limit at £30,000 for 1984-85.

22. Corporation tax (charge and rate for financial year 1983) (see Brief J1)

Reduces rate of corporation tax for Financial Year 1983 to 50 per cent.

23. Corporation tax (reducing fraction for chargeable gains) (see Brief J1)

Adjusts the fraction used to reduce effective tax charge on company capital gains (which remains at 30 per cent).

24. Advance corporation tax (rate for financial year 1984) (see Brief J1)

Unchanged advance corporation tax rate of three-sevenths of qualifying distributions made by companies.

25. Corporation tax (small companies) (see Brief J1)

Reduces "small companies" rate of corporation tax for Financial Year 1983 to 30 per cent and fixes fraction for marginal relief at one-twentieth.

26. Relief for interest: bridging loans (see Brief H12)

Provides for removal of a minor anomaly in the rules for applying the mortgage interest relief limit when borrower moves house.

27. Life Assurance Premium Relief (see Brief H7)

Abolishes life assurance premium relief for policies in respect of insurances made after Budget Day and existing policies subsequently altered so as to enhance the benefits secured.

28. Insurance Policies (see Brief H7)

Disqualifies certain life assurance policies connected with 'capital and income bonds'; disqualifies certain offshore life assurance policies and imposes a basic rate tax charge on gains from such policies and from certain offshore capital redemption policies; amends a minor technical point in the qualifying conditions; and amends the 'chargeable events' legislation in respect of certain non-qualifying life assurance policies.

29. Registered Friendly Societies (see Brief H7)

Removes the preferential tax regime currently enjoyed by "tax exempt" friendly society life or endowment business, and increases exempt limit applicable to "mixed business" friendly societies.

30. Expenditure of Members of the House of Commons (see Brief N6)

Authorises changes in the tax treatment of certain expenses.

31. Reduction and abolition of certain reliefs in relation to foreign earnings and emoluments (see Brief H9)

Foreign earnings deduction: Provides for halving of rate of relief for 1984-85 from 25 per cent to 12½ per cent.

Foreign emoluments deduction: Provides for withdrawal of relief from some beneficiaries.

32. Benefits in kind: Scholarships (see Brief H10)

Provides for tightening up of rules which give relief for "fortuitous awards".

33. Share Options (see Brief H11)

Paves the way for changes to be made to the tax treatment of share options granted to directors and employees.

34. Business Expansion Scheme (see Brief J9)

Paves the way for one specific amendment to be included in the Finance Bill which will add farming to the list of activities which do not qualify for the Business Expansion Scheme.

35. Schedule B

Stops a timber dealer who occupies woodlands in connection with his trade being regarded as the occupier for Schedule B purposes. Such dealers will henceforth pay tax on their profits under Schedule D instead.

36. Groups and Consortia (see Brief J8)

The first part of this Resolution paves the way for provisions to increase (from 5 to 20) the maximum number of UK companies which can qualify for consortium relief, and to ease the requirements so that the consortium company may have some individual or non-UK shareholders. The second part is needed in respect of measures which will be introduced in the Finance Bill to deal with certain abuses of group relief.

37. Stock relief (see Brief J4)

Provides for the abolition of stock relief as from 13 March 1984.

38. Deep discount securities (see Brief J7)

Provides for new tax regime for deep discount securities issued by companies.

39. Grants under Industrial Development (Northern Ireland) Order 1982

Provides for certain Industry Act type grants payable under the equivalent Northern Ireland legislation to be taxed as trading receipts.

40. Amendments to territorial extension of tax (see Brief K1)

This provides for capital gains accruing to non-residents on the disposal of certain trading assets used in connection with territorial sea and Continental Shelf exploration and exploitation activities to be charged to corporation tax or capital gains tax; and for a defect to be remedied in a provision for recovering tax unpaid by a non-resident which relates to activities in connection with such exploration and exploitation.

41. Initial and first year allowances (see Brief J3)

Provides for the first stage reduction in the rates of initial allowances for industrial buildings and assured tenancy properties and of the first-year allowance for machinery and plant.

42. Transfers under Oil and Gas (Enterprise) Act 1982

Provides that, in certain circumstances, assets transferred by the British Gas Corporation or its subsidiaries pursuant to a direction under Section 11 of the Oil and Gas (Enterprise) Act 1982 shall be treated for capital allowance purposes as having been owned throughout by the transferee.

43. Capital Gains (see Brief L2)

This authorises:-

(a) the repeal of the small gifts exemption, the payment by instalments facility and the rollover relief for property going into heritage maintenance funds;

(b) a technical amendment to the rules for taxing gains from non-resident trusts;

(c) the insertion of certain definitions in the settled property provisions and;

(d) a technical amendment to the "parallel pooling" rules for calculating the indexation allowance.

44. Oil Exploration and Exploitation Activities (see Brief K1 + 2)

(a) Abolishes repayment of ACT corresponding to the difference, if the amount of ACT which can be set against ring-fence CT is less than it would have been had it not been for the deduction of PRT;

(b) limits the capital allowances available to the purchaser of machinery and plant, sold in pursuance of the transfer of an interest in an oil field ("farmout"), to the seller's original cost;

(c) brings any "farmout" capital gain, on the disposal of an interest in an oil field together with related assets (eg machinery and plant), within the CT ring-fence around the activity of producing oil from the UK and its Continental Shelf; and

(d) restricts rollover relief for the replacement of business assets on "farmout" capital gains to qualifying reinvestment in assets used within the CT ring-fence around oil production from the UK and its Continental Shelf.

45. Controlled Foreign Companies (see Brief J8)

Provides for introduction of legislation on 'Controlled Foreign Companies' (tax havens).

46. Offshore Funds (see Brief J8)

Covers the new provisions under which certain gains on holdings in offshore funds are to be taxed as income.

47. Capital Transfer Tax (see Brief L3)

Paves the way for measures in the Finance Bill which are necessary to facilitate the consolidation of the capital transfer tax legislation.

48. Reduction of Stamp Duty on conveyances (see Brief L1)

Reduces, with effect from 20 March 1984, the rate of stamp duty and increases the stamp duty threshold for sales of houses etc.

49. Stamp Duty:- Sub Sales (see Brief L1)

Changes, with effect from 20 March 1984, the stamp duty law relating to sub sales to end a device for avoiding stamp duty on sales of land and houses.

50. Stamp Duty:- agreements for leases (see Brief L1)

Withdraws, with effect from 20 March 1984, the stamp duty exemption for agreements for leases for more than 35 years to end a device for avoiding stamp duty on sales of land and houses.

51. Stamp Duty: sale of houses at discount by certain bodies

Amends the law, with effect from 20 March 1984, relating to the sale of houses at a discount under the "Right to Buy" scheme.

52. Oil taxation (reliefs for expenditure and losses)

Permits withdrawal of certain PRT reliefs for past expenditure against mature oil fields in which the claimant or an associated company became a participator after the date expenditure was incurred.

53. Oil taxation (payments for minimum delivery and capacity payments)

Provides that a capacity charge will be treated for PRT as a payment for gas for the period in which it is received.

54. Relief from tax (incidental and consequential charges)

Authorises any incidental or consequential charges to tax which may arise from relieving provisions. Inclusion follows normal practice.

PROCEDURE (LOANS BY PUBLIC WORKS LOANS COMMISSIONERS)

Provides for legislation in Finance Bill 1984 to amend procedure by which Parliament approves and controls loans made by the Public Works Loan Board from the National Loans Fund to local authorities for capital expenditure purposes.

PROCEDURE (FUTURE TAXATION)

(a) Authorises legislation in Finance Bill 1984 fixing the rate of corporation tax for the Financial Years 1984, 1985 and 1986 at 45 per cent, 40 per cent and 35 per cent respectively, continuing the "small companies" rate at 30 per cent, and providing for consequential changes in the tax charge on company capital gains and on building societies. (see Brief J1)

(b) Provides for the repeal from Financial Year 1986 onwards of the special "pegged" rate provisions for life assurance companies (see Brief J1)

(c) Provides for the second and third stage reductions in initial allowances for industrial buildings and assured tenancy properties. (see Brief J3)

(d) Provides for the second and third stage reductions in the first year allowance for machinery and plant. (see Brief J3)

(e) Authorises the withdrawal from 1985-86 of the 25 per cent reliefs for employments and trades carried on wholly or partly abroad and for the final phasing-out of relief for non-domiciled employees of non-resident employers in the UK. (see Brief H9)

(f) Authorises the composite rate scheme for bank interest which provides (on lines similar to the existing Building Societies' scheme) for payment of interest net of tax to individual UK depositors. (see Brief H8)

(g) Authorises the abolition of the National Insurance Surcharge. (see Brief J5)

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BUDGET SECRET
until after Budget Speech on 13.3.84
then UNCLASSIFIED

N6 MP's EXPENSE ALLOWANCES

[See also Inland Revenue press notice]

Factual

(i) Under current law Additional Costs Allowances (ACA) paid by House of Commons Fees Office for cost of staying overnight away from home on Parliamentary business in London or constituency (maximum £6,163 per annum) taxable as a deemed emolument. MPs can claim a deduction for expenditure incurred "wholly, exclusively and necessarily" in performance of Parliamentary duties.

(ii) Proposal is:-

- (a) to take ACA out of tax from April 1984;
- (b) but to deny MPs' right to claim tax relief for actual expenditure of this kind; and
- (c) Extra-Statutory Concession will permit application of this new basis to earlier years if assessments are not yet finalised.

(iii) Cost negligible in 1984-85 and in a full year.

Positive

(i) Provides certainty and avoids dispute about what can be claimed for tax.

(ii) Not all MPs will gain from this. Those spending more than the ACA maximum will be worse off (than now and than businessmen for whom there is no limit on the amount of tax deduction they can claim against salary for expenditure incurred "wholly, exclusively and necessarily" in peformance of their work).

(iii) Unique position of MPs - two permanent places of work.

(iv) Other legislators (eg West Germany) solve similar problem in similar way.

(v) Right to bring matter out into open for public debate in the House.

Defensive

(i) Is not ACA fixed by Parliament itself? Yes, but based on Top Salaries Review Board (TSRB) recommendations. Underlying expenditure clearly recognised by TSRB as necessary.

(ii) Did not TSRB recommend more accountability? Yes. Government announced acceptance of this in House (14 July 1983). Proposals to be made in due course.

(iii) More favourable treatment than businessmen? Businessmen temporarily away from main place of work get reimbursement tax-free. Very few truly comparable with MP having (often) to keep two homes. TSRB recognise ACA as legitimate reimbursement - not remuneration.

(iv) What about Ministers? Same as other MPs (except that under current tax rules Ministers more likely to pay tax on part of their ACA). This disadvantage will disappear.

(v) What about London Members? London Members get a taxable London supplement (£873 currently) but cannot claim either the ACA or tax relief for any expenses of "living away from home". They will be unaffected by the new proposal.

(vi) Does this mean that the proposal to tax some Civil Service allowances will now be dropped? This subject still under discussion.

(vii) Allowance too generous? The TSRB recommended that the allowance should be reduced (from 144 to 136 times the night subsistence allowance for civil servants) but the House rejected this proposal. Relatively small amount (£342) involved. Matter for House.

(ix) Why Extra-Statutory Concession for transition? New statutory rules apply from April 1984. But need to deal with open claims for earlier years. Retrospective legislation could have involved re-opening settled assessments for past years. ESC enables "right result" to be achieved without unduly complex legislation.

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