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SECRET

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PART E

FINANCE BILL 1987

FOR DISPOSAL ADVICE SEE INSIDE COVER

DATE 8/11/93

SIGNATURE [signature]

DISPOSAL DIRECTIONS

DESTROY AFTER 25 YEARS

PRESERVE

PO -CH /NL/0008

PART E

[REGISTR]ATION USE ONLY

REFER TO	DATE	REFER TO	DATE
PA(21/7/87) PAR	8/11/93		

FROM MR. B. W. SUTHERLAND, C.B.E., F.C.A

THE MANOR HOUSE
SHIPSTON-ON-STOUR
WARWICKSHIRE
SHIPSTON-ON-STOUR 61607

FINANCIAL SECRETARY
REC. 29 APR 1987

MR J. Reed IR
PPS CST MST EST
Sir P. Middleton
MR Scholar
Miss Noble Miss Sinclair
MR Cropper MR Ross Goobey
PS/IR

28th April, 1987

Dear Norman,

FINANCE BILL

CLAUSE 37

As I promised at the T.C.C. yesterday, I now enclose a note on the above.

For Income Tax, as you will know, persons (which included companies until 1965) carrying on trades, professions, etc., are assessed to tax on their profits for years ended 5th April. For this purpose the profits of each year of assessment are deemed to be the same as those actually earned by the business in its financial year which ended in the preceding year of assessment. The profits of the opening years form the basis of assessment of more than one year of assessment and, on cessation, the profits of an equivalent period fall out of assessment.

When Corporation Tax was introduced, mainly I think in order to preserve the flow of tax, the tax due on 1st January, 1966 was deemed to be that on the profits, the quantum of which would have been used to calculate the Income Tax due on that date, ignoring the fact that that tax was in fact charged on the profits of the business for the year ended 5th April, 1966. This meant that profits were in effect doubly taxed to a greater or less degree, except only in the case of companies having 31st March year ends.

There was considerable objection at the time but this was answered by -

(1) section 87, Finance Act 1965, which gave relief if cessation occurred in the following five years, and

(2) the fact that in cash flow terms the tax payable in each year was that on a year's profits.

The present proposal in effect withdraws the cash flow concession which rendered the double taxation tolerable in 1965. As my example shows, however, it is now proposed to exact it and I submit that this is ethically wrong. The Revenue will collect and companies will pay up to two years' additional tax in the period of transition.

As I have said in the note, the correct way to deal with abuse is to attack those who practise it, rather than to penalise all. An alternative approach would be to allow profits to drop out of assessment on the changeover to a nine months payment date, if this is to apply to all companies. This could be done by providing that in 1987/88 all companies would pay tax on the profits of and nine months after the end of their twelve months A.Ps. ending between 6th July, 1986 and 5th July, 1987. I recognise that capital allowances would be affected but the present Income Tax rules could be applied for this purpose.

I hope this helps you to understand my objections to the proposal.

Yours Sincerely

Bruce

The Rt. Hon. Norman Lamont, M.P.,
Financial Secretary to the Treasury,
Treasury Chambers,
Parliament Street,
LONDON, SW1P 3AG.

Enc.

CORPORATION TAX PAYMENT DATES FOR PRE-1965 COMPANIES

1. Prior to 1965 companies paid Income Tax on their profits which were assessed in the same way as those of unincorporated trades, etc.

2. On the introduction of Corporation Tax (C.T.) tax was to be paid on the profits of accounting periods (A.Ps.). However, in order to preserve the flow of revenue, it was decided that C.T. for existing companies would be paid on the dates on which Income Tax, calculated by reference to those profits, would have been paid.

3. In effect, for a company making its accounts up to 30th April the effect of the change can be demonstrated by the following example -

Company commences trading 1st May, 1960.

It makes up accounts to 30th April each year.

It earns profits of £12,000 in each year from its commencement.

	£
Profits earned 1st May, 1960 to 30th April, 1966	
6 x £12,000	72,000

Taxed as follows -

Income Tax					
1960/61	11/12 x Actual to	30.4.1961	due	1.1.61	11,000
1961/62	First 12 months to	30.4.1961	"	1.1.62	12,000
1962/63	Preceding year to	30.4.1961	"	1.1.63	12,000
1963/64	" " "	30.4.1962	"	1.1.64	12,000
1964/65	" " "	30.4.1963	"	1.1.65	12,000
Corporation Tax					
A.P. to		30.4.64	"	1.1.66	12,000
" "		30.4.65	"	1.1.67	12,000
" "		30.4.66	"	1.1.68	12,000
					£95,000

In effect, 23 months profits have been taxed twice.

If a company ceased trading before 1970, the doubly taxed profits were relieved by s. 87, F.A. 1965.

If it continued indefinitely, the double charge did not matter because in cash flow terms tax was only being paid in each year on one year's profits.

4. The proposed change in clause 37 of the Finance Bill means that tax will be paid on 48 months profits in 25 months, as follows -

					Tax on
					£
A.P.	to	30.4.87	due	1.1.89	12,000
"	"	30.4.88	"	31.8.89	12,000
"	"	30.4.89	"	30.4.90	12,000
"	"	30.4.90	"	31.1.91	12,000
					£48,000

1.1.89 - 31.1.91 = 25 months

5. The effect is that the double taxation resulting from the introduction of Corporation Tax is now being exacted from all companies.

6. One recognises that -

   (1) companies which have ceased to trade, been wound up, etc., since 1970 have suffered the penalty;

   (2) abuse of the system has developed by the purchase of old companies.

7. 6 (1) above could be used as an argument against the introduction of any relief, c.f. the introduction of P.E.Ts. was "unfair" to people who had already made lifetime absolute gifts and paid C.T.T. on them.

8. 6 (2) above could be countered by providing that in future the tax on the profits of all new trades of old companies will be due nine months after the end of the A.P.

002/1283

SECRET

FROM: JILL RUTTER
DATE: 28 April 1987

PS/FINANCIAL SECRETARY

cc:
Chancellor
Minister of State
Economic Secretary
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Graham (PARLIAMENTARY COUNSEL)

Mr Johns - IR

CLAUSE 26: INCREASED PERSONAL RELIEF FOR THOSE AGED 80 AND OVER

The Chief Secretary has seen Miss Dyall's minute of 27 April. The Chief Secretary finds the need for an amendment extremely irritating. He has noted that it will have to be ready very soon in case the Committee stage is curtailed.

Jill Rutter

JILL RUTTER
Private Secretary

Inland Revenue

Policy Division
Somerset House

From: P W FAWCETT
Date: 28 April 1987

1 T/o weeded
2 pps

PS/EST

FINANCE BILL: CLAUSE 160 - ABOLITION OF ENACTMENTS RELATING TO EXCHANGE CONTROL

1. We are preparing a note on Sir William Clark's amendment to Clause 160. The purpose of the amendment is to abolish Section 482 ICTA 1970 (company migrations etc).

2. We thought you might like to see the draft note on amendment in advance of tomorrow's briefing meeting for the debate on 30 April.

P W Fawcett

P W FAWCETT

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Sir T Littler
Mr Cassell
Mr Odling-Smee
Mr Peretz
Mr Scholar
Mr S Matthews
Mr A Bottrill
Miss M O'Mara
Miss Sinclair
Mr Haigh
Mr Tyrie
Mr Ross Goobey
Mr Hyett (T/Sol)
Mr Taylor Thompson
Mr Bryce
Mr Sadler
Mr Fawcett
Miss Lacey
PS/IR

BOARD OF INLAND REVENUE

FINANCE BILL 1987
COMMITTEE

Clause 160

Amendment	Page	Line
3	106	38

Sir William Clark (Croydon South - Con)

Clause 160, page 106, line 38 at end add -

"(5) Section 482 of the Taxes Act (migration etc of companies) shall cease to have effect".

PURPOSE OF THE AMENDMENT

Resist Cost: over £100 million

1. The amendment would enable companies to emigrate and carry out certain other transactions without first seeking Treasury consent.

SPEAKING NOTES

2. Section 482 is a bulwark against very substantial tax loss. The Government sees no reason for sweeping it away at present.

3. The decision not to abolish the Section outright was reached after a lengthy review which included public consultation. This conclusion was announced by my Right Honourable Friend, the former Financial Secretary to the Treasury, on Budget Day last year.

4. But it was decided to review the General Consents and this is being done. These cover circumstances where companies do not have to apply for consent. There has been public consultation on

this. Administrative procedures are also being looked at.

DEFENSIVE

The Section is contrary to the Treaty of Rome

5. Sub-judice - the Daily Mail case has been referred to the European Court of Justice.

The Section imposes burdens on business

6. Most applications speedily processed and many situations let out by both the Section and the General Consents.

The Section hampers trade

7. The Section is not aimed at normal commercial transactions but is to prevent tax avoidance.

Criminal penalty should be abolished

8. This will be examined in the light of the Keith proposals.

/BACKGROUND NOTE

BOARD OF INLAND REVENUE

BACKGROUND NOTE

9. Section 482 ICTA 1970 makes unlawful certain transactions where they are carried out without Treasury consent. These consist of company migrations; the transfer of the whole or part of a trade or business to a non resident, and certain share transactions in non-resident companies controlled by UK companies. The penalty is imprisonment for up to two years or a fine or both.

10. No clearance is needed, however, for some types of arrangements. Some of these are specified in the section and some are covered by five General Consents. These consents limit the possible inhibiting effect of the section on new inward and outward investment and avoid the need to obtain clearance for minor transactions.

11. The Section was under review for some years in the wider context of the taxation of international business. The Financial Secretary to the Treasury announced, on 18 March 1986, that it would be inappropriate to make substantial changes to the Section at the present time. However, a review of the General Consents was initiated. It was stated that the criminal penalty would be looked at in the light of the Keith Committee recommendations.

12. The review of the General Consents is being considered by Ministers at the moment. We have recommended overall widening the General Consents.

Treaty of Rome

13. Last year the Daily Mail obtained a judicial review of the Treasury's failure to grant consent to its proposal to emigrate to the Netherlands. Its proposal entailed the disposal of a portion of its portfolio of shares after emigration, thus avoiding a substantial tax bill in respect of capital gains. (The gains would also escape tax in the Netherlands.) At the Divisional Court hearing in March this year the judge referred the case to the European Court of Justice to decide whether there was any conflict between the provisions of Section 482 and the EEC Treaty. The case will not be heard until 1988 at the earliest.

006/2767

Pg

FROM: **ANTHONY DIGHT**

DATE: **28 April 1987**

CHIEF SECRETARY TO THE TREASURY

MR HUTSON

cc:
PS/Chancellor 2nd
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Mr Scholar
Miss O'Mara
Mr C W Kelly
Miss J Simpson
Miss Sinclair
Miss C Evans
Mr N Ilett
Mr Haigh
Mr Romanski
Miss Goodman
Mr Dyer
Mr Walters
Mr Cropper
Mr Tyrie
Mr Ross Goobey
Mr Mace - IR
Mr Sullivan - IR
Mr Dunbar - IR
Mr Battersby - IR
Mrs Evans - IR
Mr Caley - IR
Mr Eason - IR
Dr G Keenay - IR
Mr Walker - IR
Mr J Reed - IR
Mr P Michael - IR
Ms French - C & E
Mr Bone - C & E
PS/IR
Mr D Barrett C & E
Mr D Howard C & E
Mr P Travett C & E
Mr C Holloway C & E
PS/ C & E

FINANCE Bill: COMMITTEE OF WHOLE HOUSE STAGE: WEDNESDAY, THURSDAY 29 & 30 APRIL

Could you please let the House authorities know that the following people will be occupying the Official Box at various times during the Commitee of the Whole House stages of the Finance Bill on Wednesday, Thursday 29 and 30 April.

Anthony Dight

ANTHONY DIGHT

Diary Secretary

INLAND REVENUE

Mr Eason

Dr G Keenay

Mr Walker

Mr J Reed

Mr P Michael

Mr Mace

Mr Sullivan

Mr Dunbar

Mr Battersby

Mrs Evans

Mr Caley

Mr Payne

Mr Stewart

Mrs Feltcher

Mr Kent

Mr Carr

Mr Prescott

Mr J Dougherty

CUSTOMS & EXCISE

Ms French

Mr Bone

Mr D Barrett

Mr D Howard

Mr P Travett

Mr C Holloway

Mr Jefferson-Smith

Mr E White

Mr Michil

FP

Mr Scholar

Miss Sinclair

Miss Evans

Mr Haigh

Mr Romanski

EB

Miss O'Mara

Miss J Simpson

MG 1

Mr C W Kelly

Miss Goodman

Special Advisers

Mr P Cropper

Mr A Tryie

Mr A Ross Goobey

Mr A Hudson

FIM 1

Mr N Ilett

SECRET

FROM: J J HEYWOOD
DATE: 28 April 1987

MISS DYALL

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Graham OPC
Mr Johns IR
Mr Mace IR
PS/IR

CLAUSE 26: INCREASED PERSONAL RELIEF FOR THOSE AGED 80 AND OVER

The Financial Secretary has read your note of 27 April and Jill Rutter's of 28 April. He very much agrees with the Chief Secretary that the amendment to Clause 26 should be worked up as soon as possible.

J.H.

JEREMY HEYWOOD
Private Secretary

SECRET

CE35

Pays
PSE

FROM: MISS C EVANS
DATE: 28 APRIL 1987

must be more papers this. Ask CST others

EVANS → CST 28/4

CHIEF SECRETARY

cc Chancellor of the Exchequer
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Scholar, Miss Sinclair
Mr Graham
Mr Dyer
Mr Pickford
Mr Walker
Miss French
+ advisers.

FINANCE BILL: KLONDYKERS AND FEES AND CHARGES

You asked about the precedents for introducing new clauses at Committee stage without having announced them in the Second Reading debate.

2. I have spoken to the Revenue Departments, Parliamentary Counsel and Parliamentary Clerk who confirm that there is no requirement of custom or procedure on the Government to publicise the introduction of a new clause before it is tabled. There may be presentational advantage in that an early announcement of the Government's intention is likely to smooth the introduction of a new clause.

3. Last year the Government introduced a number of new clauses without giving advance warning in the Second Reading debate. For example, the new clauses on stamp duty/stamp duty reserve tax were preannounced in broad terms in a PQ at the end of April and a new clause (S.45) on golden handshakes was announced by PQ/press release on 3 June and tabled in committee shortly afterwards. In 1985 the Chief Secretary gave no advance warning of new clauses in his Second Reading speech but a number of new clauses were tabled. It is entirely for Ministers to decide whether there would be advantage in publishing the intention of tabling a new clause.

4. Parliamentary Clerk suggests that an announcement could be advantageous in the context of a possible dissolution since it would facilitate the inclusion of the new clauses in a post Election Bill.

This was done in 1983. The post election Finance Bill included 2 clauses of which the Government had given notice in inspired written PQs but which had not been published before dissolution (on taxation of capital and income bonds and pension funds' transactions in financial futures). However it would be possible to table new clauses for inclusion in a post Election Bill without such advance warning.

5. If Ministers wished to publicise the Klondykers and Fees and Charges clauses in advance of tabling them this could be done by means of an inspired PQ and press notice. The announcement of the Government's intention need not wait until the draft clauses are ready. As in previous years there will inevitably be other amendments to the Bill which the Revenue Departments will be bringing forward when they have considered the comments which representative bodies are certain to make. I undertand that the Financial Secretary has agreed to the introduction of a new BES clause which the Revenue are suggesting should be announced when the BES clause (45) is taken on Thursday.

CE

MISS C EVANS

SECRET

MP 27/4

Office of the Parliamentary Counsel 36 Whitehall London SW1A 2AY

Telephone Direct line 01 210 6609
Switchboard 01 210

CHIEF SECRETARY
REC. 27 APR 1987
ACTION
COPIES TO CX FST MST EST
Sir Peter Middleton
Mr Cassell Mr Scholar
Miss Sinclair Miss C Evans
Mr Dyer Mr Romanski
Mr Cropper Mr Tyrie
Mr Walters Mr Goodman Mr Haigh Mr Ross Goobey
Mr Neubert MP

GRAHAM → PS/CST 27/4

Miss J Rutter
Principal Private Secretary/
Chief Secretary to the Treasury
H M Treasury
Parliament Street
SW1

27 April 1987

Dear Bill,

FINANCE BILL: CLAUSES TO BE INCLUDED IN A SHORTENED BILL

This letter is about your minute of 24 April received here today.

The primary concern of this Office is to secure that provisions which are structurally essential to the Bill are preserved and also to secure that none of the PCTA resolutions comes unstuck.

So far as PCTA is concerned, there are only two omissions from "Annex A" which are relevant. The first is clause 20 but, of course, that is supposed to be covered by paragraph 2 of your minute. Somewhat more important from a technical point of view is paragraph 1 of Schedule 2. In the Bill this is founded by clause 19(2) and in the resolutions, it is given provisional effect by resolution 13.

It follows, therefore, that it is the proposal to omit clause 19 (which appears in Annex B) which causes us most concern. In the first place, unless we have clause 19(1), we shall need to amend

SECRET

each of the previous clauses in Chapter II of Part I. Secondly, unless we have so much of clause 19(2) as introduces paragraph 1 of Schedule 2, there could be problems because of the PCTA effect. The practicality of this latter point only Customs & Excise can advise upon.

Referring to paragraph 6 of your minute, quite a strong case can be made for each of clauses 161 onwards. Starting at the end, we must have clause 164 because it affects the construction of the whole Bill. It is also very desirable to have clause 163 because the consolidation is a massive exercise which has to work to a fairly rigid timetable: in this context I would point out that, in the foreshortened Finance Act 1983, the Opposition were content to allow through the clause which became section 47 (pre-consolidation amendments for VAT, car tax and capital transfer tax). Clause 162 is principally there to placate Counsel to the Speaker and I would have thought that the Opposition would be in agreement to allowing this through: how urgent it is is, however, a matter for the Revenue. That leaves clause 161 and, as I understand it, this is really regarded by the Treasury as part of the story about exchange control. From our technical point of view I do not seek to make any case about clause 161; but perhaps I should mention that clause 141 is also part of the exchange control story.

Though we can see possible problems on some clauses in relation to paragraphs 3 to 5 and 7 and 8 of your minute (for example Schedule 15, introduced by clause 150, needs amendment), it seems to me that all of these are of a political or semi-political nature and, no doubt, others will be better able to advise you than we are.

Finally, there is the possibility that, when the package is agreed, we may have to come back to you on linked provisions (e.g. cross references in clauses) but there is no point in detailing all these at this stage.

A copy of this letter goes to Johns and Wilmott and to Carolyn Sinclair.

Yours sincerely

Peter Graham

PETER GRAHAM

4479/16

SECRET

FROM: MISS C E C SINCLAIR
DATE: 28 April 1987

CHIEF SECRETARY

cc Principal Private Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Mr Cassell
Mr Scholar
Miss C Evans
Mr Walters
Mr Haigh
Ms Goodman
Mr Dyer
Mr Romanski
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Johns - IR
Mr Wilmott - C&E

Mr Graham - Parly Counsel
Mr Neubert - MP

FINANCE BILL: CLAUSES TO BE INCLUDED IN A SHORTENED BILL

Your Private Secretary's minute of 24 April to the Principal Private Secretary sets out a provisional list of clauses to be included in a shortened Finance Bill, together with the clauses which might be left on one side. You invited comments. This submission sets out the combined views of the Revenue Departments, Parliamentary Counsel and FP.

2. Detailed comments on individual clauses proposed for Annex A are set out in the attachment to this minute. Overall, we recommend that Clauses 13, 14, 16, 19, 27, 39, 54, 57, 141, 153, 154, 157, 161, 163 and 164 should be added to the list for a shortened bill. Clauses 11 and 18 can be dropped because they are to be taken in Committee of the Whole House (CWH) this week, and such clauses were deliberately excluded from Annex A.

3. There are a number of clauses which are proposed for retention where minor amendments will be necessary. We have assumed that where these are ready and uncontroversial they should be taken. Such amendments are not likely in practice to add significantly to the length of debate and it could be very messy to have to leave them over to a later Bill.

4. You asked for advice on a number of points.

5. First, you wanted warning of any difficulties with the clauses identified for inclusion in a truncated Bill. Clause 33 (employee share schemes), which is to be taken in CWH, needs amendment to deal with some CGT points. Subject to confirmation from the Financial Secretary, the intention is to introduce the amendments concerning scheme participants in CWH, and the amendments concerning the acquiring company at Report Stage. If, in a pre-Election Bill, the latter could not be included, it would probably be necessary to announce that they would be legislated as soon as possible with commencement dates in line with the provisions in the current Bill.

6. Clause 45 is also to be taken in CWH. The Financial Secretary has promised the Tax Consultative Committee that he would look again at the £5,000 limit on carryback of BES relief. An urgent decision is needed on this if an amendment is to be made.

7. Second, you asked whether, if the capital gains tax clauses were omitted from a shortened Bill, they could still be enacted to take effect from the beginning of the financial year. The answer is that they could (the proposed date of effect is 17 March 1987). This is an area where it is highly desirable that the Government should make clear its intention, if re-elected, to reintroduce these provisions in their original form.

8. This leads to a general point raised by the Chancellor at his meeting this morning on post-Budget lobbying. There is a strong argument for the Government making its intentions clear at an early stage on all those proposals which cannot be included in a truncated Finance Bill.

9. We assume that, before an election is announced, Ministers would not want to say anything about the handling of the Finance Bill in the event of an election.

10. Once an election has been announced, there would be no difficulty about setting out, in a written PQ, the Government's plans on those clauses not included in a shortened Bill. (This would probably be more manageable than trying to set it all out orally at Report Stage.) The difficulty would be publicising the reply. I understand that in 1983 IDT advised that putting the answer in a Treasury or Inland Revenue press release would contravene the election rules prohibiting civil servants from publicising the Government party's post-election plans. We are checking the position on this again. But if this view is upheld, there are other ways of drawing attention to the statement.

11. Overall, there seems much to be said for a comprehensive PQ before an election to banish uncertainty. In 1983 this was not done until after the election.

12. Third, you asked for advice on including clauses 161 onwards. As the enclosure makes clear, there is a strong case for clause 161 itself - it is a consequential of the repeal of the Exchange Control Act. Clause 162 is principally there to placate the Speaker; the Opposition are likely to agree to let it through, but it is in no sense urgent. Both Inland Revenue and Mr Graham see a strong case for including clause 163, which is wholly uncontroversial. Comparable consolidation measures were included in the 1983 pre-election Finance Bill. Clause 164 is essential.

13. Fourth, you asked for advice on including Clause 27 in a truncated Bill. This is a free-standing clause which we think would be very desirable to get into the pre-election Bill because

- it should be uncontroversial (it gives extra tax relief to carers)

- it was announced last July and is already being operated extra-statutorily

- it is retrospective to 1984/85

- it is short.

If it had to be omitted we would recommend it for a post-election Bill.

14. You also asked for advice on the inclusion of Clause 29. The purpose of this clause is to adapt taxation provisions for the replacement of supplementary benefit by income support planned for April 1988. Although this is basically a straightforward change, the subject matter is potentially controversial, and we would recommend dropping it from the pre-election Finance Bill. There would be a strong case for including it in a post-election Bill so that the legislation is settled before the administrative arrangements have to be finalised.

15. The Financial Secretary will be advising on the inclusion of the oil measures (Clauses 54-56 as well as 153-159).

16. If Ministers agree to include all the proposed clauses in the enclosure, the shortened Finance Bill would be around 48 (new) pages compared with 50 (old) pages for the 1983 pre-election Bill (equivalent to about 40 new pages).

17. Notwithstanding the above, we assume that you will want the motion for the order of proceedings in Standing Committee to set out the Clauses in numerical order (anything else would provoke even more intense speculation about the date of an election). In practice the announcement of an election would mean that everything in the Finance Bill which had not already been passed would return to the floor of the House. The composition of a pre-election Bill would be settled there.

below

18. You asked separately about the position on fees and charges, and Klondykers. These new Clauses were not announced in the Second Reading debate. Miss Evans' submission of 28 April explains that there are no procedural problems. If you wished to announce the

new Clauses by means of a PQ, you could include this in the omnibus PQ about intentions for a post-election Finance Bill. Alternatively, you could deal with them separately. The latter would probably secure more publicity for these particular measures (particularly as there would be no difficulty about press-releasing such a PQ in the pre-election period).

Carolyn Sinclair

CAROLYN SINCLAIR

SECRET

Comments on clauses to be included in a shortened Finance Bill

Clause 1 - include as proposed

Clause 2 - include as proposed

Clause 3 - include as proposed

Clause 4 - include as proposed

Clause 11 - to be taken in CWH (omit from list)

Clause 12 - include as proposed

Clause 13 - include because part of anti-avoidance package covered by clauses 12, 15, 17 and 18

Clause 14 - include because subject of double consultation exercise and non-controversial

Clause 15 - include as proposed

Clause 16 - include because subject of widespread consultation (and prior announcement); needed for EC reasons to avoid imminent infraction proceedings; free-standing and non-controversial

Clause 17 - include as proposed

Clause 18 - to be taken in CWH (omit from list)

Clause 19 - include because in part covered by Budget Resolution No 13 and already in force under the Provisional Collection of Taxes Act (PCTA); in part essential to other VAT clauses to be included; remainder non controversial

Clause 24 - include as proposed

Clause 25 - include as proposed

Clause 26 - include as proposed - the amendment recommended in Miss Dyall's submission of 28 April is now drafted

Clause 27 - include (see para 13 of cover note)

Clause 28 - include as proposed

Clause 30 - include as proposed (though there has been some adverse comment by one particular friendly society)

Clause 31 - include as proposed

Clause 32 - include as proposed

Clause 35 - include as proposed

Clause 36 - include as proposed

Clause 37 - include as proposed

Clause 39 - include because related to Clause 33, which is to be taken in CWH. Drafting of latter assumes implementation of Clause 39

Clause 46 - include as proposed

Clause 54 - case for inclusion, unlikely to be controversial - see Mr Pitts' submission of 27 April

Clause 57 - uncontroversial and case for inclusion, wanted by DE and local authorities

Clause 141 - include because consequential of abolition of exchange control

Clause 150 - include as proposed - there will need to be a small structural amendment

Clause 151 - include as proposed - parallel provisions applying to old taxes (CTT and Estate Duty) will need to be included in a subsequent Finance Bill

Clause 153 - include (see Mr Pitts' submission)

Clause 154 - highly desirable (see Mr Pitts' submission)

Clause 157 - highly desirable (see Mr Pitts' submission)

Clause 161 - include as consequential of abolition of exchange control

Clause 163 - highly desirable to secure planned timetable for consolidation of income and corporation tax legislation

Clause 164 - include because affects construction of whole Bill

CONFIDENTIAL

from: J MACAUSLAN
date: 28 APRIL 1987

PS/CHANCELLOR

Thanks. I am surprised there can be any doubt abt the validity of the proposition. Just look @ the volume of JB ads in the provincial papers these days. And these are not distorted by special measures. N.

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr Monck or
Mr Burgner
Mr Sedgwick
Mr Scholar
Mr Culpin
Mr Gray
Mr SJ Davies
Ms O'Mara
Mr Dodds
Mr Hunt
Mr Patterson
Mr Stern
Mr Cropper
Mr Tyric
Mr Ross Goobey

FINANCE BILL DEBATE: SEMS AND UNEMPLOYMENT

You asked for the pros and cons of saying, "Even without the effects of employment measures, the unemployment trend would be downwards".

2. Pro: -it would (if true and easy to show) destroy Opposition claims that the figures are going down only because of measures

3. Con: (as in my note of 21 January): —attached

(a) **not certain:** (Lester Hunt's 15 April note): rolling 3 month average for 5 of the last 6 months shows a small downward movement. But depends on many assumptions. In particular, DE think availability testing is taking more people off the count than we allow for; if so, the underlying trend may not be downwards

(b) we should **not provoke requests for quantification** of the claim: it would show only small if any underlying fall

(c) quantification would direct attention to effects of **Restart and availability in frightening** people off the count

(d) line would add weight to the **false view that the purpose of measures was to reduce the count** (in fact it is to help various groups of people back towards effective job search and employment)

4. DE would oppose saying that the underlying trend without the measures would be downwards, for all the reasons above.

5. The claim is safer if restricted to the old style employment measures than if it covers Restart and availability testing as well. But the Opposition would have no difficulty lumping all the measures together.

6. We (EA, EB, and IAE) think that most of the benefits from making the claim can be got by saying instead:

"The substantial fall in unemployment reflects the success of the Government's economic policies, which have contributed to the creation of over 1 million new jobs since 1983. Employment grew in 2nd half of 1986 by over 140,000; unemployment fell by about 100,000. [If pressed: Fall in unemployment **not** solely due to employment measures. Employment measures including Restart are designed to help particular groups of people to benefit from our excellent growth record.]"

J MacAuslan

J MACAUSLAN

RP

Association of Independent Businesses

(formerly the Smaller Businesses Association)

Trowbray House, 108 Weston Street, London SE1 3QB
Telephone: 01-403 4066

President:
The Rt.Hon. Lord Lever of Manchester

National Chairman:
John Cochrane

The Rt Hon John MacGregor
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

Rec'd
29.4.87

? April 1987

Dear Mr MacGregor,

FINANCE BILL 1987

I enclose the Association's comments and proposals for amendments to the Finance Bill 1987 now before the House of Commons. As you will see from these we concentrate on proposing amendments that would be most helpful to small businesses.

I hope our comments receive your serious consideration as you negotiate the bill through the House of Commons and on to the statute book as the Finance Act 1987.

Yours sincerely

David Selby

DAVID SELBY
Chairman
Tax Committee
Association of Independent Businesses

CHIEF SECRETARY
REC. 29 APR 1987
Mr D Walters
COPIES TO CX FST MST EST
Mr Scholar
Miss Sinclair
PS/IR PS/C+E
Mr Cropper Mr Tyrie
Mr Ross Goobey

ASSOCIATION OF INDEPENDENT BUSINESSES
FINANCE BILL 1987

Regulations Permitting Cash and Annual Accounting for VAT (Clause 11): The AIB welcomes the optional scheme open to all businesses with turnovers below £250,000 whereby VAT would be accounted for on the basis of cash paid and received. Whilst this scheme improves on that proposed in the consultation paper in which the suggested turnover level was £100,000 it falls far short of the AIB's suggestion that the turnover level should be £2 million. We believe this should be the level as use of the scheme will provide more businesses with automatic bad debt relief. Once approved a business wanting to use this scheme should be allowed to remain in the scheme for five years as against the suggested two year period. The longer period will be more helpful to businesses in their administration and planning of the scheme. We are concerned about the optional scheme allowing businesses which have been registered for at least a year to make only one VAT return each year instead of the normal four. This may lead to lack of financial discipline within a business which is currently instilled by the quarterly returns. Whilst the option is retained it could be restricted to businesses which have been registered for at least two years.

VAT Input Tax on Fixed Assets (Clause 12): There is no reason to introduce legislation to adjust input tax on capital goods annually over a five year period. The loss of 100% capital allowances has already had a devastating effect on the cash flow of many businesses especially in the manufacturing sector. There is the added burden of keeping special records to ensure that the VAT input is correctly handled. For smaller businesses this will be yet another administrative chore going contrary to the spirit of deregulation.

Changes in VAT Registration and Deregistration Requirements (Clause 14): The AIB was most relieved that the requirements regarding this area have been relaxed by extending the time to notify liability to be registered to 30 days from the previous stringent 10 day period. However, even with this extended time period there is no reasonable excuse for the Value Added Tax legislation containing the present provisions on the imposition of an automatic liability to a penalty equal to 30% of the VAT for which a taxpayer is liable for the period commencing on the date with effect from which he was required to be registered and ending on the date on which notification was received by the Commissioners.

Tour Operators and Travel Agents (Clause 16): We are concerned about the proposed special VAT margin scheme for tour operators. Under the scheme tour operators who buy in services for their customers will have to pay VAT on the margin between their buying and selling prices. In addition, tour operators will not be able to recover any VAT which may be charged by their suppliers for such services. The fact that services which tour operators supply from their own resources will not be covered by the margin scheme is a blatant discrimination against the small tour operator who invariably will not have the capacity to supply services from his own resources. Furthermore, we are concerned that "tour operator" may be loosely defined. If the scheme is proceeded with Customs and Excise must be restricted to looking at those services that are bought and sold for the benefit of holiday travellers.

Corporation Tax for the Financial Year 1987 Set at 35% (Clause 21): The reduced corporation tax rate has not offset the adverse effect on many businesses from the loss of capital allowances. The Bill should include provision to give 100% capital allowances for the first £50,000 of capital expenditure; retain first year allowances at 50% on plant and machinery indefinitely and re-introduce stock relief for stocks in excess of £50,000 but below £500,000. These measures would greatly assist private companies which have been hardest hit by the provisions of the 1984 Finance Act which reduced capital allowances and abolished stock relief.

Reduction in Small Companies Rate to 27% (Clause 22): The progressive reduction in the Small Companies Rate in line with the basic rate of income tax to 27% is welcome. The estimated effect on revenue receipts of this measure is negligible. The Association of Independent Businesses believes hat more could be done for the small expanding business by introducing a business tax regime which allows businesses to retain more of their earnings. This is the philosophy behind the AIB's "Save Up and Then Spend" business tax regime. Under this scheme businesses would be assessed and taxed in the normal way but taxes paid would be capable of being redeemed for up to seven years on proof of the need to use such money for expanding the business. Tax paid and unredeemed would be surrendered to the Treasury.

Tax Relief for the Cost of Retraining (Clause 36 Schedule 6): The proposal to introduce tax relief for the cost of retraining in new job skills provided by an employer for employees who are to leave or for former employees is welcomed. However, employers should also receive a subsidy for wages paid for the first year after a long term unemployed person has been recruited.

Business Expansion Scheme Changes (Clause 45): Relief under the Business Expansion Scheme for investments made in the first half of the tax year will be able to be claimed against the income of the previous year. This will undoubtedly encourage a more even spread of investment throughout the year. A further change should be included here to allow employees, directors and their families to claim tax relief for investing in their own companies. These are the obvious investors and yet they are precluded from participating in the scheme.

Corporate Capital Gains Taxed at Same Rate as Revenue Profits (Clause 61): This means that in a company liable to corporation tax at the small companies rate, the rate is 3% lower. For other companies liable for corporation tax at the full rate the rate is 5% higher. Whilst the reduction in CGT for small companies is welcomed this is nevertheless a complication which will give rise to tax planning opportunities. We welcome the fact that Advance Corporation Tax (ACT) may be set off against corporation tax on chargeable gains and the fact that surplus ACT brought forward from previous accounting periods may be used for this purpose. This will remove the double charge to tax which previously existed when dividends were paid out of capital gains.

Personal Pension Scheme Proposals (Clauses 69 - 106): The AIB welcomes the tax reform package for the new personal pensions.

Profit Related Pay (Clauses 107 - 122): This is a most significant proposal and the Chancellor's intention to encourage the implementation of profit related pay schemes by offering an element of tax relief to participating employees is welcomed. However, we note that the administration of income tax relief to particpating employees will be the responsibility of the employer and will be made under the normal PAYE system. In this respect the employer's task must be lightened as much as possible by a a more sympathetic approach from the Inland Revenue. There are risks involved and there will be changes in management/staff relationships that some employers may see as risks.

Pay and File Corporation Tax Collection (Clauses 123 - 133): Under Pay and File the onus is put on a company to make its own estimate of its corporation tax liability and pay this by its normal due date. These are radical proposals which just stop short of being a full self assessment scheme. The practical consequences are that companies will have to produce reasonable estimates of their liabilities nine months after the end of the accounting period or otherwise run the risk of interest on an under-payment. Fortunately these measures will not be implemented before 1992 but it is essential that the intervening period should be used by government to ensure that the necessary groundwork is carried out.

Inheritance Tax Threshold Rates (Clause 147): We welcome the increase in the threshold for liability from £71,000 to £90,000 and the increase in the rate bands and in their simplification. This will ease the burden of Inheritance Tax, in particular on the smallest taxable estates.

Inheritance Tax Valuation Relief for Business Property (Clause 149): We welcome the increase in the valuation relief for shares in unquoted companies from 30% to 50% where a holding of over 25% is involved. This brings the level of relief into line with that for controlling interests.

MR 3/42

CONFIDENTIAL

FROM: CATHY RYDING

DATE: 29 April 1987

MR MACAUSLAN

cc: PS/CST
Sir P Middleton
Sir T Burns
Mr Monck
Mr Burgner
Mr Sedgwick
Mr Scholar
Mr Culpin
Mr Gray
Mr S J Davies
Miss O'Mara
Mr Dodds
Mr Hunt
Mr Patterson
Mr Stern
Mr Cropper
Mr Tyrie
Mr Ross Goobey

FINANCE BILL DEBATE: SEMS AND UNEMPLOYMENT

The Chancellor was grateful for your minute of 28 April.

2. The Chancellor was surprised that there can be any doubt about the validity of the proposition that even without the effects of employment measures, the unemployment trend would be downwards. The justification for his comment is the volume of job advertisements in the provincial papers those days. These of course are not distorted by special measures.

CR

CATHY RYDING

R P

Association of British Consortium Banks

~~The Old Deanery, Dean's Court, London EC4V 5AA Telephone: 01-236 4060 Telex: 892458~~

9-10 ANGEL COURT, LONDON EC2R 7HP. Telephone: 01-606 7222 Telex: 887329

29th April, 1987.

ECONOMIC SECRETARY
REC'D 29 APR 1987
ACTION Mr SHEPHERD-IR
COPIES TO PS/CHANCELLOR, PS/FST, Mr CASSELL, MISS SINCLAIR, PS/IR, Mr PAINTER, Mr TAYLOR-THOMPSON.

Ian Stewart, Esq., M.P.,
Economic Secretary to H.M. Treasury,
H.M. Treasury,
Parliament Street,
London, SW1P 3AG.

Dear Minister,

FINANCE BILL 1987
Banks' Overseas Lending: Double Taxation Relief

The Association of British Consortium Banks in London was invited by the Board of Inland Revenue to submit their views on the Chancellor's proposals to restrict the double taxation relief available to banks engaged in lending to non-residents. The Association is responding by confirming its support for the representations already submitted by the British Bankers' Association, supplemented by the attached paper which has been forwarded to its secretariat. Our Association particularly wishes to draw your attention to our observations contained in paragraphs 2 and 3(a) to (c) of our paper.

Our members hope that the views expressed in our submission, plus the documentation prepared for you by the British Bankers' Association on this subject, will assist you to understand more completely the very real concerns they have regarding the implementation of the proposed legislation.

Yours sincerely,

PETER A. BELMONT,
Deputy Chairman.

Enclosure:

THE ASSOCIATION OF BRITISH CONSORTIUM BANKS
FINANCE BILL (1987) - INLAND REVENUE PROPOSALS
FOR AMENDING DOUBLE TAXATION RELIEF ON OVERSEAS LENDING

1. The Association wishes to record the following comments on the proposals contained in the Inland Revenue's Press Release dated 17th March 1987.

2. We acknowledge the principle underlying the Chancellor's decision to restrict the double taxation relief on overseas lending, that it is Government policy to reduce the burden of taxation on the ordinary taxpayer. We consider, however, that in fairness to the institutions most affected by these proposals, their implementation should be more prudently phased over an agreed period of time than at the finite date of 1st April 1988.

3. Our reasons for this suggestion are as follows:-

   (a) There will be a negative effect on lenders to offer existing borrowers new funds or to continue to rollover existing loans at net lower spreads.

   (b) There are a number of specialised banks, in addition to the broader banking community who have funded substantial loans to certain of the LDCs principally affected by the new proposals. The profits of these banks would be severely impaired at a time in their development when

      (i) they need to provide the maximum possible funds against certain sovereign loans.

      (ii) they have a need to maximise their retained profits (and by extension their capital funds) for prudential purposes.

   (c) The attempts now being made towards convergency on banking controls perhaps merits that consideration should also be given to the convergency of other factors affecting banks. We would cite the example of the United States, where a similar phasing out of double taxation relief has been stretched over many years and has been specifically applied to the LDCs covered by the Baker plan.

4. The Association is therefore proposing that strong consideration be given to implementing the new restriction over say 10 years, in respect of existing loans to specified LDC countries or any rescheduling thereof, and possibly any new funds injected in the same qualified LDCs on a "fair share" basis, in relation to all exposures as of say 1st April 1987. This period of implementation would reflect the extended periods of the reschedulings which are being agreed with various LDC sovereign borrowers. Many of these extended rescheduling periods in fact run considerably longer than the 10 years mentioned above. The implementation of this suggestion could possibly be best achieved

in respect of existing loans by gradually reducing after a suitable period the percentage of foreign tax for which full credit would be given in accordance with the following table:-

1987/90	15%	1994/95	8%
90/91	14%	95/96	6%
91/92	13%	96/97	5%
92/93	12%	1997 onward	New regulations to apply to all loans.
93/94	10%		

We accept that the new proposals could apply to voluntary new loans in the qualified countries. On the other hand, considering the frequency with which loans are being exchanged between banks, it should be that any loans acquired by a member bank from another bank in exchange for another loan to the same country, and which did not in fact have the effect of increasing that bank's exposure to that country, should have the same treatment as the loan sold off if the original loan had in fact been in existence from the 1st April 1987 date. As such, the acquired loan should be treated as a replacement and not as a new loan.

5. In addition to the above technical considerations of the new proposals, there are administrative consequences which could impact on our members. These are:-

   (a) the administrative burden of implementing tne new rules will be difficult, expensive and time consuming. It is to be hoped that the Revenue will take a flexible and realistic view in determining such matters as a "just and reasonable" sum for attributing to the total interest cost.

   (b) our members consider that in respect of the determination of funding costs, provisions or operating guidelines on the basis of the proposals set out in paragraph 2 of the Inland Revenue Press Release and paragraph 2 of the Revenue's Summary of Proposed Regulations should not be adopted for the following reasons:-

      (i) Equality between banks: Certain banks, (irrespective of size) may be able to negotiate a higher level of tax credit as a result of their perceived funding costs. This would introduce an inequitable competitive advantage. At the same time we believe it is not correct either to consider margin over LIBOR as the proper determinant of the profitability of loans by virtue of the different funding elements which can constitute funding costs, i.e. capital funds.

(ii) Differences in interpretation between Inspectors of Taxes.

6. You will have received a copy of the letter from the American Banks Association dated 8th April 1987 addressed to Ian Stewart Esq. M.P., Economic Secretary to The Treasury. Our Association wishes to confirm its support for the views expressed in the third paragraph of this letter.

For and on behalf of the
Association of British Consortium Banks

Peter A Belmont
Vice-Chairman

Inland Revenue

Policy Division
Somerset House

FROM: B A MACE

DATE: 29 APRIL 1987

PS/CHIEF SECRETARY

FINANCE BILL: CLAUSE 20: NURSES' PAY

1. For this afternoon's debate the Chief Secretary may like to have this background note about real changes in nurses' pay. Ministers (including the Prime Minister) have made use of a number of different figures in recent weeks and the Opposition might seek to suggest that there is some inconsistency in what has been said.

Nurses' real take-home pay

2. Mr Hudson's draft speech for the Chancellor for this afternoon gives a figure of 42.4 per cent for the increase in real take-home pay of a typical nurse between 1978-79 and 1987-88. The points to note about this figure are:

i) it takes account of last week's pay award to nurses;

ii) it is for the growth in real take-home pay;

iii) it is based on comparison of changes between financial years (as for all our take-home pay figures).

---

cc PS/Chancellor
PS/Financial Secretary
Mr Scotter
Mr Halligon
Mr Cropper
Mr Hudson

Mr Mace
Mr Eason
Dr Keenay
PS/IR

Increase in gross pay

3. During Prime Minister's Questions recently the Prime Minister has given figures for the real increase in nurses' gross pay. These have been referred to in a recent Early Day Motion signed by some Labour MPs (copy attached). The 23 per cent figure mentioned in the Early Day Motion was also referred to in a PQ answered by Mr Newton on 7 April (copy attached). The figure measures the real growth in nurses' gross pay from May 1979 up to and including the 1986 pay award. The comparable figure taking account of the 1987 pay award is 30 per cent. (The 33 per cent figure mentioned in the Early Day Motion is, we gather, on a different basis).

4. For this afternoon's debate we suggest it would probably be preferable to avoid getting into a discussion about changes in nurses' gross pay. If the issue of nurses' pay is raised by the Opposition the Chief Secretary could refer back to the figure of 42.4 per cent for the increase in real take-home pay since 1978-79 mentioned by the Chancellor emphasising that this is a change between financial years (1978-79 to 1987-88) taking account of last week's pay award.

Comparison with Labour's record

5. The reply from Mr Newton also mentions that between 1974 and 1979 nurses (gross) pay fell by 21 per cent in real terms. This figure is rather selective. It measures the change from May 1974 to May 1979 and therefore excludes the effect of the pay award in May 1974 although this was paid by the Labour Government. We could not use such selective figures for constructing a measure of the change in nurse's real take-home pay under the Labour Government. On the usual, financial year, basis of comparison nurses' real take-home pay increased by about 8% between 1973-74 and 1978-79.

6. Because of the difference with the figures put forward by DHSS Ministers our (and Treasury) advice is that Ministers should avoid drawing direct comparisons between the growth of nurses' real take-home pay under this Government and under Labour.

B A Mace

B A MACE

877 *PRIME MINISTER'S STATISTICS ON NURSES' PAY*

Mr W. W. Hamilton
Mr Nicholas Brown
Mr Roland Boyes
Mr Terry Lewis
Mr D. N. Campbell Savours
Mr Peter Pike

Mr Reg Freeson Mr Bruce George ★ 36

That this House notes that on Thursday 2nd April, Official Report, column 1220, the Prime Minister said: 'Nurses' pay has increased by 23 per cent. over and above inflation since the Government came into office'; whilst on Tuesday 7th April, Official Report, column 158, she said 'Nurses' pay . . . was one third, 33 per cent., higher in real terms, in 1986 than in 1979'; and calls on the Prime Minister to indicate which of her statements is accurate.

NHS (Pay)

Mr. Stevens asked the Secretary of State for Social Services how much nurses pay has increased in real terms *(a)* between the implementation of the Halsbury award in 1974 and May 1979, *(b)* since May 1979 and *(c)* since the establishment of the pay review body in 1984.

Mr. Newton [*pursuant to his reply*, 26 March 1987, c. *260*]: The information is as follows:—

a. Between 1974 and 1979 nurses' pay fell by 21 per cent. in real terms;

b. Since 1979 nurses' pay has increased by 23 per cent. in real terms; and

c. Since 1983 nurses' pay has increased by 10 per cent.in real terms.

The percentage real increase reflects the percentage cash increase for the pay round year (1 August to 31 July) deflated by the RPI increase in the pay round year in the 12 months to July.

Mr. Stevens asked the Secretary of State for Social Services what the gross pay of staff nurses and ward sisters was in *(a)* 1974 after the implementation of the Halsbury award *(b)* May 1979, *(c)* in 1984 prior to the establishment of the pay review body and *(d)* following the 1986 pay award.

Mr. Newton [*pursuant to his reply*, 26 March 1987, c. *260*]: Information in the form requested is not available. The basic salary scales for staff nurses and ward sisters at the dates requested are given in the following table. Staff in these grades are eligible for additional payments mainly for working overtime and unsocial hours. Currently average earnings (excluding London weighting) of full-time staff nurses and ward sisters are estimated to be about 17 per cent. and 14 per cent. respectively greater than basic pay.

Grade	*Basic Salary Scales as at:—* May 1974 (a) £	May 1979 (b) £	March 1984 (c) £	July 1986 (d) £
Staff Nurse				
(a) Min	1,692	3,150	4,998	6,475
(b) Max	2,202	3,813	6,094	7,750
Ward Sister (Nursing Sister II)				
(a) Min	2,262	3,888	6,321	8,070
(b) Max	3,000	4,949	8,163	10,800

Mr. Stevens asked the Secretary of State for Social Services how much the pay of *(a)* consultants, *(b)* house officers and *(c)* general practitioners, has increased in real terms (i) between February 1974 and May 1979 and (ii) since May 1979.

Mr. Newton [*pursuant to his reply*, 26 March 1987, c. *260*]: Based on the rates of pay effective on the dates specified, the changes in doctors' pay in real terms were:—

	February 1974 to May 1979 per cent.	*May 1979 to March 1987 per cent.*
House Officer	+13·6	+24·5
Consultant	−19·5	+19·2
General Practitioner (intended net remuneration)	−10·5	+17·0

Mr. Pavitt asked the Secretary of State for Social Services what are the present pay scales for National Health Service nursing officers, ward sisters and radiographers.

Mr. Newton [*pursuant to his reply*, 27 March 1987, c. *305*]: The current basic salary scales for senior nurses 6-8, ward sisters and radiographers are given in the following table.

Salary scales as from 1 July 1986

Grade	*Salary scales* *Minimum* £	*Maximum* £
Senior Nurses[1]		
6	10,880	12,480
7	9,765	12,190
8	9,350	11,300
Ward Sister		
Nursing Sister II	8,070	10,800
Radiographers		
Superintendent I	13,195	14,560
Superintendent II	11,935	13,195
Superintendent III	11,020	11,935
Superintendent IV	9,625	11,020
Senior I	9,625	11,020
Senior II	8,045	9,625
Radiographer	6,695	8,045
Teaching Grades		
Principal 24+	15,470	16,835
Principal I	14,105	15,470
Principal II	13,195	14,560
Senior Teacher	12,775	14,105
Teacher	11,935	13,195
Student Teacher	7,025	8,045

[1] Senior Nurses in pay grades 6-8 equivalent to obsolete grades of Senior Nursing Officer and Nursing Officer.

Nurses (Pay)

Dr. Glyn asked the Secretary of State for Social Services (1) what assessment he has made of the financial position of nurses in the National Health Service, with particular regard to their ability at current pay levels, to obtain suitable accommodation; what representations he has received on this subject from nurses in Berkshire; what discussions he has had with the nurses and midwives negotiating bodies; and if he will make a statement;

(2) if he will expedite his consideration of the recommendation of the review body on nurses' pay; if he will make it his policy, in reaching his conclusions on those recommendations, to allow health authorities sufficient flexibility to enable them to implement a higher pay increase in areas where recruitment and retention is especially difficult; and if he will make a statement.

Mr. Tony Newton [*pursuant to his reply*, 27 March 1987, c. *306-7*]: Although we are aware of suggestions that housing costs are affecting the ability of some health authorities in parts of London and the home counties to fill key nursing posts, we have not received any representations on this issue from nurses in Berkshire, or from the staff side of the nursing and midwifery staffs negotiating council. The review body reports to my right hon. Friend the Prime Minister. I am sure that my hon. Friend would not expect me to anticipate its recommendations or the Government's response to them.

RD

FROM: S P Judge

DATE: 29 April 1987

PS/CHIEF SECRETARY

cc PPS
PS/Financial Secretary
PS/Economic Secretary
Miss C Evans
Parliamentary Clerk
Mr Walters
Miss S P B Walker
Mr Romanski
PS/Inland Revenue
PS/Customs & Excise
Mr Neubert MP
Mr Graham - Parly Counsel
Mr Maclean -
Chief Whip's Office
PS/Lord Privy Seal

FINANCE BILL: STANDING COMMITTEE

I think I should warn you of a possible problem with Finance Bill Standing Committee on Tuesday, 12 May.

The Parliamentary and other Pensions Bill received its Second Reading in the House on Monday night (the Minister of State wound up). The Minister is piloting this Bill through Standing Committee; we managed to negotiate that this be delayed until the week after next. Committee will take two sessions - currently planned for the Tuesday and Thursday mornings. But it is possible that the second session will have to be taken on Tuesday afternoon.

The Minister is optimistic that his first batch of clauses (1-19, of which 11 and 18 will have been taken in CWH) will have been dealt with by then. If they haven't, and the Parliamentary Pensions Bill is also in Committee on the afternoon of Tuesday 12th, the Minister may have to ask one of his colleagues to cover for him.

This is very much by way of advance warning, for an eventuality that is pretty unlikely.

SPJ

S P JUDGE
Private Secretary

SECRET

Inland Revenue

Policy Division
Somerset House

FROM: M A JOHNS
DATE: 29 APRIL 1987

Chief Secretary

FINANCE BILL: CLAUSES TO BE INCLUDED IN A SHORTENED BILL

You asked (Miss Rutter's note of 29 April) for an immediate list of all amendments required to the Clauses proposed to be retained in a shortened Bill as listed in Miss Sinclair's note of 28 April.

The position as regards Revenue clauses is as follows:

Clause 26: amendment clarifying interaction with widows bereavement allowance. Already approved (Mr Heywood's note of 28 April) and being drafted.*

* I gather drafting is now complete

Schedule 4 (linked to Clause 33). 11 short amendments required to deal with CGT points to do with the acquiring company. These amendments are all drafted (Miss Green's note of 23 April) but the FST decided only to take 2 others at Committee of Whole House concerning scheme participants. In

---

cc Chancellor
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Dyer
Mr Cropper
Mr Tyrie
Mr Ross Goobey
Mr Graham - Parliamentary Counsel
Mr Wilmott C&E
Mr Isaac
Mr Painter
Mr Beighton
Mr P Lewis
Mr Corlett
Mr Houghton
Mr McGivern
Mr Taylor Thompson
Mr Pitts
Mr Johns
PS/IR

SECRET

view of this decision we suggested these should be left to a post-election Bill but as you say, this would be messy and they could certainly be picked up at Report stage of a shortened pre-election Bill if you preferred.

Clause 45. The FST has promised TCC to consider amending the £5,000 limit; it is a matter of policy whether you wish to pursue. There is also the proposed new clause on extending BES to fqrm-ins but we assume you would not pursue this in the event of a shortened Bill.

Clause 150. A small structural amendment is needed. It has been drafted and a note will be with the FST very shortly.

Clause 151. This needs its coverage extending to CTT and ED but we assume this would be deferred to a post-election bill.

Clause 153. Ministers propose amendments at Committee Stage to deal with certain arrangements by secondary legislation but this could be deferred to a post election Bill.

Clause 157. Representations have been received from one company to extend the allowance to cover certain basing arrangements. But even if there is a strong case for this (which, on preliminary examination, we doubt) it is more important to get the existing proposal on the statute book and defer considering their proposal till later.

Clause 163. While there may be other pre-consolidation amendments which would be desirable if the Bill goes its full course we would not propose any for a shortened Bill.

Clause 164. Some amendment would be necessary to the Repeals Schedule as a consequential of the dropping of parts of the rest of the Bill.

M A Johns

M A JOHNS

SECRET

Inland Revenue

Policy Division
Somerset House

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DATE: 29 APRIL 1987

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SECRET

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Clause 164. Some amendment would be necessary to the Repeals Schedule as a consequential of the dropping of parts of the rest of the Bill.

M A Johns

M A JOHNS

4084/27

FROM: Deputy Parliamentary Clerk
DATE: 29 April 1987

pw

01-270 5006

PRINCIPAL PRIVATE SECRETARY
PS/CHIEF SECRETARY
PS/FINANCIAL SECRETARY
PS/ECONOMIC SECRETARY
PS/MINISTER OF STATE

cc Mr M C Scholar - FP
Mr C Kelly - MG1
Miss C E C Sinclair - FP
Miss C Evans - FP
Ms H C Goodman - MG1
Mr M Haigh - FP
Mr A Hudson
Mr M Neilson - FIM2
Mr K Romanski - FP
PS/IR
PS/HMCE

FINANCE BILL : COMMITTEE OF THE WHOLE HOUSE

Mr Chairman of Ways and Means' selection of amendments for Committee of the Whole House is as follows:

CLAUSE 33 & SCHEDULE 4 (Employee Share Schemes)

Govt 4 + 8

5 + 6

CLAUSE 147 (Reduced rates of tax)

2

Richard Savage

RICHARD SAVAGE

002/1283

Alex
Tony
Andrew
PWP

CHIEF SECRETARY TO THE TREASURY

FROM: JILL RUTTER
DATE: 29 April 1987

PS/FINANCIAL SECRETARY

cc:
Principal Private Secretary/2
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Miss C Evans
Mr Dyer
Mr Walters
Mr Haigh
Ms Goodman
Mr Romanski
Mr Cropper
Mr Tyrie
Mr Ross Goobey

PS/IR
PS/C & E

Mr Graham - Parliamentary Counsel
Mr Neuber MP
Mr MacLean - Chief Whip's Office

FINANCE BILL: STANDING COMMITTEE

This is to confirm that the Opposition have now agreed that the Finance Bill should go upstairs on 5 May and that the second day will take place on 7 May.

2 I should warn you that the Chief Secretary's constituency engagements mean that he will miss Standing Committee on 7 May. He was intending to do one or two of Clauses 26 to 31. If there is any question of these arising on the second day of the Finance Bill the Chief Secretary would be grateful if your Minister, or another of his colleagues, could cover. (Similarly with clause 37/38)

Jill Rutter

JILL RUTTER
Private Secretary

4374/02

T~~o~~/5

28

FINANCIAL SECRETARY TO THE TREASURY

FROM: J J HEYWOOD
DATE: 29 April 1987

PS/CHIEF SECRETARY

cc Principal Private Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Miss C Evans
Mr Dyer
Mr Walters
Mr Haigh
Ms Goodman
Mr Romanski
Mr Cropper
Mr Tyrie
Mr Ross Goobey
PS/IR
PS/C&E
Mr Graham OPC
Mr Neubert MP
Mr MacLean Chief Whip's Office

FINANCE BILL: STANDING COMMITTEE

1. The Financial Secretary has seen your note of today.

2. He is happy to take on Clauses 26, 36 and 37 if these are reached on 7 May. In addition, he would be happy to do Clause 35.

J.H.

JEREMY HEYWOOD
Private Secretary

MR 2/70

RESTRICTED

R P

FROM: A W KUCZYS
DATE: 29 April 1987

MR ROSS GOOBEY

cc: PS/CST
PS/FST
PS/EST
PS/MST
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Taylor Thompson
Mr Houghton
Mr McGivern
Mr Spence
Mr Munro
IR
Mr M Neubert MP

POST-BUDGET LOBBYING: COUNTER BRIEFS

The Chancellor held a meeting with Ministers, advisers and others yesterday morning to discuss the four counter briefs attached to your minute of 7 April. He said that you had correctly identified the four most tricky areas, and that it would be useful to have another run over the ground before Committee Stage.

1. Lloyd's reinsurance to close

2. The Chancellor said that it seemed that Lloyd's had conceded the basic principle that the Revenue must have a locus, but only in private, and that was as far as they had gone. Mr McGivern reported that Lloyd's had asked to see Mr Painter that morning. They still disagreed on the form of legislation. They were also particularly concerned at the possibility of the legislation being rushed through in a short pre-Election Bill.

3. The Chancellor said that clearly we would not want to include this legislation in a pre-Election Bill, but we would want it in the immediately post-Election Bill, with the original starting date maintained. So on the one hand Lloyd's need not worry about

legislation being rushed through; on the other hand they should not think that they stood to gain by going slow in discussions. The Economic Secretary suggested that, as a means of keeping up the pressure on Lloyd's, we should not give them too much reassurance on this point, however. They should be told that this was as yet a hypothetical point, and Ministers had not yet decided what they would do in the event of an early Election.

4. More generally, the Chancellor said that it was important to focus on the objective, and not get to tied to the means of achieving it. If - as they had not yet done - Lloyd's were to come up with an alternative practical proposal, we would want to consider it very carefully. Mr Spence said that, in fact, Lloyd's were probably finding it difficult to rationalise their own objectives. They had painted themselves into a corner with their PR exercise. The Chancellor mentioned one point that had been made to him: that RIC could not be set at will, since it had to be agreed by the auditors. Mr McGivern said that this was not sufficient or specific enough for tax purposes. An audit did not, for example, prevent the Revenue from questioning companies' accounts. But he confirmed that the Revenue were indeed approaching their discussions with Lloyds with an open mind. It was agreed that they should continue working for a satisfactory outcome, reporting to the Economic Secretary.

2. Life assurance taxation

5. The Chancellor noted that this was the most serious worry of the four points covered. Mr Houghton reported that a letter campaign was underway. The point to bear in mind was that in many cases there would not be an additional 5 per cent taxation. Some companies had said publicly that the change would have little or no impact on them. However, different funds would be affected differently. The yield would be somewhat greater than the £20 million derived from 1985 figures, but probably less than the £100 million which the companies had suggested. Although it might

be significant in comparison with the companies' total tax bill of £500 million it was small when set against their £4 billion management expenses. As for the comparison with unit trusts, there had never been a level playing field covering these two forms of investment and there remained a mix of advantages and disadvantages between the two. The Chancellor noted that this was one area in which there was no ACT offset.

6. The Financial Secretary thought that the present position was tenable. He did not think that the campaign looked like becoming irresistable. But a comprehensive review of the whole area of taxation of life assurance companies was needed. This would probably show that, although their capital gains were slightly over taxed, their income was significantly under-taxed. There might be a case for raising the possibility of a review in the course of Committee Stage. The Chief Secretary thought that this should be kept in reserve. He agreed that this was likely to be the trickiest clause at Committee.

7. Mr Houghton said that, in the event of a June Election, with this legislation left out of a truncated Bill, it would be helpful if the Government were to make its intentions clear (ie that the legislation would be reintroduced after the Election, and backdated to Budget Day). The Chancellor asked Miss Sinclair to look at the 1983 precedent. (She has now done so in her note yesterday to the Chief Secretary.)

3. Pensions package

8. Mr Munro said that, although this seemed to have died down for the present, it was likely that there would be a resurgance of lobbying by the pensions bodies, and in correspondence from individuals. The Chancellor noted that, overall, the pensions package was beneficial to the industry. We needed to present more detailed answers to the points that were raised - especially the impact of the accelerated accrual changes on labour mobility.

<u>4. Bank tax relief on foreign interest</u>

9. The Financial Secretary said that he had had a meeting with the banks, who had asked the Government to consider some detailed changes. It was agreed that this was the least difficult of the four areas.

AWK

A W KUCZYS

PWP

FINAN BILL SPEECH 29/4

CHANCELLOR'S SPEECH, CLAUSE 20

It is wholly appropriate that we should start the Committee Stage of this year's Finance Bill with a Clause that goes to the heart of the difference between the parties in this House.

I might add that before the Budget I was urged by the Opposition not to cut income tax because the polls showed that nobody wanted lower taxes: after the Budget they accused me of indulging in a pre election bribe.

Their concept of an unpopular bribe certainly shows ~~that~~ THE TOTAL CONFUSION OF ~~the political gutter~~ the Labour Party. ~~inhabits is characterised not merely by its stench but by its total confusion:~~ they manoeuvre like squid lost in their own ink.

IF IT IS UNPOPULAR, THEN I CAN ONLY SAY THAT THIS GOVERNMENT HAS CONSISTENTLY SHOWN ITSELF PREPARED TO TAKE WHATEVER MEASURES ARE NECESSARY IN THE INTERESTS OF THE BRITISH ECONOMY, HOWEVER UNPOPULAR THEY MAY BE AT THE TIME.

IF, ON THE OTHER HAND, IT IS POPULAR, I CAN LIVE WITH THAT.

BY LAST YEAR, WE HAD REDUCED THE BASIC RATE OF INCOME TAX - WHICH IS THE MARGINAL RATE OF TAX FOR ~~95~~ 94 PER CENT OF ALL PERSONAL TAXPAYERS AND 90 PER CENT OF UNINCORPORATED BUSINESSES AND THE SELF-EMPLOYED - FROM THE 33 PER CENT WE INHERITED FROM LABOUR TO 29 PER CENT. THE QUESTION BEFORE THE HOUSE TODAY IS WHETHER IT SHOULD BE FURTHER REDUCED TO 27 PER CENT - WITHIN TWO POINTS OF THE OBJECTIVE SET BY MY PREDECESSOR IN 1979 OF A BASIC RATE OF NO MORE THAN 25P IN THE POUND; AN OBJECTIVE WHICH, GIVEN THE CONTINUATION OF PRESENT POLICIES, IT SHOULD NOT TAKE TOO LONG TO ACHIEVE.

INCOME TAX DOWN

FROM A THIRD TO A QUARTER.

WE ON THIS SIDE OF THE HOUSE ARE IN NO DOUBT.

THE BASIC RATE OF TAX SHOULD NOW COME DOWN TO 27 PER CENT.

THE LABOUR PARTY, THE LIBERAL PARTY AND THE SDP ARE EQUALLY ADAMANT THAT INCOME TAX SHOULD NOT BE REDUCED, AND ARE COMMITTED TO VOTING AGAINST IT.

THE DIFFERENCE COULD NOT BE PLAINER.

NOR IS IT ANY ACCIDENT.

FOR THE CONSERVATIVE PARTY IS THE ONLY PARTY COMMITTED TO REDUCING THE BURDEN OF TAXATION AS AND WHEN IT IS PRUDENT TO DO SO.

AND THAT IS PRECISELY WHAT WE HAVE DONE;

WHILE THE OPPOSITION PARTIES ARE IN THE BUSINESS OF INCREASING THE BURDEN OF TAXATION - AS EVERY LABOUR GOVERNMENT THERE HAS EVER BEEN HAS CLEARLY DEMONSTRATED.

IT IS, OF COURSE, TRUE THAT WHEN WE FIRST TOOK OFFICE IN 1979 WE INHERITED A MASSIVE AND UNSUSTAINABLE LEVEL OF

PUBLIC BORROWING WHICH HAD TO BE BROUGHT UNDER CONTROL IF THERE WAS TO BE ANY PROSPECT OF BRINGING DOWN INFLATION, TO WHICH WE WERE COMMITTED.

AND THIS INITIALLY INVOLVED, AS WE CLEARLY EXPLAINED AT THE TIME, AN ~~A TEMPORARY~~ INCREASE IN THE BURDEN OF TAXATION. BUT THAT PHASE WAS ALREADY OVER BY THE TIME WE SECURED THE OVERWHELMING ENDORSEMENT OF THE BRITISH PEOPLE IN THE GENERAL ELECTION OF 1983; AND SINCE THEN THE PATH OF TAXATION HAS BEEN STEADILY DOWNWARD.

AS A RESULT, THE BASIC RATE OF TAX ~~IS NOW~~ THIS YEAR WILL BE SIXPENCE IN THE POUND LOWER THAN THE RATE WE INHERITED FROM LABOUR, THE LOWEST IT HAS BEEN SINCE BEFORE THE WAR. AT THE SAME TIME, PERSONAL ALLOWANCES ARE NOW 22 PER CENT HIGHER IN REAL TERMS THAN IN 1978-79, AND THE MARRIED MAN'S ALLOWANCE IS AT ITS HIGHEST LEVEL SINCE THE WAR.

~~AS A RESULT,~~ 1.4 MILLION PEOPLE HAVE BEEN TAKEN OUT OF INCOME TAX ALTOGETHER, AND TAX THRESHOLDS IN THE UK ARE NOW AROUND THE INTERNATIONAL AVERAGE.

THE OVERALL BURDEN OF INCOME TAX IS SOME £12 BILLION LOWER THAN IT WOULD HAVE BEEN IF WE HAD KEPT LABOUR'S TAX REGIME AND ADJUSTED IT FOR INFLATION.

THE BENEFITS OF THESE TAX REDUCTIONS HAVE BEEN FELT AT ALL LEVELS OF INCOME.

THE PERCENTAGE OF EARNINGS TAKEN IN INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS IS LOWER ~~THAN WE INHERITED~~ ~~IN ALL CASES~~ ~~FOR THE OVERWHELMING MAJORITY OF THE POPULATION.~~ ~~THAN IF WE HAD SIMPLY INDEXED THE LABOUR REGIME.~~

~~FOR~~ AT ALL LEVELS THAN IF WE HAD KEPT THE LABOUR REGIME AND INDEXED IT.

AND REAL TAKE-HOME PAY - WHICH ALSO, OF COURSE, TAKES ACCOUNT OF THE EFFECT OF CHANGES IN INDIRECT TAXATION - IS APPRECIABLY HIGHER AT ALL INCOME LEVELS.

THIS IS IN STARK CONTRAST TO LABOUR'S RECORD IN OFFICE.

SINGLE PEOPLE AT ALL LEVELS WERE WORSE OFF BY ~~IN~~ 1978-79 THAN AT THE START OF LABOUR'S PERIOD ~~SPELL~~ IN OFFICE.

UNDER THIS GOVERNMENT, THEIR REAL TAKE-HOME PAY IS UP BY A FIFTH OR MORE.

OR TAKE THE MARRIED MAN ON AVERAGE EARNINGS.

THOSE WITHOUT CHILDREN WERE ALSO WORSE OFF IN 1978-79 THAN IN 1973-74.

Those with children did better, it is true; and I shall quote the figures, because it is important that the House FULLY appreciates those cases where the Labour Government did actually ~~see~~ PRESIDE OVER an increase in living standards.

The married man on average earnings with two children saw his real take-home pay go up by ALL OF a half of one per cent UNDER LABOUR. Under this Government, it is up by more than 21 per cent.

I should like to take just one more specific example, because it is of some topical interest, and concerns a group whom the Opposition like to pretend have been victimised by this Government.

After the pay award announced last week, a typical nurse will have seen her real take-home pay rise by no less than 42.4 per cent since 1978-79.

If she is married to a typical teacher, their combined REAL take-home pay will also have risen by more than 40 per cent; WHEREAS under Labour it rose by a mere 4 per cent.

And the effect of this year's Budget alone is to increase the take-home pay of a married man on average earnings by almost £4 a week - quite apart from any further benefit he may secure from the reduction in mortgage rates that comes into effect later this week.

The British people know all this.

They know how much better off they are than they were under Labour.

That is why they will not be taken in for one moment by the desperate black propaganda relaunched by the Labour Party this week.

[Refer to Kinnock letter] TRUST HON. MEMBER FOR DAGENHAM
WE HEARD ALL THIS BUSINESS OF SECRET MANIFESTO IN 1983.
CODSWALLOP THEN, CODSWALLOP NOW. IGNORED THEN, IGNORED NOW.

The British people know that it is the Labour Party, with its massive public expenditure pledges to finance, that would increase the burden of taxation once again.

They know that, to pay for its £34 billion public spending programme - an extra £34 billion over and above

THE LEVELS IN THE WHITE PAPER
~~CURRENT LEVELS OF EXPENDITURE~~ – WOULD REQUIRE EITHER A DOUBLING OF THE BASIC ~~RATES~~ RATE OF INCOME TAX OR MORE THAN TREBLING THE STANDARD RATE OF VAT.

AND ON THE SUBJECT OF VAT LET ME SAY THIS.

MY RT. HON. FRIEND THE PRIME MINISTER MADE IT CLEAR AS FAR BACK AS 1984 THAT WE HAVE NO INTENTION OF EXTENDING VAT TO FOOD.

BEYOND THAT, THE INCIDENCE OF TAXATION HAS TO BE DETERMINED IN THE LIGHT OF THE BUDGETARY NEEDS AT THE TIME, AND NO RESPONSIBLE GOVERNMENT COULD CONCEIVABLY TAKE ANY OTHER POSITION.

BUT WHAT IS ABUNDANTLY CLEAR IS THAT IT IS THE LABOUR PARTY WHICH IS IN BUSINESS TO PUT TAXES UP, AND THE CONSERVATIVE PARTY WHICH IS IN BUSINESS TO BRING TAXES DOWN; NO AMOUNT OF SCAREMONGERING CAN OBSCURE THAT BASIC FACT.

AND AS THIS YEAR'S BUDGET RED BOOK CLEARLY SHOWS - AND I REFER THE HOUSE TO TABLE 2.6 - THE PROSPECTS ON THE BASIS OF PRESENT POLICIES ARE OF A STEADY FURTHER REDUCTION IN TAXATION IN THE YEARS AHEAD.

THE GULF BETWEEN THE PARTIES ON THE ISSUE OF TAX IS IN PART A PROFOUND DIFFERENCE OF POLITICAL PHILOSOPHY.

WE BELIEVE THAT WHAT PEOPLE EARN AND SAVE BELONGS TO THEM, AND THAT THE STATE SHOULD TAKE FROM THEM ONLY WHAT IS NECESSARY TO DISCHARGE THE FUNCTIONS THAT ONLY THE STATE CAN PERFORM, LEAVING PEOPLE FREE TO MAKE THEIR OWN CHOICES AND PURSUE THEIR OWN DESTINY.

THEY BELIEVE THAT ALL RESOURCES BELONG TO THE STATE, THAT ALL IMPORTANT DECISIONS SHOULD BE TAKEN BY THE STATE, AND THAT PEOPLE SHOULD BE 'GIVEN' - THAT IS THE WORD THEY USE - WHATEVER POCKET MONEY IS NEEDED TO KEEP THEM QUIET.

ON TAX

BUT THE GULF BETWEEN THE PARTIES IS ALSO AT THE HEART OF THE DIFFERENCE BETWEEN THE TWO SIDES OF THIS HOUSE OVER THE CONDUCT OF ECONOMIC POLICY.

RT HON AND HON MEMBERS OPPOSITE START FROM THE PROPOSITION THAT THE CURE FOR ANY ECONOMIC PROBLEM LIES IN STATE INTERVENTION, WHICH INEVITABLY IMPLIES EVER-INCREASING STATE SPENDING AND EVER-INCREASING TAXATION TO PAY FOR THAT SPENDING.

THE POLICY OF THIS GOVERNMENT IS CLEAR, AND DISTINCT.

AS THE DISMAL EXPERIENCE OF THE 'SEVENTIES DEMONSTRATES BEYOND ANY REASONABLE DOUBT, THE CRUCIAL ROLE OF FISCAL AND MONETARY POLICY MUST BE TO CONTROL AND CONQUER INFLATION.

WITHIN THAT FRAMEWORK, IMPROVED ECONOMIC PERFORMANCE DEPENDS ON THE SUCCESS OF INDIVIDUAL ENTERPRISE.

AND THIS REQUIRES GOVERNMENT RESOLUTELY TO PURSUE A WHOLE RANGE OF POLICIES DESIGNED TO REMOVE THE IMPEDIMENTS TO

~~THAT~~ ENTERPRISE - THROUGH DEREGULATION, THROUGH PRIVATISATION, AND THROUGH REDUCING THE BURDEN OF TAXATION.

THIS PRESCRIPTION IS NOW ACCEPTED THROUGHOUT THE WORLD.

ALL MAJOR COUNTRIES HAVE NOW EMBARKED ON POLICIES OF DEREGULATION. MOST HAVE EMBARKED ON PROGRAMMES OF PRIVATISATION, OPENLY ACKNOWLEDGING THE LEAD GIVEN BY THE UNITED KINGDOM.

AND AS FOR THE BURDEN OF TAXATION, ALL OF THE OTHER MEMBERS OF THE GROUP OF FIVE HAVE EITHER CUT THEIR INCOME TAX RATES, OR HAVE ANNOUNCED PLANS TO DO SO.

SO HAS SWEDEN, WHICH HAS TRADITIONALLY BEEN A HIGH TAX COUNTRY; SO HAVE AUSTRALIA AND NEW ZEALAND, AND, AMONG THE DEVELOPING COUNTRIES, INDIA, ALL OF WHICH HAVE SOCIALIST GOVERNMENTS.

ON THIS AS ON SO MANY ISSUES, IT IS THE OPPOSITION PARTIES IN THIS HOUSE WHO ARE OUT OF STEP, AND OUT OF TOUCH.

EVERYONE ELSE KNOWS THAT THE ONLY ROUTE TO HIGHER LIVING STANDARDS AND MORE JOBS IS THROUGH A MORE DYNAMIC ECONOMY; AND THAT THE ONLY ROUTE TO A MORE DYNAMIC ECONOMY IS THROUGH LOWER TAX RATES.

IT IS NO ACCIDENT THAT THE TWO MOST SUCCESSFUL ECONOMIES IN THE GROUP OF FIVE, AND THE TWO WITH THE LOWEST LEVELS OF UNEMPLOYMENT, THE UNITED STATES AND JAPAN, ARE THE TWO WITH THE LOWEST BURDEN OF PUBLIC SPENDING AND TAXATION.

MOREOVER, THE DYNAMIC AFFECT OF REDUCTIONS IN ~~TAXATION~~ TAX RATES CAN OFTEN MEAN NOT LOWER BUT HIGHER REVENUES, THUS LEADING TO THE SCOPE FOR STILL FURTHER REDUCTIONS IN TAXATION.

FOR EXAMPLE, DESPITE THE REDUCTIONS WE HAVE MADE,

INHERITANCE TAX IS EXPECTED THIS YEAR TO YIELD ALMOST 50 PER CENT MORE IN REAL TERMS THAN CAPITAL TRANSFER TAX DID IN 1978-79.

THE YIELD OF CAPITAL GAINS TAX IS FORECAST TO BE 80 PER CENT HIGHER IN REAL TERMS, AND STAMP DUTY UP BY 140 PER CENT.

As for Income Tax, the higher rates, applying in 1987-88 are, of course, much lower than the absurd penal rates which Labour had.
But they are expected to yield 90 per cent more in real terms, and the top 5 per cent of taxpayers now contribute 28 per cent of income tax, compared to 24 per cent in Labour's last year.

And the greatly increased yield of Corporation Tax, reflecting greatly increased company profitability is clearly connected with the reform of Corporate Taxation I introduced in 1984, which brought the rate of tax on company profits in this country to the lowest in the industrialised world.

There is, as I have said, a profound difference between the two sides of the House over economic policy, of which tax policy is an integral part.

AND THE POLICIES WE HAVE BEEN PURSUING HAVE BEEN ABUNDANTLY VINDICATED BY THE RESULTS THEY HAVE BROUGHT.

IT IS NO ACCIDENT THAT, THIS YEAR, I HAVE BEEN ABLE TO REDUCE TAXES BY £2½ BILLION AND TO INCREASE PUBLIC SPENDING ON PRIORITY AREAS BY £4¾ BILLION, WHILE REDUCING PUBLIC BORROWING BELOW ITS PREVIOUSLY PLANNED LEVEL BY SOME £3 BILLION.

FOR THE OPPOSITION TO CLAIM THAT THEY WOULD HAVE USED THE MONEY DIFFERENTLY IS BESIDE THE POINT. FOR WITH THEIR POLICIES, IT WOULD NEVER HAVE BEEN THERE IN THE FIRST PLACE.

~~FOR~~ AS A RESULT OF <u>OUR</u> POLICIES, THE ECONOMY TODAY IS SOUNDER THAN IT HAS BEEN AT ANY TIME SINCE THE WAR - A FACT INCREASINGLY RECOGNISED THROUGHOUT THE WORLD.

OF COURSE, THERE IS ALWAYS SCOPE FOR FURTHER IMPROVEMENT: THAT HAS ALWAYS BEEN SO AND WILL ALWAYS BE SO, IN EVERY COUNTRY IN THE WORLD.

INDEED, AT THE PRESENT TIME IT IS IN THE REST OF THE WORLD WHERE THE BIGGEST PROBLEMS LIE, AS THE UNITED STATES AND JAPAN, IN PARTICULAR, STRUGGLE TO ADJUST SUCCESSFULLY TO THE MASSIVE BUT NECESSARY CHANGE THAT HAS OCCURRED OVER THE PAST TWO YEARS IN THE $/YEN EXCHANGE RATE.

IT IS OF THE FIRST IMPORTANCE TO ALL OF US THAT THESE TWO POWERFUL NATIONS PULL BACK FROM THE BLIND ALLEY OF A TRADE WAR AND INSTEAD CONCENTRATE ON MEASURES TO PUT THEIR OWN HOUSES IN ORDER, WHICH IN ~~TIME~~ TURN WILL UNDERPIN, AS IS HIGHLY DESIRABLE, THE PRESENT WORLD PATTERN OF EXHANGE RATES.

MEANWHILE, THE BRITISH ECONOMY IS INDEED, AS THE HEADLINE OF THE LEADING ARTICLE IN TODAY'S <u>FINANCIAL TIMES</u> DESCRIBES US, "AN ISLAND OF SUCCESS".

I DESCRIBED SOME OF THAT SUCCESS STORY IN MY BUDGET SPEECH LAST MONTH.

HOW OUR GROWTH THIS YEAR WILL BE THE HIGHEST IN THE INDUSTRIALISED WORLD, WITH INFLATION REMAINING LOW.

HOW BY THE END OF THIS YEAR WE WILL HAVE REGISTERED THE LONGEST PERIOD OF STEADY GROWTH, AT CLOSE TO 3 PER CENT A YEAR, THAT THE BRITISH ECONOMY HAS KNOWN SINCE THE WAR.

I DESCRIBED THE MASSIVE STRENGTH OF OUR EXTERNAL POSITION, WHILE AT HOME UNEMPLOYMENT ~~WAS~~ IS NOW ~~FINALLY~~ FIRMLY ON A DOWNWARD TREND.

AND ALL THIS, I HAVE TO SAY, WAS ON THE BASIS OF DELIBERATELY CAUTIOUS FORECASTS.

I SHALL NOT BE PUBLISHING A FURTHER FORECAST UNTIL THE AUTUMN, IN THE USUAL WAY.

BUT ALL THE INDICATORS THAT HAVE BEEN PUBLISHED SINCE THE BUDGET CONFIRM THAT, IF ANYTHING, WE ARE DOING EVEN BETTER THAN I SUGGESTED THEN.

THE PSBR FOR 1986-87 HAS COME OUT LOWER THAN I FORECAST IN THE BUDGET.

INFLATION, TOO, IS SLIGHTLY LOWER THAN I SUGGESTED IN THE BUDGET. THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS IS ALSO PERFORMING BETTER, SO FAR, THAN I PREDICTED.

AND OUTPUT APPEARS TO BE RISING IF ANYTHING RATHER FASTER.

THIS IS FULLY REFLECTED IN THE CBI'S QUARTERLY INDUSTRIAL TRENDS SURVEY, PUBLISHED YESTERDAY, WHICH IS OF COURSE

CONFINED TO MANUFACTURING INDUSTRY, ABOUT WHICH THE OPPOSITION ALWAYS PROFESS PARTICULAR CONCERN.

ALL IN ALL, THIS SURVEY SHOWS MANUFACTURING INDUSTRY'S OPTIMISM TO BE AT OR NEAR THE HIGHEST LEVEL EVER RECORDED, WHETHER IN RESPECT OF OUTPUT, ~~EXPORTS,~~ ORDERS, OR EXPORTS. ~~OR INVESTMENT.~~

AND OF COURSE THIS WAS BEFORE THE FURTHER CUT IN INTEREST RATES YESTERDAY, WHICH I AM SURE THE WHOLE HOUSE WILL WELCOME.

THESE ARE THE FRUITS OF THE POLICIES WE HAVE BEEN CONSISTENTLY PURSUING SINCE WE FIRST TOOK OFFICE.

WHEN HE RISES TO SPEAK, THE HON MEMBER FOR DAGENHAM WILL, I HAVE NO DOUBT, PAINT A DIFFERENT PICTURE - ONE OF DOOM AND DESPAIR, DEPRESSION AND DISASTER.

CERTAINLY, I HOPE HE DOES.

BECAUSE THE MORE THAT RT HON AND HON MEMBERS OPPOSITE DO THIS, THE MORE NAILS THEY HAMMER INTO THE ~~THE SHATTERED CREDIBILITY OF THE LABOUR PARTY FURTHER DEMINISHES.~~ COFFIN OF LABOUR'S CREDIBILITY.

FOR ALL IT DOES IS TO DEMONSTRATE IN THE CLEAREST POSSIBLE WAY THAT THEY ARE WHOLLY OUT OF TOUCH WITH WHAT IS HAPPENING IN THE REAL WORLD.

CONCLUSION

MR DEPUTY SPEAKER, FOR THE OPPOSITION TO CRITICISE US FOR HAVING INCREASED TAXATION IN 1979-81 WHEN WE WERE CLEARING UP THE MESS THEY LEFT BEHIND IS NOT MERELY AN IMPERTINENCE: IT IS SATAN DENOUNCING SIN, COMING FROM A PARTY WHICH IS ITSELF IMPLICITLY COMMITTED TO A MASSIVE FURTHER INCREASE IN THE TAX BURDEN ON ORDINARY PEOPLE.

THE ONLY 27 PER CENT LABOUR EVER KNEW WAS 27 PER CENT INFLATION - AND IF THEY WERE EVER TO REGAIN OFFICE THAT IS WHAT WE WOULD SEE AGAIN.

NO WONDER THEY HAVE COMMITTED THEMSELVES TO REVERSING THE 2P CUT IN INCOME TAX IN THE BUDGET: THEY ~~HOPE THAT~~ ARE PLEADING GUILTY TO THIS LESSER OFFENCE ~~WILL~~ TO DIVERT ATTENTION FROM ~~THE FACT~~ THE FACT THAT TO FINANCE THEIR OVERALL SPENDING PLANS ~~THEY~~ WOULD MEAN ~~HAVE TO DOUBLE~~ DOUBLING THE BASIC RATE OF INCOME TAX.

AS FOR THE LIBERALS AND THE SDP, AND IT WOULD BE WRONG TO FORGET THEM, THEY SAY THAT THEY WILL VOTE AGAINST THE 2P

REDUCTION IN INCOME TAX BUT DON'T KNOW WHETHER, IF THEY WERE EVER TO BE IN A POSITION TO INFLUENCE EVENTS, THEY WOULD REVERSE IT OR NOT.

THEIR CONFUSION ON INCOME TAX PARALLELS THEIR CONFUSION ON EVERY OTHER ASPECT OF ECONOMIC POLICY - NOT TO SAY MORE WIDELY.

THE WHOLE WORLD NOW RECOGNISES THAT OUR POLICIES HAVE CREATED AN ECONOMY THAT IS STRONGER THAN AT ANY TIME SINCE THE WAR.

THE POLICIES OF THE OPPOSITION WOULD DESTROY THAT STRENGTH.

AN INTEGRAL PART OF OUR POLICY HAS BEEN THE REDUCTION OF INCOME TAX, AND CLAUSE 20 IS A FURTHER STEP FORWARD.

SO LONG AS THIS GOVERNMENT IS IN OFFICE, IT WILL NOT BE THE LAST.

I WOULD REMIND THE HOUSE OF THE PRECISE WORDS USED BY MY PREDECESSOR IN 1979, WHICH I HAVE REAFFIRMED BEFORE AND REAFFIRM TODAY: OUR LONG-TERM OBJECTIVE IS A BASIC RATE OF NO MORE THAN 25 PER CENT.

WE DO NOT PURSUE POLICIES TO MEET ARBITRARY TARGETS, AND THEN SIT BACK.

WE PURSUE THEM BECAUSE THEY ARE RIGHT, AND BECAUSE THEY WORK, AND WE SHALL CONTINUE TO DO SO.

THE CONTRAST WITH THE OPPOSITION COULD NOT BE GREATER.

WE BELIEVE IN BUILDING ON SUCCESS; THEY BELIEVE IN A RETURN TO THE FAILURES OF THE PAST.

WE BELIEVE IN INCENTIVES FOR SUCCESS; THEY BELIEVE IN PENALISING THOSE WHO SUCCEED.

WE BELIEVE IN A FREE ECONOMY AND A FREE SOCIETY; THEY BELIEVE IN STATE PLANNING AND STATE REGULATION.

THE VOTE AT THE END OF THIS DEBATE ~~WILL ESTABLISH, ONCE~~ IS OF THE FIRST IMPORTANCE. FOR IT WILL ESTABLISH, BEYOND DOUBT, ONCE AND FOR ALL, WHICH PARTY IS THE PARTY OF LOWER TAXATION, AND WHICH PARTIES ARE THE PARTIES OF HIGHER TAXATION.

I COMMEND CLAUSE 20 TO THE HOUSE.

Mr Hudson 13/2

Nigel

Pl. make sure we get 1 set for the office, for you to keep, not to be referred to anybody else unless requested.

AH

COMMITTEE OF THE WHOLE HOUSE

FINANCE BILL

(Clauses 11, 18, 20, 21, 22, 23, 33, 45, 147 and 160 and Schedule 4)

NOTE.

The Amendments have been arranged in accordance with the order to be proposed by Mr Chancellor of the Exchequer

Mr Chancellor of the Exchequer

To move, That the order in which proceedings in Committee of the whole House on the Finance Bill are to be taken shall be Clause 20, Clause 23, Clause 21, Clause 22, Clause 11, Clause 147, Clause 160, Clause 18, Clause 33, Schedule 4 and Clause 45.

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

IR

Clause **147**, page **96**, line **5**, leave out lines 6 to 14 and insert:— 2

'*TABLE OF RATES OF TAX*

Portion of Value *Lower limit* £	*Upper limit*	*Rate of Tax per cent.*
0	80,000	Nil
80,000	130,000	30
130,000	190,000	40
190,000	317,000	50
317,000		60'.

MG1

Sir William Clark

Clause **160**, page **106**, line **38**, at end add— 3

'(5) Section 482 of the Taxes Act (migration etc. of companies) shall cease to have effect.'.

IR

Mr Chancellor of the Exchequer

Clause **33**, page **23**, line **7**, after 'Schedule', insert 'and the consequential provisions relating to capital gains tax in Part IIA thereof'. 4

5 T

Finance Bill *continued*

Sir William Clark
Mr Tim Smith

1R

5

Clause **33**, page **23**, line **7**, at end insert—

'(1A) In paragraph 15(1) of Schedule 10 to the Finance Act 1984 for the definition of "qualifying employee" there shall be substituted the following words "qualifying employee" in relation to a company, means an employee of the company (other than one who is a director of the company or, in the case of a group scheme, of a participating company) who is required, under the terms of his employment, to work for the company for—

(*a*) at least twenty hours a week where the employee has been employed continuously by the company for not more than one year, or

(*b*) at least sixteen hours a week where the employee has been employed continuously by the company for more than one year but not more than three years, or

(*c*) at least twelve hours a week where the employee has been employed continuously by the company for more than three years but not more than five years, or

(*d*) at least eight hours a week where the employee has been employed continuously by the company for more than five years.'.

Sir William Clark
Mr Tim Smith

1R

6

Clause **33**, page **23**, line **7**, at end insert—

'(1A) In paragraph 15(1) of Schedule 10 to the Finance Act 1984 for the definition of "qualifying employee" there shall be substituted the following words— "qualifying employee" in relation to a company, means—an employee of the company (other than one who is a director of the company or, in the case of a group scheme, of a participating company) who is required, under the terms of his employment, to work for the company for at least twenty hours a week; and any other employee provided that in such a case the number of shares which he is granted the right to acquire bears the same proportion to the number of shares which he would have been granted the right to acquire had he worked for twenty hours per week as the number of hours he is required to work bears to twenty.'.

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

1R

7

Clause **33**, page **23**, line **19**, at end add—

'(5) Approval under Schedule 10 to the Finance Act 1984 (approved share option schemes) shall not be given unless the company seeking approval has an approval scheme under—

(*a*) Schedule 9 to the Finance Act 1978 or

(*b*) Schedule 10 to the Finance Act 1980.

Such approval under (*a*) or (*b*) above will only be regarded as having been given, for the purposes of this subsection if—

(1) In the case of a company with no companies under its control, it has an approved scheme for its own employees under (*a*) or (*b*) above.

(2) In the case of a company with one or more companies under its control, if the company has an approved scheme under (*a*) or (*b*) above for the employees of all the employees of all the companies under its control.

This subsection comes into effect on the coming into force of this Act.'.

Finance Bill *continued*

Mr Chancellor of the Exchequer

IR 8

Schedule **4**, page **122**, line **38**, at end insert—

'PART IIA

CONSEQUENTIAL PROVISIONS RELATING TO CAPITAL GAINS TAX

3A. In section 47 of the Finance Act 1980 (savings-related share option schemes) after subsection (2) there shall be inserted the following subsection—

"(2A) Where a right to acquire shares in a body corporate which was obtained as mentioned in subsection (1) above is exchanged for a right to acquire shares in another body corporate in accordance with a provision included in a scheme pursuant to paragraph 10A of Schedule 10 to this Act, the exchange shall not be treated for the purposes of the Capital Gains Tax Act 1979 as involving any disposal of the first-mentioned right or any acquisition of the other right, but for those purposes the other right shall be treated as the same asset acquired as the first-mentioned right was acquired."

3B. In section 38 of the Finance Act 1984 (approved share option schemes) after subsection (6) there shall be inserted the following subsection—

"(6A) Where a right to acquire shares in a body corporate is exchanged for a right to acquire shares in another body corporate in accordance with a provision included in a scheme pursuant to paragraph 4A of Schedule 10 to this Act, the exchange shall not be treated for the purposes of the Capital Gains Tax Act 1979 as involving any disposal of the first-mentioned right or any acquisition of the other right, but for those purposes the other right shall be treated as the same asset acquired as the first-mentioned right was acquired.".'.

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

IR 9

Clause **45**, page **32**, line **37**, at end add—

(7)(*a*) In Schedule 5 to the Finance Act 1983, in paragraph 5A(1), leave out "greater than one half of the company's assets as a whole", insert "greater than one fifth of the company's assets as a whole".

(*b*) In Schedule 5 to the Finance Act 1983, in paragraph 5A(2), insert at end, "The amounts deductible under (*a*), (*b*) and (*c*) immediately above shall themselves be reduced by £7·00, where £7·00 represents funds surplus to those required for the trading requirements of the company".'.

NOTICES OF AMENDMENTS

given on

Wednesday 29th April 1987

For other Amendment(s), see the following page(s) of Supplement to Votes:
SC 23-25, 191 *and* 193

STANDING COMMITTEE B

FINANCE BILL
(except Clauses 11, 18, 20, 21, 22, 23, 33, 45, 147 and 160 and Schedule 4)

War widows pensions

Mr Nicholas Winterton
Sir Bernard Braine
Mr Alfred Morris
Mr Alec Woodall
Mr Andrew Bowden
Sir Patrick Wall

1R

Mrs Ann Winterton
Mr Richard Holt
Viscount Cranborne
Mr Hugh Dykes
Mr Neil Hamilton
Mr Teddy Taylor
Mr Robert Jackson
Mr Jack Ashley
Mr Andrew Hunter
Mr Andrew Stewart

NC4

To move the following Clause:—

'The second pension from the Department of Health and Social Security given to those widowed since the implementation of the 1973 Armed Forces Pensions Schemes in addition to the Forces Family Pension shall be granted to all those widowed before the 1973 Armed Forces Pension Scheme in addition to their existing War Widows' Pension.'.

Exemption from duty of hydrocarbon fuels used by engine manufacturers

Mr Roger King

1R

NC5

To move the following Clause:—

'In the Hydrocarbon Oil Duties Act 1979, section 9, subsection (2)(*b*) after "article", delete the rest of the subsection and insert:

"(*c*) and use in the bench-testing of an internal combustion piston engine during the research, development, manufacture or preparation of such engine or any part thereof by a manufacturer of motor vehicles or of motor vehicle engines or parts thereof or by any organisation engaged in such engine research and development, but do not include except as provided in subsection (2)(*c*) above the use of oil as fuel or, except as provided by subsection (3) below, as a lubricant.".

1R

Mr John MacGregor

Clause **26**, page **18**, line **43**, at end insert—

'(*aa*) subsection (2) of section 14 of that Act (which, as applied by section 15A of that Act, determines the amount of widow's bereavement allowance), and '.

RP

SECRET

Inland Revenue

Policy Division
Somerset House

FROM: M A JOHNS
DATE: 29 APRIL 1987

Chief Secretary

FINANCE BILL: CLAUSES TO BE INCLUDED IN A SHORTENED BILL

You asked (Miss Rutter's note of 29 April) for an immediate list of all amendments required to the Clauses proposed to be retained in a shortened Bill as listed in Miss Sinclair's note of 28 April.

The position as regards Revenue clauses is as follows:

Clause 26: amendment clarifying interaction with widows bereavement allowance. Already approved (Mr Heywood's note of 28 April) and being drafted.*

* I gather drafting is now complete

Schedule 4 (linked to Clause 33). 11 short amendments required to deal with CGT points to do with the acquiring company. These amendments are all drafted (Miss Green's note of 23 April) but the FST decided only to take 2 others at Committee of Whole House concerning scheme participants. In

---

cc Chancellor
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Dyer
Mr Cropper
Mr Tyrie
Mr Ross Goobey
Mr Graham - Parliamentary Counsel
Mr Wilmott C&E
Mr Isaac
Mr Painter
Mr Beighton
Mr P Lewis
Mr Corlett
Mr Houghton
Mr McGivern
Mr Taylor Thompson
Mr Pitts
Mr Johns
PS/IR

view of this decision we suggested these should be left to a post-election Bill but as you say, this would be messy and they could certainly be picked up at Report stage of a shortened pre-election Bill if you preferred.

Clause 45. The FST has promised TCC to consider amending the £5,000 limit; it is a matter of policy whether you wish to pursue. There is also the proposed new clause on extending BES to farm-ins but we assume you would not pursue this in the event of a shortened Bill.

Clause 150. A small structural amendment is needed. It has been drafted and a note will be with the FST very shortly.

Clause 151. This needs its coverage extending to CTT and ED but we assume this would be deferred to a post-election bill.

Clause 153. Ministers propose amendments at Committee Stage to deal with certain arrangements by secondary legislation but this could be deferred to a post election Bill.

Clause 157. Representations have been received from one company to extend the allowance to cover certain basing arrangements. But even if there is a strong case for this (which, on preliminary examination, we doubt) it is more important to get the existing proposal on the statute book and defer considering their proposal till later.

Clause 163. While there may be other pre-consolidation amendments which would be desirable if the Bill goes its full course we would not propose any for a shortened Bill.

Clause 164. Some amendment would be necessary to the Repeals Schedule as a consequential of the dropping of parts of the rest of the Bill.

M A Johns.

M A JOHNS

RH12.56

UNCLASSIFIED

AC Rw?

FROM: A P HUDSON

DATE: 29 April 1987

MR ROSS GOOBEY

FINANCE BILL CLAUSE 20: INTERVENTION FROM NIGEL FOREMAN MP

As you may recall, the Chancellor offered to write to Nigel Foreman MP, to give him details of the relative gains to pensioners under this Government.

2. Since you are the expert on all this, could I ask you to provide a suitable draft? Presumably it may be sufficient to draw his attention to the Backbench Brief.

APH

A P HUDSON

SECRET

PWP
Arrived too late for meeting folder

FROM: J J HEYWOOD
DATE: 29 April 1987

MR PITTS IR

cc Principal Private Secretary
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Williams
Miss Evans
Mr Haigh
Mr Dyer
Mr Cropper
Mr Tyrie
Mr Ross Goobey
Mrs Hubbard IR
Mr Johns IR
Mr Graham OPC

FINANCE BILL: CONTINGENCY PLANNING

The Financial Secretary was grateful for your note of 27 April which looked at which oil clauses might be included in a pre-election Bill. He has also seen Miss Sinclair's minute of 28 April.

2. The Financial Secretary's conclusions are as follows:

- 54: ACT carry-back: include this as welcomed by BRINDEX
- 55: ACT surrender by certain consortia : defer
- 56: ACT preference shares : defer
- 153: PRT nomination scheme : include since companies have been acting under it without legislative cover since February
- 154: PRT valuation: include since linked to 153
- 155: Oil blends: defer
- 156: PRT research expenditure: defer
- 157: Cross-field allowance: include as welcomed by UKOOA and others
- 158/159: defer.

3. You will note that the Financial Secretary's conclusions coincide with those of officials as reported in Miss Sinclair's note of 28 April.

4. On Clause 156, the Financial Secretary has also read your other note of 27 April, covering Mrs Hubbard's minute of the same date. The Financial Secretary has concluded that the status quo in relation to onshore exploration and appraisal should be maintained. Thus he endorses Mrs Hubbard's recommendation in paragraph 12(b), except that if there is a truncated Finance Bill there will be no need to table the necssary amendment since Clause 156 will be deferred.

J.H.

JEREMY HEYWOOD
Private Secretary

Inland Revenue

Policy Division
Somerset House

FROM: H B THOMPSON
DATE: 29 APRIL 1987

1. MR HOUGHTON ✓ 30/4.

2. FINANCIAL SECRETARY

Finance Bill Starter 177: IHT - Interests in Possession

1. This note discusses two desirable further modifications of the rules about payment of tax when a potentially exempt transfer (PET) out of an interest in possession (IIP) trust becomes chargeable because the transferor dies within seven years.

Priority Rule

2. The persons liable for tax on a transfer out of an IIP trust are the trustees, the beneficiaries and (in certain cases where the trustees are not resident in the

---

cc PS/Chancellor of the Exchequer
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Monger
Mr Scholar
Miss Sinclair
Mr Cropper
Mr Haigh
Mr Graham (Parl. Counsel)
Miss Johnson (Parl. Counsel)

Chairman
Mr Isaac
Mr Painter
Mr Houghton
Mr Calder
Mr Lawrance
Mr Cleave
Mr Scott
Mr Furey
Mr Gonzalez
Mr Brown
Mr Johns
Mr Kent
Mr Battersby
Mr Thompson
Mr Hamilton
Mr McKean
Mr Denton
Mr Lakhanpaul
Mrs Evans
PS/IR
Mr. Beighton.

UK) the settlor. The trustees are primarily liable for tax chargeable at the time of the transfer, with recourse to the others if they default. There is however no priority rule for extra tax due as the result of the transferor's death within seven years: that liability falls on all the liable persons equally. As the liability rules now stand, the same will apply under the new arrangements proposed in the Bill for IIP trusts. When a PET fails because of the death of the transferor within the seven year period, liability will fall equally on trustees and beneficiaries.

3. The defect could be cured by a short technical amendment to make the trustees primarily liable for the tax on a failed PET out of an IIP trust.

Defunct Trusts

4. Until recently we took the view - somewhat diffidently - that if an IIP trust was wound up between the date of a transfer out of it and the date of the transferor's death, we could recover extra tax due as a result of the death from the former trustees. We have now been advised that with the advent of PET treatment for IIP trusts this view is no longer tenable. If a trust is wound up between the dates of a PET and the death that triggers the charge on it, we cannot recover the tax from the former trustees of the defunct trust. This is because at the time of the event that triggers the charge - the death - there are no longer any extant trustees on whom the liability rules will bite. If the beneficiaries are out of the jurisdiction of the UK Courts, there is no one from whom we can recover the tax.

5. It would therefore be appropriate to introduce a short provision to ensure that the last trustees of a defunct trust remained liable.

6. The merits of such an amendment should not provoke criticism: it is unlikely that anyone would defend a situation that allows tax liability on a transfer to overseas beneficiaries to be defeated by winding up the trust. But the insertion of a specific provision could lead to wider debate. There might be pressure for an advance clearance procedure for future liability. This existed for estate duty but it has been resisted for capital transfer tax and inheritance tax, mainly because of the staff costs involved. Those who wish to make advance provision for possible death tax on an inter vivos transfer - as many do - must make their own estimate and take their own risk.

7. The doubt about the interpretation of the legislation has not yet been widely perceived even by specialists. If you wish to avoid possible time-consuming discussions in Committee the point might perhaps be left for attention next year. This would however make an amendment on the priority rule look a little awkward if the defunct trust point is raised, since deferring beneficiaries' liability would leave no taxpayer primarily liable in defunct trust cases.

Summary

8. Technically, both amendments are desirable, and subject to the views of Parliamentary Counsel would need only a few lines in the Bill. The priority rule could be left alone for this year with little or no damage to the Revenue, but it is a worthwhile tidying up that may save some arguments between the parties about who should pay the tax. It could be made by itself at the risk of a minor presentational awkwardness if others raise the defunct trust point.

9. Amendment on the defunct trust point might lead to a debate on wider issues or - if the loophole is spotted - to criticisms of the Government for extending PET treatment to IIP trusts with a lacuna in the enforcement provisions. It could perhaps be left until next year if you were prepared to legislate to make the new rule run from Budget Day this year, but it could not be left indefinitely since that opens up the prospect of increasing avoidance later.

10. In view of the uncertainty over timing of Committee this year, we think the best course is to seek your authority to instruct Parliamentary Counsel to draft appropriate amendments for possible introduction in Committee. Whether they are to be introduced can be decided later.

H B THOMPSON

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

pug

Ch

This is the meeting you asked for at Prayers on Monday.

We have brought it forward to 8.45am to allow a little more time — you have to be at No.10 at 9.30am.

PS/CST (Jill Rutter) will also come to the meeting (and take the note)

AWK

29/4

SECRET

Inland Revenue

Policy Division
Somerset House

FROM: M A JOHNS
DATE: 29 APRIL 1987

Chief Secretary

FINANCE BILL: CLAUSES TO BE INCLUDED IN A SHORTENED BILL

You asked (Miss Rutter's note of 29 April) for an immediate list of all amendments required to the Clauses proposed to be retained in a shortened Bill as listed in Miss Sinclair's note of 28 April.

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JOHNS → CST 29/4

cc Chancellor
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Dyer
Mr Cropper
Mr Tyrie
Mr Ross Goobey
Mr Graham - Parliamentary Counsel
Mr Wilmott C&E
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Mr Painter
Mr Beighton
Mr P Lewis
Mr Corlett
Mr Houghton
Mr McGivern
Mr Taylor Thompson
Mr Pitts
Mr Johns
PS/IR

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Clause 157. Representations have been received from one company to extend the allowance to cover certain basing arrangements. But even if there is a strong case for this (which, on preliminary examination, we doubt) it is more important to get the existing proposal on the statute book and defer considering their proposal till later.

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Clause 164. Some amendment would be necessary to the Repeals Schedule as a consequential of the dropping of parts of the rest of the Bill.

M A Johns

M A JOHNS

SECRET

FROM: MISS C E C SINCLAIR
DATE: 29 April 1987

CHIEF SECRETARY

cc Principal Private Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Mr Cassell
Mr Scholar
Miss C Evans
Mr Walters
Mr Haigh
Ms Goodman
Mr Dyer
Mr Romanski
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Johns - IR
Mr Wilmott - C&E

Mr Graham - Parly Counsel
Mr Neubert - MP

SINCLAIR → CST 29/4

FINANCE BILL: CLAUSES TO BE INCLUDED IN A SHORTENED BILL

Two corrections and a gloss on my submission of yesterday: I have also now seen your Private Secretary's minute of today's date, and Mr Heywood's minute to Mr Pitts setting out the Financial Secretary's conclusions on the oil clauses.

2. Clause 162 has been put in to placate Counsel to the Speaker, not the Speaker himself.

3. The figures in paragraph 16 of my minute, comparing the proposed shortened Finance Bill with the pre-election Bill in 1983, inadvertently did not take account of the Customs and Treasury clauses. When these are taken into account, the position is a little different. The 1983 pre-election Bill was 79 (old) pages, equivalent to around 63 new ones. There is a fair chance that many, if not all, of the Customs clauses could be got through in a pre-election Bill. Assuming that <u>all</u> the Customs clauses

were included, plus the oil clauses recommended by the Financial Secretary and those in the enclosure to my submission of yesterday, we estimate that a shortened Bill might come to around 63 new pages.

4. In the light of this, Ministers may want to consider the case for including the stamp duty clauses (clauses 138-140 and 142-146). Stamp duty provisions cannot be given retrospective effect and some are tied to legislation already on the statute book. The clauses are all non-controversial. Including them all would add less than 3 pages to the Bill.

5. On the points in Miss Rutter's minute, Mr Johns in the Revenue hopes to let you have to-night a list of all the amendments to the Revenue clauses proposed for retention. We do not think that there are any amendments to the Customs clauses proposed for retention, but we have not been able to contact Customs to establish this definitively. There are no amendments to the Treasury clauses.

6. You asked specifically about amendments to Clauses 161, 163 and 164. There will be no amendments to the first two, but the third would need to be amended in the event of a shortened Finance Bill.

Carolyn Sinclair

CAROLYN SINCLAIR

005/1283

SECRET

FROM: JILL RUTTER
FROM: 29 April 1987

MISS SINCLAIR

cc:
Principal Private Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Mr Cassell
Mr Scholar
Miss C Evans
Mr Walters
Mr Haigh
Ms Goodman
Mr Dyer
Mr Romanski
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Johns - IR
Mr Wilmott - C & E

Mr Graham - Parly Counsel
Mr Neubert - MP

PS/CST → SINCLAIR 29/4

FINANCE BILL: CLAUSES TO BE INCLUDED IN A SHORTENED BILL

Your minute of 28 April is to be discussed at the Chancellor's meeting tomorrow. I thought you might however find it useful to have the Chief Secretary's preliminary reactions to that minute.

2 On your second paragraph the Chief Secretary notes that even the clauses passed in Committee of the Whole House will still have to go to report stage.

3 On paragraph 3 the Chief Secretary would be grateful immediately for a list of the amendments which will be necessary to clauses proposed for retention.

4 The Chief Secretary has commented that the procedure you propose for dealing with the amendments on the acquiring company for the employee share scheme looks messy. Perhaps this could be discussed tomorrow.

5 The Chief Secretary agrees that it would be right for the Government to make its intentions clear at an early stage after the announcement of an election on the proposals which are not included in the truncated Bill.

6 The Chief Secretary was not clear about your argument that it would prove difficult to set out the way in which the Government proposed to handle the post election Bill at report stage.

7 The Chief Secretary has asked whether any amendments are needed to clauses 161, 163 and 164.

8 The Chief Secretary agrees with your advice to drop Clause 29 from the to be retained list.

9 The Chief Secretary agrees that the Standing Committee should take clauses in numerical order.

10 The Chief Secretary has seen Miss Evans' separate note about Klondykers and Fees and Charges. He would be grateful if work could now be set in hand to prepare the necessary Parliamentary questions which could be then put down as soon as would be necessary to announce these measures.

Mrs Felstead

pp

JILL RUTTER
Private Secretary

Mr Hudson 13/2

Nigel

Pl. ensure these come to you — I think you have this in hand.

AH

NOTICES OF AMENDMENTS

given up to and including

Thursday 30th April 1987

New Amendments handed in are marked thus ★

STANDING COMMITTEE B

FINANCE BILL

(Except Clauses 11, 18, 20 to 23, 33, 45, 147 and 160 and Schedule 4)

NOTE

The Amendments have been arranged in accordance with the Order to be moved by Mr John MacGregor.

Mr John MacGregor

To move, That the order in which proceedings in Standing Committee on the Finance Bill are to be taken shall be Clauses 1 and 2, Schedule 1, Clauses 3 to 10, Clauses 12 to 17, Clause 19, Schedule 2, Clauses 24 to 29, Schedule 3, Clauses 30 to 32, Clause 34, Schedule 5, Clauses 35 and 36, Schedule 6, Clause 37, Schedule 7, Clauses 38 to 44, Clauses 46 to 48, Schedule 8, Clauses 49 to 63, Schedule 9, Clauses 64 to 106, Schedule 10, Clauses 107 to 113, Schedule 11, Clauses 114 to 146, Schedule 12, Clause 148, Schedule 13, Clause 149, Schedule 14, Clause 150, Schedule 15, Clauses 151 to 153, Schedule 16, Clause 154, Schedule 17, Clause 155, Schedule 18, Clause 156, Schedule 19, Clause 157, Schedule 20, Clauses 158 and 159, Clauses 161 to 163, Schedule 21, Clause 164, new Clauses, new Schedules and Schedule 22.

Mr Teddy Taylor
Sir Anthony Meyer

C+E

1

Clause **4**, page **4**, at end of Table A insert—

'Chargeable at special rate for machines in arcades in seasonal coastal resorts . . . £100 per machine'.

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

C+E

2

Clause **4**, page **4**, leave out Table B.

Mr John MacGregor

C+E

3

★ Clause **9**, page **8**, leave out lines 4 to 12.

Finance Bill *continued*

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

C+E

4

Clause **14**, page **12**, line **27**, leave out '£7,250' and insert '£17,000'.

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

C+E

5

Clause **14**, page **12**, line **30**, leave out '£21,300' and insert '£50,000'.

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

C+E

6

Clause **14**, page **12**, line **34**, leave out '£21,300' and insert '£50,000'.

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

C+E

7

Clause **14**, page **12**, line **39**, leave out '£21,300' and insert '£50,000'.

C+E

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

8

Clause **14**, page **12**, line **44**, leave out '£20,300' and insert '£50,000'.

C+E

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

9

Clause **14**, page **13**, line **9**, leave out '£20,300' and insert '£50,000'.

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

C+E

10

Clause **14**, page **13**, line **23**, leave out '£20,300' and insert '£50,000'.

C+E

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

11

Clause **14**, page **14**, line **5**, leave out '£21,300' and insert '£50,000'.

Mr John MacGregor

IR

12

Clause **26**, page **18**, line **43**, at end insert—

'(*aa*) subsection (2) of section 14 of that Act (which, as applied by section 15A of that Act, determines the amount of widow's bereavement allowance), and'.

Finance Bill *continued*

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

1R

13

Clause **31**, page **22**, line **41**, at end add—

'(3) In section 338 of the Taxes Act, insert subsection (4)—"subscriptions paid to a registered trade union will be on allowable expense for the purpose of the Taxes Act section 189".'.

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

1R + 1AE3

14

Clause **109**, page **71**, line **30**, after 'from' insert 'basic rate'.

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

1R+1AE3

15

Clause **109**, page **71**, line **30**, at end insert 'and employers' National Insurance contributions up to a maximum of 10 per cent. of total pay as specified in subsection (3) below; three quarters up to a maximum of 15 per cent. and the whole of total pay up to a maximum of 20 per cent'.

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

1R

16

Schedule **11**, page **139**, line **49**, leave out 'twelve months' and insert 'at least two years'. years'.

Relief for expenditure on eligible securities

Mr Ian Wrigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

1R

NC1

To move the following Clause:—

'(1) This section has effect where an individual, who throughout a year of assessment is resident in the United Kingdom, incurs expenditure on acquiring eligible securities.

(2) For the purposes of this section eligible securities consist of:—

(*a*) shares or stock which at the time acquisition by an individual to whom the provisions of this section apply (or if later, on 5th April 1988) form part of the ordinary share capital of a company resident in the United Kingdom and are quoted on a recognised stock exchange; and

(*b*) units in such authorised unit trusts as the Board may by regulation prescribe.

(3) An individual to whom the provisions of this section apply and who has, in any year of assessment, incurred expenditure on acquiring eligible securities may, by notice in writing given within six months after that year, make a claim for relief from basic rate income tax on an amount of his income equal to so much of such expenditure as does not exceed £500.

(4) The Treasury may by order made by statutory instrument increase the amount of £500 in subsection (3) of this section to such amount as shall be specified in that order.

(5) The following provisions shall have effect as respects relief under this section—

(*a*) the amount of any expenditure in respect of which a claim for relief might otherwise be made under this section as regards any year of assessment shall be reduced

Finance Bill, *continued*

by the aggregate amount of the proceeds of any disposals of eligible securities made during that year by the individual concerned;

(*b*) in the event that an individual to whom relief has been given under this section as regards any year of assessment disposes of eligible securities in any subsequent year of assessment (being a year of assessment ending on or before 5th April 1988) and does not in such subsequent year of assessment incur expenditure on acquiring eligible securities in an amount equal to or exceeding the proceeds of all such disposals, then he shall forfeit so much of such relief as is equal to the amount by which such expenditure falls short of such proceeds, or, if there is no expenditure so much of such relief as is equal to such proceeds;

(*c*) a claim for relief may require it to be given only by reference to the income of the individual without extending to the income of his spouse;

(*d*) subject to paragraph (*c*) above, relief shall be given by treating the expenditure as reducing first the earned income of the individual, then his other income, then the earned income of his spouse and then his spouse's other income;

(*e*) the relief shall be given in priority to relief under section 168 of the Taxes Act or section 30 of the Finance Act 1978.

(6) Where the Board is of opinion that any acquisition or disposal of eligible securities which is material for any of the purposes of this section is not at arm's length and accordingly directs that this subsection shall apply, then for the purposes of this section there shall be substituted—

(*a*) in the case of an acquisition of eligible securities, for the expenditure on such acquisition; or

(*b*) in the case of a disposal of eligible securities, for the proceeds of such disposal;

the market value of such securities at the time of such acquisition or disposal.

(7) This section shall not apply to individuals whose investment income exceeds £9,000 per year.'.

Approved share option schemes

Sir William Clark

1R NC2

To move the following Clause:—

'(1) Schedule 10 to the Finance Act 1984 (approved share option schemes) shall have effect subject to the amendments in subsection (2) below.

(2) In paragraph 15(1) of Schedule 10 to the Finance Act 1984 for the definition of "qualifying employee" there shall be substituted the following words "qualifying employee" in relation to a company, means an employee of the company (other than one who is a director of the company or, in the case of a group scheme, of a participating company) who is required, under the terms of his employment, to work for the company for—

(*a*) at least twenty hours a week where the employee has been employed continuously by the company for more than one year, but not more than three years, or

(*b*) at least sixteen hours a week where the employee has been employed continuously by the company for not more than one year, or

(*c*) at least twelve hours a week where the employee has been employed continuously by the company for more than three years but not more than five years, or

(*d*) at least eight hours a week where the employee has been employed continuously by the company for more than five years.'.

Finance Bill, *continued*

First Year Allowances

Sir Ian Lloyd
Sir William Clark
Mr John Watts

IR

NC3

To move the following Clause:—

'In section 42 of the Finance Act 1971 (rate of first year allowance for capital expenditure incurred on provision of machinery or plant) the following new subsection shall be added:—

"(2) (*a*) subsection (1) above shall not apply with respect to captital expenditure incurred after 1st April 1987 where that expenditure in any financial year is less than £10,000 in total.

(*b*) where subsection (2) above applies the first year allowance shall be of an amount equal to the expenditure of which it is made ".'.

War widows pensions'

Mr Nicholas Winterton
Sir Bernard Braine
Mr Alfred Morris
Mr Alec Woodall
Mr Andrew Bowden
Sir Patrick Wall

IR

NC4

To move the following Clause:—

'The second pension from the Department of Health and Social Security given to those widowed since the implementation of the 1973 Armed Forces Pensions Schemes in addition to the Forces Family Pension shall be granted to all those widowed before the 1973 Armed Forces Pension Scheme in addition to their existing War Widows' Pension.'.

Exemption from duty of hydrocarbon fuels used by engine manufacturers

Mr Roger King

C+E

NC5

To move the following Clause:—

'In the Hydrocarbon Oil Duties Act 1979, section 9, subsection (2)(*b*) after "article", delete the rest of the subsection and insert:

"(*c*) and use in the bench-testing of an internal combustion piston engine during the research, development, manufacture or preparation of such engine or any part thereof by a manufacturer of motor vehicles or of motor vehicle engines or parts thereof or by any organisation engaged in such engine research and development, but do not include except as provided in subsection (2)(*c*) above the use of oil as fuel or, except as provided by subsection (3) below, as a lubricant.".'.

B/F ~~5~~ 7 May

PWP

CHANCELLOR OF THE EXCHEQUER

C.

The Hansard report of your speech yesterday contained an unusually - and unacceptably - large number of errors, in spite of the fact that I gave them the text in advance, and checked it - correcting some sloppy reporting - afterwards.

You may like to see my letter to the Editor.

AH

30.4.

Thanks. Quite right. Pse let me see the reply your letter.

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

The Editor
Official Report
House of Commons
LONDON

30 April 1987

Dear Sir,

CHANCELLOR'S SPEECH IN FINANCE BILL DEBATE, 29 APRIL

... I attach a photocopy of the Official Report of the Chancellor's speech on Clause 20 of the Finance Bill (Official Report, Vol 115, No.98, col.319ff). I have marked a number of corrections, and I would be grateful if you could make these for the bound volume.

Most of these appear to be printer's errors, which is annoying since your colleagues and I checked the text carefully. One is a point of substance. I have checked the Chancellor's intervention in col.329 against his notes. The third sentence (marked A) has come out in a different order, which changes the sense. It should read:

> "It shows just how threadbare the Labour party's ludicrous claims about the Government's intentions are, when they have to scrabble around to produce examples such as this to justify them."

As printed in col.329, it looks as though the Government's intentions are "threadbare", and I pointed this out yesterday evening when I checked the intervention.

Yours sincerely,

Andrew Hudson

A P HUDSON

Orders of the Day

Finance Bill

Clauses Nos. 11, 18, 20 to 23, 33, 45, 147 and 160 and Schedule No. 4)

Considerd in Committee.
[SIR PAUL DEAN *in the Chair.*]

Clause 20

CHARGE OF INCOME TAX FOR 1987-88

Question proposed, That the clause stand part of the Bill.

3.59 pm

Mr. Bryan Gould (Dagenham): On a point of order, Mr. Deputy Speaker. It might be of assistance to you and to the Committee, and out of courtesy to the Chancellor of the Exchequer, if I say on behalf of my right hon. Friend the Member for Birmingham, Sparkbrook (Mr. Hattersley) that he has been unavoidably detained. He had intended to be present to hear the Chancellor's remarks and to make his contribution to the debate. He will join the Committee as soon as he is able to do so. In the meantime, I hope that the Committee will accept his apology.

4 pm

The Chancellor of the Exchequer (Mr. Nigel Lawson): I am sure that the Committee is grateful to the hon. Member for Dagenham (Mr. Gould) for that explanation.

It is wholly appropriate that we should start the Committee stage of this year's Finance Bill with a clause that goes to the heart of the difference between the parties. I might add that before the Budget I was urged by the Opposition not to cut income tax because the polls showed that nobody wanted lower taxes, and that after the Budget they accused me of indulging in a pre-election bribe. Their concept of an unpopular bribe certainly shows the total confusion of the Labour party, which manoeuvres like squid lost in their own ink.

If the proposal that is before the Committee today is unpopular, I can only say that the Government have consistently shown themselves prepared to take whatever measures are necessary in the interests of the British economy, however unpopular they may be at the time. If, on the other hand, it is popular, I can live with that.

By last year we had reduced the basic rate of income tax —which is the marginal rate of tax for 94 per cent. of all personal taxpayers and 90 per cent. of unincorporated businesses and the self-employed—from the 33 per cent. we inherited from Labour to 29 per cent. The question before the Committee today is whether it should be further reduced to 27 per cent. It would then be within two points of the objective set by my predecessor in 1979 of a basic rate of no more than 25p in the pound, an objective which, given the continuation of present policies, it should not take too long to achieve—income tax down from a third to a quarter.

We on this side of the Committee are in no doubt: the basic rate of tax should now come down to 27 per cent. The Labour party, the Liberal party and the SDP are equally adamant that income tax should not be reduced and are committed to voting against it. The difference could not be plainer, nor is it any accident, for the Conservative party is the only party committed to reducing the burden of taxation as and when it is prudent to do so. That is precisely what we have done—while the Opposition parties are in the business of increasing the burden of taxation, as every Labour Government there has ever been have clearly demonstrated.

It is true that when we first took office in 1979 we inherited a massive and unsustainable level of public borrowing which had to be brought under control if there was to be any prospect of bringing down inflation, to which we were committed. This initially involved, as we clearly explained at the time, an increase in the burden of taxation. But that phase was already over by the time we secured the overwhelming endorsement of the British people in the general election of 1983, and since then the path of taxation has been steadily downward.

The basic rate of tax this year will be 6p in the pound lower than the rate that we inherited from Labour, the lowest it has been since before the war. At the same time, personal allowances are now 22 per cent. higher in real terms than in 1978-79 and the married man's allowance is at its highest level since the war. As a result, 1·4 million people have been taken out of income tax altogether, and tax thresholds in the United Kingdom are now around the international average. The overall burden of income tax is now some £12 billion lower than it would have been if we had kept Labour's tax regime and adjusted it for inflation —something which the Labour Government were not able to do in a number of years during the time they were in office.

The benefits of those tax reductions have been felt at all levels of income. The percentage of earnings taken in income tax and national insurance contributions combined is lower at all levels than if we had kept the Labour regime and indexed it. And real take-home pay —which also, of course, takes account of the effect of changes in indirect taxation—is appreciably higher at all income levels. This is in stark contrast to Labour's record in office. Single people at all levels were worse off by 1978-79 than at the start of Labour's period in office. Under this Government their real take-home pay is up by a fifth or more. Take the married man on average earnings. Those without children were also worse off in 1978-79 than in 1973-74. Those with children did better, it is true. I shall quote the precise figures, because it is important that the Committee fully appreciate those cases where the Labour Government actually presided over an increase in living standards. The married man on average earnings, with two children, saw his real take-home pay go up by all of a half of 1 per cent. under Labour. That was all that the Labour Government achieved. Under this Government, it is up by more than 21 per cent.

I should like to take just one more specific example, because it is of some topical interest and concerns a group whom the Opposition like to pretend have been victimised by this Government. After the pay award announced last week, a typical nurse will have seen her real take-home pay rise by no less than 42·4 per cent. since 1978-79. If she is married to a typical teacher, their combined take-home pay will also have risen by more than 40 per cent., whereas under Labour it rose by a mere 4 per cent.

The effect of this year's Budget alone is to increase the take-home pay of a married man on average earnings by almost £4 a week—quite apart from any further benefit that he may secure from the reduction in mortgage rates that comes into effect later this week.

Mr. Neil Hamilton (Tatton): The hon. Member for Dagenham (Mr. Gould) began with an apology for the absence from the debate of the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley), who is still busying himself with his pudding. The hon Gentleman said nothing about the absence of any Labour Back Benchers. As this debate was trailed as their great opportunity to rant and rage against the cuts in income tax, does it not rather smack of bogus indignation that Labour cannot raise one Back-Bench Member to come to the debate?

Mr. Lawson: My hon. Friend is absolutely right. The Committee can observe that there is not one Labour Back Bencher in his place, with the exception of one PPS. The British people know the truth of what I have been saying. they know perfectly well how much better off they are than they were under Labour. That is why they will not be taken in for one moment by the desperate black propaganda launched by the Labour party this week.

Talking of that, I have to thank the Leader of the Opposition for the letter that he sent me, which I received today. It was addressed very properly to Mr. N. Lawson, 11 Downing street, London SW1. It began "Dear Supporter" and went on to say that Labour was hard up and to ask for money. If the Labour party wants to save money, it can cease writing letters to Downing street for a start. I hope that the hon. Member for Dagenham will pay attention, because the letter went on to say:

"we will be fighting on our record. While others will try the usual tactic of smear and half-truth, of mud slinging and personality politics, we will go with our record and our plans."

When the hon. Gentleman addresses the Committee, we all expect that he will obey his leader's injunction and come forward with Labour's record and Labour's plans, and will not come forward with any of the smears and half truths that we heard yesterday. We had all that business of the secret manifesto in 1983. It was codswallop then and it is codswallop now. It was totally ignored then and it will be totally ignored now. The British people know that it is the Labour party, with its massive public expenditure to finance, that will increase the burden of taxation again if it is given the chance. They know that, to pay for Labour's £34 billion public spending programme—an extra £34 billion over and above the levels in the Government's White Paper—would require either a doubling of the basic rate of income tax or a more than trebling of the standard rate of VAT.

My right hon. Friend the Prime Minister made it clear as far back as 1984 that we have no intention of extending VAT to food. Beyond that, the incidence of taxation has to be determined in the light of the budgetary needs at the time, and no responsible Government could conceivably take any other position. What is abundantly clear is that it is the Labour party that is in the business of putting taxes up, and the Conservative party that is in business to bring taxes down, and no amount of scaremongering can obscure that basic fact. As this year's Budget Red Book clearly shows—I refer the Committee to table 2.6—the prospects on the basis of present policies are of a steady further reduction in taxation in the years ahead.

The gulf between the parties on the issue of tax is, in part, a profound difference of political philosophy. We believe that what people earn and save belong to them, and that the state should take from them only what is necessary to discharge the functions that only the state can perform, leaving people free to make their own choices and to pursue their own destiny. The Opposition parties believe that all resources belong to the State, that all important decisions should be taken by the state, and that people should be "given"—that is the word they use—whatever pocket money is needed to keep them quiet.

The gulf between the parties on tax is also at the heart of the difference between the two sides of the Committee over the conduct of economic policy. The Opposition start from the proposition that the cure for any economic problem lies in state intervention, which inevitably implies ever-increasing state spending and ever-increasing taxation to pay for that spending.

The policy of the Government is clear, and distinct. As the dismal experience of the 1970s demonstrates beyond any reasonable doubt, the crucial role of fiscal and monetary policy must be to control and conquer inflation. Within that framework, improved economic performance depends on the success of individual enterprise. That requires the Government resolutely to pursue a whole range of policies designed to remove the impediments to enterprise—through deregulation, through privatisation and through reducing the burden of taxation. This prescription is now accepted throughout the world. All major countries have now embarked on policies of deregulation. Most have embarked on programmes of privatisation, openly acknowledging the lead given by the United Kingdom.

As for the burden of taxation, all the other members of the Group of Five have either cut their income tax rates or have announced plans to do so—so has Sweden, which has traditionally been a high tax country, and so have Australia and New Zealand. It is a pity that the hon. Member for Dagenham has not kept up with his compatriots, because the Labour Government in New Zealand are following the same economic policy as the British Government and are a great deal more enlightened than he is. Among the developing countries, India is reducing taxation. The last three of those countries have Socialist Governments. On this, as on so many issues, it is the Opposition parties that are out of step and out of touch. Everyone else knows that the only route to higher living standards and more jobs is through a more dynamic economy, and that the only route to a more dynamic economy is through lower tax rates. It is no accident that the two most successful economies in the Group of Five, and the two with the lowest levels of unemployment, the United States and Japan, are the two with the lowest burden of public spending and taxation.

Moreover, the dynamic effect of reductions in tax rates can often mean not lower but higher revenues, thus leading to the scope for still further reductions in taxation. For example, despite the reductions that we have made, inheritance tax is expected this year to yield almost 50 per cent. more in real terms than capital transfer tax did in 1978-79. The yield of capital gains tax is forecast to be 80 per cent. higher in real terms, and stamp duty is up by 140 per cent. As for income tax, the higher rates applying in 1987-88 are, of course, much lower than the absurd penal rates that Labour enforced, but they are expected to yield 90 per cent. more in real terms, and the top 5 per cent. of taxpayers now contribute 28 per cent. of income tax, compared to 24 per cent. in Labour's last year. The greatly

[Mr. Lawson]

increased yield of corporation tax, reflecting greatly increased company profitability, is clearly connected with the reform of corporation taxation which I introduced in 1984, which brought the rate of tax on company profits in this country to the lowest in the industrialised world.

4.15 pm

Mr. Gould: Is the right hon. Gentleman aware that a forthcoming article in *Fiscal Studies* will show that, contrary to his assertion that the 1984 changes in corporate taxation would be revenue neutral, those changes have turned out to produce £1 billion more in revenue than the previous regime would have done in these circumstances?

Mr. Lawson: I shall, of course, look at that article and have it properly evaluated. The increase in the yield of corporation tax is a result of the enormous increase in profitability that has occurred, in part because of the dynamic effects of the change in the corporation tax regime.

There is, as I have said, a profound difference between the two sides of the Committee over economic policy, of which tax policy is an integral part. The policies that we have been pursuing have been abundantly vindicated by the results that they have brought. It is no accident that, this year, I have been able to reduce taxes by £2½ billion and to increase public spending on priority areas by £4¾ billion, while reducing public borrowing below its previously planned level by some £3 billion. For the Opposition to claim that they would have used the money differently is totally irrelevant, because with their policies, it would never have been there in the first place.

As a result of our policies, the economy today is sounder than it has been at any time since the war—a fact that is increasingly recognised throughout the world. Of course, there is always scope for further improvement —that has always been so and will always be so in every country.

Mr. Nigel Forman (Carshalton and Wallington): My right hon. Friend was dealing with public spending and the economy's ability after five or six years of consecutive economic growth to afford increased public spending. Does he take account of the strong case, which many of us discover in our constituencies, for allowing pensioners to share in the fruits of this economic growth?

Mr. Lawson: I am glad to say that pensioners have fully shared in the fruits of the economic growth. Over the period in which we have been in office, pensioners' incomes have risen faster than the average for other people. My hon. Friend should look at the figures. I shall be happy to write to him about this matter.

It is fair to say that, at the present tome, the biggest problems lie in the rest of the world as the United States and Japan, in particular, struggle to adjust successfully to the massive but necessary change ~~the~~ that has occurred over the past two years in the dollar/yen exchange rate. It is of the first importance to all of us that those two powerful nations pull back from the blind alley of a trade war and instead concentrate on measures to put their own houses in order, which in turn will underpin, as is highly desirable, the present world pattern of exchange rates.

Meanwhile, the British economy is indeed, as the headline of the leading article in today's *Finacial Times* describes us, "an island of success". I described some of that success story in my Budget speech last month—how our growth this year will be the highest in the industrialised world, with inflation remaining low, and how by the end of this year we will have registered the longest period of steady growth, at close to 3 per cent. a year, that the British economy has known since the war. I described the massive strength of our external position, while at home unemployment is now firmly on a downward trend. All that was on the basis of deliberately cautious forecasts.

I shall not be publishing a further forecast until the autumn, in the usual way, but all the indicators that have been published since the Budget confirm that, if anything, we are doing even better than I suggested then. The PSBR for 1986-87 has come out lower than I forecast in the Budget. Inflation, too, is slightly lower than I implied in the Budget. The curent account of the balance of payments is also performing better, so far, than I predicted. Output appears to be rising, if anything, rather faster.

This is fully reflected in the CBI's "Quarterly Industrial Trends Survey", published yesterday, which is of course confined to manufacturing industry, about which the Opposition always profess particular concern. All in all, that survey shows manufacturing industry's opimism to be at or near the highest level ever recorded, whether in respect of output, orders or exports. Of course, this was before the further cut in interest rates yesterday, which I am sure the whole committee will welcome.

Those are the fruits of the policies that we have been consistently pursuing since we first took office.

When he rises to speak, the hon. Member for Dagenham will, I have no doubt, paint a different picture —one of doom and despair, depression and disaster. Certainly, I very much hope he does. I hope so because the more that right hon. and hon. Members opposite do so, the more nails they hammer into the coffin of Labour's credibility. All it does is to demonstrate in the clearest possible way that they are wholly out of touch with what is happening in the real world.

For the Opposition to criticise us for having increased taxation in 1979-81, when we were clearing up the mess that they left behind, is not merely an impertinence, it is Satan denouncing sin, coming from a party which is itself implicity committed to a massive further increase in the tax burden on ordinary people. The only 27 per cent. which the Labour Government every knew was 27 per cent. inflation—and that is what we would see again—if ever they were to regain office. No wonder they have committed themselves to reversing the 2p cut in income tax in the Budget. They are pleading guilty to this lesser offence to divert attention from the fact that to finance their overall spending plans would mean doubling the basic rate of income tax.

As for the Liberals and the SDP—it would be wrong to forget them altogether—they say that they will vote against the 2p reduction in income tax, but do not know whether, if they were ever to be in a position to influence events, they would reverse it, or not. Their confusion on income tax parallels their confusion on every other aspect of economic policy, not to say more widely.

The whole world now recognises that our policies have created an economy that is stronger than at any time since the war. The policies of the Opposition would destroy that strength. An integral part of our policy has been the reduction in income tax, and clause 20 is a further step forward. So long as this Government is in office, it will not be the last. I would remind the House of the precise words used by my predecessor in 1979, which I have reaffirmed before and reaffirm today: our long-term objective is a basic rate of

"no more than 25 per cent." — [*Official Report*, 12 June 1979; Vol. 968, c. 261.]

We do not pursue policies to meet arbitrary targets, and then sit back. We pursue them because they are right, and because they work, and we shall continue to do so.

The contrast with the Opposition could not be greater. We believe in building on success; they believe in a return to the failures of the past. We believe in a free economy and a free society; they believe in state planning and state regulation. The vote at the end of the debate will be a vote of the first importance, for it will establish beyond doubt, once and for all, which party is the party of lower taxation, and which parties are the parties of higher taxation. I commend clause 20 to the Committee.

Mr. Gould: We oppose the clause because it is wrong. It is wrong economically and it is wrong socially. We oppose it first because, in our present economic condition, there are better things to do with £2·5 billion than to give it away in tax cuts. We oppose the clause because giving away tax cuts is likely to harm our economy. We oppose it because it forms part of an overall taxation strategy with which we profoundly disagree. We have to look at the clause against the background of the Government's tax record. The Chancellor, in his peroration, said that the debate will show which party is the party of low taxation. Therefore, we are entitled to look at the Government's claims in that respect.

The first point that should be made is that, of course, the overall effects of all the taxation changes made by the present Government have been regressive in their consequences. At the end of the day, they have benefited only those at the top of the income scale. Only those people have had real tax cuts in absolute and proportionate terms. Let us examine that claim. Again today, the Chancellor rehearsed an argument that we heard earlier from the Financial Secretary in his winding up speech on Second Reading last week. The Conservative claim has always been that it would reduce the tax burden for the country and for ordinary families. That is a fairly clear statement, a fairly clear claim and a clear objective. No one is in any doubt about what it means and what would be required if that claim were to be made.

We heard from the Chancellor and from the Financial Secretary a careful, complex attempt to deal with the awkward truth that, bearing in mind absolute rates of taxation and at proportionate burdens of taxation, for the vast majority of people in this country—and indeed for the country as a whole—a greater proportion of income and of national wealth is now taken by taxation than was taken in 1979. Conservative Members try to deal with that awkward truth by talking about other matters, such as real take-home pay and real earnings—about anything other than the precise nature of their claim to have been a tax-cutting Government.

It is not we who wish to introduce the matter. It is not we who say that it is a matter of enormous importance. But since the Government insist that that is what their record shows, and since this is the test by which they themselves insist that that they should be judged, surely we are entitled to say that the facts simply do not bear that out. In case any hon. Members on the Government Benches are inclined to contest what I say, let me warn them, before they make such a rash claim, that they should recognise that the Financial Secretary, in addition to all the other things that he said in winding up the Second Reading debate, actually admitted:

"of course, a person on average earnings"—

that includes many on above-earnings as well—

"is paying more pounds in tax—he is even paying a higher percentage in tax". — [*Official Report*, 22 Apri, 1987; Vol.114, c. 760]

On my reckoning, that simple admission — that simple statement — means that no credence whatsoever can be placed on the claim that the Government have been a tax-cutting Government.

Mr. Lawson: If the hon. Gentleman had been paying attention — he usually does, but on this occasion he clearly has not—he would have heard that I dealt with his point in my opening remarks. I clearly said that between 1979 and 1981, when we were clearing up the mess that we were left by the Labour Government, when we had to bring down a massive and totally unsustainable public sector borrowing requirement, we were obliged to increase the burden of taxation. Not only did I say that today, but we explained it clearly at the time, and the hon. Gentleman will find that in my Zurich speech of January 1981. That period had already come to an end by the time we went to the people in 1983 and had our mandate endorsed by the British people. Since then, the burden of taxation has gone steadily down. That demonstrates our credentials as a tax-cutting Government and a tax-cutting party. That is the direct answer to the hon. Gentleman's point.

Mr. Gould: That statement sounded remarkably like a lengthy and unconvincing excuse coupled with a confession. It was an explanation—an unconvincing one — of why what I said was right and why the Government's claims have been wrong. It simply gave us some rationale for the confession made earlier by the Financial Secretary. Of course, the Chancellor can explain until he is blue in the face why he put up taxes between 1979 and 1981 and why, for example, his predecessor doubled VAT from 8 per cent. to 15 per cent. Of course, the point might be taken that it was not an actual doubling. In April 1979, his predecessor said:

"We have absolutely no intention of doubling VAT."

That is a direct quotation. The raisng of VAT from 8 per cent. to 15 per cent. was just 1 per cent. short of an actual lie. If the Chancellor of the Exchequer wants to take up that point, by all means let him. However, his lengthy intervention sounded like bluster designed to get away from the simple fact on which the Government are clearly very unwilling to be hooked — the Government keep drawing attention to this, not the Opposition—that they have raised the burden of taxation absolutely and proportionately for the great majority of families.

4.30 pm

Mr. John Maples (Lewisham, West): How much more tax would a man on average earnings be paying if the tax rates and threshholds that we inherited from the previous Labour Government had been indexed? I believe that the answer is about £500.

occasions the Chancellor and his Ministers sat tight-lipped. They did not move a muscle. They did not utter a sound. It was left to their right hon. Friend, the chairman of the Conservative party, to lift a little corner on the truth, not in the Chamber or in Committee, but in a television studio, and under some considerable pressure. He confirmed for the first time that indeed there had been a study. Of course, he did all that he could to minimise its importance. He said that the study had been carried out by some little academic study group and it really had nothing to do with the Government. He said that academics get on with such studies all the time, although he thought that there had been some small Treasury contribution to the funds to set up that study. For the first time we have had an admission that a study has been carried out.

Mr. Lawson *rose*——

Mr. Gould: I am delighted that the Chancellor is for the first time showing signs of rising on this point, but before he intervenes could I state that we need to know the terms of reference of that study. Who carried it out? Have conclusions been reached? What action is proposed to be taken on the conclusions? What part will the conclusions play in the Government's plans if they are re-elected for a third term? If the Chancellor would care to answer all or any of those questions, the Committee would be immensely gratified.

Mr. Lawson: The hon. Gentleman is getting desperate, because there is nothing secret or hidden about the work to which my right hon. Friend referred. The Economic and Social Research Council, the Treasury and others have been jointly funding academic research on taxation since 1983. Applications for research proposals on indirect taxes were advertised in *The Guardian* in 1985. ~~When the Labour party has to scrabble around to produce examples such as those to justify its ludicrous claims about the Government's intentions it shows just how threadbare they are.~~ No work has been commissioned or undertaken inside or outside the Treasury on any proposal by Ministers to increase VAT or extend its coverage.

A

Mr. Gould: I notice how carefully the Chancellor chose his concluding remarks—that no work has been done on proposals by Ministers. I wonder whose proposals were considered in that case. He carefully avoided answering any of the questions that I posed to him. If the study was as publicly known as the Chancellor suggested, why, when the Chancellor was challenged on four embarrassing occasions to come clean, did he not utter a word? Why was it that the first time we heard of this was when a non-Treasury Minister, under considerable pressure, was forced to scrabble around for an answer?

If the Chancellor would care to intervene to give us any of the answers to the questions I posed—what were the terms of reference of that study group; what were its conclusions; and what action is proposed to be taken in the light of those conclusions—we could test his claims that this study is of no consequence and that it implies nothing for the Government's plan for a third term. I see that the Chancellor, characteristically, does not propose to answer those questions — the questions that really matter. He answered in carefully chosen words drafted for him in advance, but he cannot answer the real and crucial questions which would reveal the extent of the Government's intention to shift the burden from income tax to VAT.

It is perfectly clear from the Chancellor's silence that we are in the familiar situation where the British people are being offered income tax cuts before the general election and an increase in VAT after the general election. That is the truth of the matter and that is what will be taken from this debate by the British people.

Mr. David Winnick (Walsall, North): Is it not interesting that when my right hon. Friend the Leader of the Opposition challenged the Prime Minister yesterday on whether she is actively opposed to any increase in the rate of VAT, or any extension in its scope, the Prime Minister refused to answer? If it is true that a re-elected Tory Government — it is not likely to happen, because the Tories are not likely to be re-elected — would increase VAT, as we say they would, would that not wash away the few shillings gained by people from the tax cuts, because the average family would pay far more as a result of increases in indirect taxation?

Mr. Gould: I am grateful to my hon. Friend. It is significant that the Chancellor has had 24 hours longer in which to prepare some sort of answer to the question on which the Prime Minister dropped an obvious dead bat yesterday. If the Prime Minister had been able to deny our assertions yesterday, she would have done so. The truth is that an extension of VAT, as we believe is proposed by the Government for a third term in office, would increase the average family budget by over £10 a week. The Government have that prospect in store for ordinary families.

4.45 pm

The tax cuts would impact on the economy, because the use of this money to reduce income tax by 2p in the pound is likely to damage, rather than to help, the economy. The first point is that a cut in income tax is the most inflationary way of using this money to cut taxes, because it would suck in imports, make the balance of payments decline and therefore reduce the value of the pound, pushing up inflation. It would also impact directly on the balance of trade. The Treasury forecasts a trade deficit in manufactured goods of £8 billion this year and an overall trade deficit of £2·5 billion.

I hear a call "So what?" from the Government Back Benches. It reminds me that, when we pointed out the turnaround in our trade in manufactures of £13 billion since 1978, the Chancellor said, "That is neither here nor there". As I pointed out in that debate, the volume of production worth £13 billion is certainly not here, butit is there — it is in Frankfurt, Cologne and Tokyo. Those goods are being produced there, and the jobs in order to produce the goods are being created there. Our balance of trade deficit in manufactures is of the gravest significance for our economic future. Any measure, such as cuts in income tax, which will suck in further goods from abroad, close down British factories and throw further British workers on to the dole, is likely to do grave damage to our economy.

Let us look at the argument about the beneficent effects of income tax cuts on incentive. We do not hear much of it today, but we used to hear a great deal of how income tax cuts would make everybody work harder and longer. It is difficult for the Chancellor or any other Minister to

It just shows how threadbare the Labo

4084/26

FROM: Deputy Parliamentary Clerk
DATE: 30 April 1987

pup

01-270 5006

PRINCIPAL PRIVATE SECRETARY
PS/CHIEF SECRETARY
PS/FINANCIAL SECRETARY
PS/ECONOMIC SECRETARY
PS/MINISTER OF STATE

cc PS/IR
PS/HMCE
Mr C W Kelly - MG1
Miss C E C Sinclair - FP
Miss H C Goodman - MG1
Mr M Haigh - FP
Mr K Romanski - FP
Miss D Lester

STANDING COMMITTEE B - COMMITTEE STAGE OF THE FINANCE BILL 1987

The results of yesterday's Committee of Selection have appeared in the Votes and Proceedings this morning. A Committee of 33 Members has been selected (the same size as last year) and, for your convenience, is listed below:

CONSERVATIVES [21]

Mr John MacGregor
Mr Norman Lamont
Mr Ian Stewart
Mr Peter Brooke
Mr Michael Neubert
Mr Peter Lilley
Mr Michael Lord
Mr David Heathcoat-Amory
Mr Barry Henderson
Mr Michael Stern
Mrs Virginia Bottomley
Mr John Butterfill
Mr Nigel Forman
Mr Jeremy Hanley
Mr Andrew Hunter
Mr William Powell
Mr Tim Smith
Mr Lewis Stevens
Mr John Watts
Sir Brandon Rhys Williams

LABOUR [11]

Mr Bryan Gould
Dr Oonagh McDonald
Mr Tony Blair
Mr Richard Caborn
Mrs Ann Clwyd
Mr Michael Cocks
Dr Norman Godman
Mr Austin Mitchell
Mr Terry Patchett
Mr Allan Rogers
Mr Brian Sedgemore

SDP/LIBERAL [2]

Mr Ian Wrigglesworth
Mr Matthew Taylor

The two Chairmen that the Speaker has appointed for the Standing Committee are: Mr John Hunt (Con) and Mr John Forrester (Lab). The Clerk to the Standing Committee is Mr John Rose (T.219 3257).

Standing Committee B is due to hold its first meeting at 4.30pm on Tuesday 5 May.

Richard Savage

RICHARD SAVAGE

Inland Revenue

Policy Division
Somerset House

28

FROM: H B THOMPSON
DATE: 30 APRIL 1987

Mr 30/4

1. MR HOUGHTON

2. FINANCIAL SECRETARY

FINANCE BILL SCHEDULE 15

Inheritance Tax: Heritage Maintenance Funds

1. This note seeks your authority to table an amendment to Schedule 15, which provides the new relief for trust property that is re-directed into a heritage maintenance fund within 2 years after the death of a life tenant (or 3 years if the re-direction needs a Court Order).

2. The amendment provides that if the value of the property when it becomes held on Maintenance Fund trusts is less than its value at the time of the death, the relief from death tax will apply to the lower value only. The balance will remain chargeable as part of the deceased's death estate.

---

cc	PS/Chancellor of the Exchequer	Chairman
	PS/Chief Secretary	Mr Isaac
	PS/Economic Secretary	Mr Painter
	PS/Minister of State	Mr Houghton
	Sir P Middleton	Mr Calder
	Mr Cassell	Mr Lawrance
	Mr Monger	Mr Cleave
	Mr Scholar	Mr Scott
	Miss Sinclair	Mr Furey
	Mr Cropper	Mr Gonzalez
	Mr Haigh	Mr Brown
	Mr Graham (Parl. Counsel)	Mr Johns
	Mr Jenkins(— " —)	Mr Kent
		Mr Thompson
		Mr Hamilton
		Mr McKean
		Mr Denton
		Mr Lakhanpaul
		PS/IR

3. The object is to prevent the relief being exploited by manipulation of values. To take a simple example, the property might be shares which are part of a larger holding that gives the life tenant A control of the company. On his death, they are valued at a price that reflects the control. The holding is split on A's death. The major part goes to B, who acquires control. The smaller part goes to the maintenance fund, where its value is less than it was when A died because it is now shorn of the control element. In effect, the balance of the death value has passed with the rest of the shares to B. Only the value passing to the maintenance fund merits exemption from death tax. The value passing to B should be taxed, and the amendment achieves this.

4. It may be objected that the amendment contains an element of overkill. For example, the property might be quoted shares whose market value falls - through no fault of the parties - between the death and the maintenance fund entry. The lost value would remain in charge. We think this is defensible on principle and by reference to precedent. The principle is that only the value which actually reaches the maintenance fund is to be relieved. This is what normally happens when property goes to a maintenance fund immediately after a death. The precedent concerns transfers between maintenance funds, including transfers made necessary by a death, where an interval of two years is also allowed for the necessary arrangements to be made. If there is a fall in value in the interval, only the value that actaully reaches the second fund is exempted from charge. This has not given rise to complaint of overkill. In each case, the value restriction is a price that has to be paid for relief in respect of a delayed transfer.

5. We think it is important to make this amendment, even if the clause it amends is in an accelerated Bill. A copy of the amendment drafted by Parliamentary Counsel is annexed. We shall be glad to have your authority to table it for introduction in Committee.

H B THOMPSON

28 April 1987

STANDING COMMITTEE

FINANCE BILL

Schedule 15, page 151, line 6 at end add -

'( ) If ~~Where~~ the value of the property when it becomes held on the trusts referred to in subsection (1)(b) above is lower than so much of the value transferred on the death of the person referred to in subsection (1)(a) as is attributable to the property, subsection (2) above shall apply to the property only to the extent of the lower value.'

RT8.90

UNCLASSIFIED

1, Andrew
2. RJP

FROM: A W KUCZYS
DATE: 30 April 1987

PS/FINANCIAL SECETARY

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Scholar
Mr Cropper
Mr Beighton - IR
PS/IR

FINANCE BILL: SECOND READING

The Chancellor has seen Mr Beighton's minute of 24 April.

2. On the point about US reforms versus our own, the Chancellor suggests that a better bet than the references in Mr Beighton's note might be to send Mr Foreman a copy of the speech the Chancellor made on this subject last June (I enclose a copy) - coupled with the point that we have now taken action on dual-resident companies.

A W K

A W KUCZYS

NOT FOR PUBLICATION, BROADCAST OR USE ON CLUB TAPES BEFORE 2.30 PM ON TUESDAY, 24 JUNE 1986

TAX REFORM

EXTRACT FROM A SPEECH BY THE CHANCELLOR OF THE EXCHEQUER TO THE MIDLAND INDUSTRIALISTS ADVISORY COUNCIL, IN LONDON, ON 24 JUNE 1986

The United States is embarked on a major measure of tax reform. Something that is being watched with interest by those on this side of the Atlantic, too.

For this Government, too, has tax reform on the agenda - and, indeed, has already brought into effect a major reform of the entire system of company taxation and abolished no fewer than four other taxes.

I wish the United States well in its own efforts.

But attractive though the notion of comprehensive tax reform undoubtedly is, I have to confess that the tendency now fashionable to hold out the United States as a model for the U.K. baffles me.

In the first place, their reforms were first proposed by the Administration getting on for two years ago, in 1984. Not one of them has yet reached the statute book - in stark contrast to what we have already achieved in the U.K.

Second, the United States is being commended for closing tax loopholes and removing distortions, and attention is being drawn to the continuing existence of loopholes and distortions in the U.K. system. But with the exception of the somewhat technical question of the taxation of dual-resident companies, I cannot think of a single loophole or distortion in the U.K. tax system which the current United States tax reform package proposes to close or remove in the U.S.

And third, at the heart of the U.S. package is a switch in the tax burden from individuals to companies. In the context of the

U.S., where the corporate tax system has become corrupted by the successes of special corporate interest groups so that the burden of tax on companies has become attenuated to an indefensible extent, such a switch is entirely understandable. But are those who draw critical comparisons between the U.K. and the U.S. actually advocating a switch in the burden from individuals to companies in this country? If so, let them say so loud and clear.

Finally, the size of the United States fiscal deficit is one of the major economic distortions in the world today. The urgent need to reduce that deficit is universally acknowledged - not least in the United States Administration and Congress itself - to be a matter of supreme importance to the U.S. economy and the world economy alike. It must therefore be a matter of some regret that the intention is to use not a penny of the vast increase in revenues expected to accrue from the removal of distortions and closure of loopholes to reducing the deficit, but rather to devote it entirely to a massive reduction in income tax from what is already an enviably modest level.

We in Britain have not only embarked on the process of tax reform: we have already enacted a number of important reform measures.

And we have also had the courage to take the measures necessary to reduce our budget deficit to an acceptable size **before** embarking on the path of tax reductions which we are now pursuing.

There are many reasons for admiring the economic performance of the United States. Many things to seek to emulate. But current United States fiscal policy is not, in general, one of them.

24 June 1986

4479/30

FROM: MISS C E C SINCLAIR
DATE: 30 April 1987

CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Culpin
Mr Tyrie
Miss O'Mara
Mr Kelly (MP)
Mr Kalen
Mr Walters
Mr McKenzie

C/content?

CR 1/5

OK in substantially

POST BUDGET COMMENTS

Both the Chief Secretary and the Economic Secretary commented on the draft reply to post-Budget letters submitted by Mr McKenzie on 6 April. As he explained, we have received a considerable number of post-Budget letters expressing disappointment that the Government chose to reduce taxes in the Budget as opposed to further increasing spending on intrastructure, to ease unemployment.

2. I attach a revised draft reply which has been agreed with Mr Tyrie. The Chief Secretary thought that the draft reply should be based on the "hat-trick", bringing out the aggregate increase in expenditure of £4¾ billion in the Autumn Statement. The Economic Secretary suggested a formula for this referring to the extra £10 billion of resources available to the Government for 1987/88. There is no difficulty in bringing out the "hat-trick" at the beginning of the letter, but both EP and MP advise against putting the £10 billion figure into circulation as the full amount available to the Government in 1987/88. (It is roughly equivalent to the total cost of Labour's plans for jobs)

3. Having spelt out the "hat-trick", the draft reply goes on to set out the Government position on spending on infrastructure. This is because the majority of letters have focussed specifically on this area of public expenditure. If you are content with the basic framework, the draft can be amended as appropriate in response to letters calling for higher spending on services.

4. I am sorry that it has taken some time to revise the reply. I would be grateful for early approval of the attached draft.

CAROLYN SINCLAIR

4418/001

DRAFT LETTER

Thank you for your letter of [ ] to [ ] which expressed disappointment at the Government's decision, in this year's Budget, to reduce taxes and not to increase infrastructure spending further as a means of reducing unemployment.

2. The economic policy which this Government has pursued in successive Budgets has created a strong economy. The strength of the economy is reflected in the fact that the Government has been able, ~~in~~ for one and the same year, 1987-88, to announce higher spending on priority areas of £4.7 billion, a reduction in planned public borrowing of £3 billion, and ~~cuts of~~ a reduction of £2.6 billion in ~~lower~~ the burden of taxation. ~~Past Governments have achieved one or two of these, but no previous Government for decades has succeeded in all three.~~

3. As I expect you know, the Government announces its public spending plans at the time of the Autumn Statement, not in the Budget. Within the substantial increase in public spending announced last November the Chancellor announced increased plans for capital spending of around £1 billion for 1987/88 and 1988/89. Public sector capital spending in total now amounts to over £22 billion a year. Altogether, since 1978-79, capital spending on roads has risen in real terms by X% and on hospitals by Y%.

4. ~~But the projects which this sum is financing are justified on their own merits: new roads, for example, in terms of improved safety and savings in time and fuel. Infrastructure spending is not an effective way of creating lasting jobs if it is not worth doing for its own sake. Policies which will produce a sustained reduction in unemployment are the same policies which will strengthen the economy.~~

But it is important to recognise that there is no longer a infrastructure spending for its own sake: each project has to be justified on its merits. The only route to a sustained reduction in unemployment is via policies which will encourage the economy to perform better. This requires a further strengthening of the enterprise culture, ~~as that [illegible]~~ in which lower taxation has a vital part to play — as more and more countries around the world have come to recognise.

Lower rates of tax sharpen up incentives and stimulate enterprise, which in turn is the only route to better economic performance. And it is only by improving our economic performance that we will be able to afford to spend more on public services; and only by improving our economic performance will we be able to create jobs on the scale that we all want to see.

5. This year's 2p reduction in the basic rate *of income tax* will improve incentives for almost 21 million taxpayers, (around 95 per cent of those of working age), whose marginal rate is the basic rate, *not to mention* ~~The increase in personal allowances in the Budget means they are now 22 per cent higher in real terms than in 1978-79 and 1.4 million people have been taken out of tax completely, compared with the tax regime the Government inherited, adjusted for subsequent price movements.~~

90 per cent of unincorporated businesses and the self-employed.

6. On top of this, the Chancellor announced in the Budget that he would be offering a new income tax relief to those who had an element of their pay directly related to the profits of the firm in which they worked. For a married man on average earnings this could be equivalent to anything between a further 1p and 4p off his basic rate of tax. While profit related pay will not in itself solve the unemployment problem, it is a tool which will help British business gradually to overcome a major obstacle to the creation of new jobs - the inflexibility of our labour market.

7. We therefore have to look at the whole picture. The Government's prudent management of the nation's finances in the past has enabled it this year to increase public spending <u>and</u> improve incentives through tax cuts, while reducing the level of public sector borrowing too.

For the future, the Government remains committed to achieving a basic rate of income tax of no more than 25 per cent and to reducing the overall tax burden over the medium term. For the more people can retain what they earn to spend as they themselves decide, the more efficiently the economy will perform and the more jobs it will create.

3752/005

RP.

ECONOMIC SECRETARY TO THE TREASURY

FROM: P D P BARNES
DATE: 5 May 1987

PS/CHANCELLOR 2

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Mr Culpin
Miss Sinclair
Miss O'Mara
Mr Kelly
Mr Kalen
Mr Walters
Mr McKenzie
Mr Tyrie

POST BUDGET COMMENTS

The Economic Secretary has seen Miss Sinclair's submission to the Chancellor of 30 April.

2. The Economic Secretary thinks that the first paragraph of the draft letter appears to take the correspondent's assumption on his own terms. He would prefer to put this more challengingly, for example as, "to reduce taxes, following the increased expenditure already announced for 1987-88."

PB

P D P BARNES
Private Secretary

UNCLASSIFIED

ps2/22R

RD

FROM: CATHY RYDING

DATE: 5 May 1987

PS/ECONOMIC SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Mr Culpin
Miss Sinclair
Miss O'Mara
Mr Kelly
Mr Kalen
Mr Walters
Mr McKenzie
Mr Tyrie

POST BUDGET COMMENTS

The Chancellor has seen your minute of 5 May and agrees with the Economic Secretary's suggested amendment to the draft letter.

CR

CATHY RYDING

FROM: P D P BARNES
DATE: 5 May 1987

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Mr Culpin
Miss Sinclair
Miss O'Mara
Mr Kelly
Mr Kalen
Mr Walters
Mr McKenzie
Mr Tyrie

c/ Agree with EST's suggestion?

CR 5/5

POST BUDGET COMMENTS

The Economic Secretary has seen Miss Sinclair's submission to the Chancellor of 30 April.

2. The Economic Secretary thinks that the first paragraph of the draft letter appears to take the correspondent's assumption on his own terms. He would prefer to put this more challengingly, for example as, "to reduce taxes, following the increased expenditure already announced for 1987-88."

PB

P D P BARNES
Private Secretary

ps2/16R

UNCLASSIFIED

FROM: CATHY RYDING
DATE: 5 May 1987

MISS SINCLAIR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Culpin
Mr Tyrie
Miss O'Mara
Mr Kelly (MP)
Mr Kalen
Mr Walters
Mr McKenzie

POST BUDGET COMMENTS

The Chancellor was grateful for your minute of 30 April.

2. The Chancellor has made a number of amendments to the draft reply attached to your minute, and a retyped version is attached.

CR

CATHY RYDING

ps2/17R

DRAFT LETTER

Thank you for your letter of [ ] to [ ] which expressed disappointment at the Government's decision, in this year's Budget, to reduce taxes and not to increase infrastructure spending further as a means of reducing unemployment.

The economic policy which this Government has pursued in successive Budgets has created a strong economy. The strength of the economy is reflected in the fact that the Government has been able, for one and the same year, 1987-88, to announce higher spending on priority areas of £4.7 billion, a reduction in planned public borrowing of £3 billion, and a reduction of £2.6 billion in the burden of taxation.

As I expect you know, the Government announces its public spending plans at the time of the Autumn Statement, not in the Budget. Within the substantial increase in public spending announced last November the Chancellor announced increased plans for capital spending of around £1 billion for 1987-88 and 1988-89. Public sector capital spending in total now amounts to over £22 billion a year. Altogether, since 1978-79, capital spending on roads has increased in real terms by X per cent and on hospitals by Y per cent.

But it is important to recognise that there is no logic in infrastructure spending for its own sake: each project has to be justified on its merits. The only route to a sustained reduction in unemployment is via policies which will encourage the economy to perform better. This requires a further strengthening of the enterprise culture, in which lower taxation has a vital part to play - as more and more countries around the world have come to recognise.

This year's 2p reduction in the basic rate of income tax will improve incentives for almost 21 million taxpayers, around 95 per cent of those of working age, whose marginal rate is the basic rate, not to mention 90 per cent of unincorporated businesses and the self-employed.

We therefore have to look at the whole picture. The Government's prudent management of the nation's finances in the past has enabled it this year to increase public spending and improve incentives through tax cuts, while reducing the level of public sector borrowing too.

For the future, the Government remains committed to achieving a basic rate of income tax of no more than 25 per cent and to reducing the overall tax burden over the medium term. For the more people can retain what they earn to spend as they themselves decide, the more efficiently the economy will perform and the more jobs it will create.

psl/55A c Mr Allan UNCLASSIFIED

plgs.

Miss Evans

Very good - some useful points here.

Let us b f 1/2/88

MCS 12/5

FROM: A C S ALLAN
DATE: 6 May 1987

MISS C EVANS

cc Mr Scholar 1st
Mr Walters

BUDGET POST MORTEM

I am very sorry not to have commented before on your minute of 30 March.

Timetable

2. Like you, I thought the timetable worked fairly well this year.

3. If it is at all possible, it would be helpful to have the first draft of Chapter 3 (the Forecast) available rather earlier. This is one which does not follow quite such a standard pattern as the other chapters. Most of the material around which it is written (ie the January Forecast) is available quite early, and it should be possible to get a first draft to the Chancellor rather earlier.

Overviews

4. I realise that Overview meetings on Monday afternoon make the timetable for the Scorecard rather tight. But from our point of view it worked rather well: otherwise Monday mornings would be pretty good hell. And having the Overview meetings in the afternoon gave us extra flexibility: we could easily end them early if there wasn't much to discuss. If we have them in the morning running through to lunch with sandwiches etc., we would be almost forced to let them run their full course.

Budget representations etc.

5. I did not think the procedure for answering Ministers' Budget representations was very satisfactory: we ended up with a last minute bundle of replies, most of which were no more than standard

Good point

Budget acknowledgements. I think we should aim to reply to all letters from other Ministers as soon as they come in, on the lines "Thank you for your letter; I have noted the points you made and will bear ~~them~~ carefully in mind". If we later feel a substantive reply is desirable, then we can easily do that as well.

Press notices

6. The arrangements for official press notices seemed to work quite well. But we need to have some arrangement for clearing press notices which other Ministers may want to issue after they know what is in the Budget: the particular case this year was Mr Rifkind, who referred to "expected falls in interest rates". For next year, I think I should send a letter round to all Private Offices saying that if any Minister does want to issue such a press release, he must clear it (by phone) with a nominated person in either this office or in FP.

Other documents

7. FP (nobly) took over many of the old Central Unit's responsibilities for drafting the odd bits and pieces needed for the Budget - the message to Posts, the note for the Queen etc. But there were some loose ends where responsibility was less clear: the various notes to the Prime Minister (FP clearly do the tax ones, but there is also one on monetary policy and MTFS); the paper for Economic Cabinet etc. It would be as well to sort out in advance next year who will be doing what (and when).

Odds and end

8. One message to me for next year is to remove the Chancellor's speech from his hands soon after lunch and check the page ordering!

ACSA

A C S ALLAN

9/4

BACKGROUND ECONOMIC BRIEFING
SELECTED STATEMENTS BY MINISTERS
ON ECONOMIC AND FINANCIAL POLICY

Compiled by
S R Kemp
EB Division
Room 99/2
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1
(Tel 01-270 5208)

Tony.
cd you ask EB?
M.

21 July 1987

This issue includes all kinds of statements on economic and financial policy - made both inside and outside Parliament. Factual statements should be checked before further use in case new information is available.

The selection in this issue covers statements made outside Parliament between 30 September 1986 and 15 May 1987 and inside Parliament from 8 December 1986 to 15 May 1987.

The Autumn Statement Debate took place on 17 December. There was a debate on the economy on 20 January. The Public Expenditure White Paper Debate was held on 18 February. The Chancellor of the Exchequer presented his Budget on 17 March and the Budget Debate took place on 17, 18, 19 and 23 March. The Second and Third Readings of the Finance Bill took place on 22 April and 12 May respectively with Committee of the Whole House on 29 April.

Please notify additions to/deletions from distribution list to Mrs Henson on 01-270 5212. If your copy does not arrive on time, please ring Committee Section on 01-270 4558.

TABLE OF CONTENTS

1. ECONOMIC STRATEGY

The Prime Minister told the Manchester Chamber of Commerce:

"Our task in Government is to set the framework. Low inflation. Low public borrowing. Quicker planning decisions. Less burdensome regulation. Lower taxes and lower interest rates when we prudently can. Our aim is stable, responsible policies, so that business can plan for the future with confidence."

[Speech to Manchester Chamber of Commerce, 11 December]

And during Question Time she said:

"I give the assurance that the Government will continue into the next Parliament with their prudent and cautious financial policy, which has resulted in six years of growth, lower income tax rates, a higher standard of living than we ever had before and a higher standard of social services."

[OR 12 February vol 110 no 51 cols 455-456]

In his Budget Statement the Chancellor commented on the success of the Government's fiscal policy:

"Throughout our period of office, our critics have consistently maintained not only that a fiscal stimulus would produce real economic growth, but that without an expansionary fiscal policy sustained growth was impossible. They were wrong, and have been proved wrong. The British economy is now embarking on its seventh successive year of steady growth, at an average rate of getting on for 3 per cent, a year. And during that time the PSBR, even if privatisation proceeds are added back, has been deliberately and steadily reduced from a shade under 6 per cent of GDP to a little over 2 per cent. Indeed, had I or my predecessor at any time heeded the advice of our so-called expansionist critics, the British economy would never have been in the unprecedentedly favourable position it is in today."

[OR 17 March vol 112 no 74 col 818]

During the Budget Debate the then Chief Secretary announced:

"... what we are seeing now is an economic hat trick ... a hat trick of good news. It is important to take all items together - a £4.7 billion increase in public spending in the coming year concentrated on our high priority areas such as the Health Service, education, care and support for the sick, disabled and those in need; a £3 billion reduction in the public sector borrowing requirement to maintain prudence and keep borrowing and inflation low; and a £2.6 billion cut in taxes to give back to people more of what they have earned and to provide incentives for continued economic progress."

[OR 18 March vol 112 no 75 col 955]

Speaking at the Scottish Party Conference on 14 May the Chancellor set out some of the Government's plans for a third term:

"We will further reduce the burden of income tax, with a basic rate of no more than 25 pence in the pound. We have already privatised over a third of the state-owned industry we inherited. We will press ahead with a further major privatisation programme. The number of Britons directly owning shares has already trebled since we first took office, to one in five of the adult population. We will push the boundaries of popular capitalism still further. And we will continue to make the defeat of inflation our first priority, until we have eliminated it altogether."

GENERAL ECONOMY

2. Growth

In his Budget statement the Chancellor outlined the economy's performance and looked forward to future growth.

"We are now entering our seventh successive year of steady growth and the fifth in which this has been combined with low inflation.

...In 1986 as a whole output grew by a further 2½ per cent, or so, which compares well with the experience of other industrialised countries.

...Looking ahead, I expect 1987 to be another year of balanced growth with low inflation. Total output is forecast to rise by 3 per cent, with exports and investment up by rather more than that. By then we will have registered the longest period of steady growth, at a rate approaching 3 per cent a year, that the British economy has known since the war."

[OR 17 March vol 112 no 74 cols 815-816]

During a debate on the economy the Chancellor noted:

"... the growth that we have seen and that we shall continue to see has been balanced between consumption and investment ... during the whole of the period since the upswing began, while consumer spending has risen at an average of 3 per cent per year, investment has risen 4 per cent a year - twice as fast as the European Community average."

[OR 20 January vol 108 no 34 col 773]

During the Second Reading of the Finance Bill the then Chief Secretary said:

"With steady, unmistakable consistency, the economic indicators across the range show that, following nine Budgets under the Government the British economy is getting stronger and stronger."

[OR 22 April vol 114 no 93 col 683]

And comparing the latest figures with his Budget forecast the Chancellor told the House:

"Output appears to be rising, if anything, rather faster [than predicted]."

[OR 29 April Vol 115 no 98 col 323]

3. **Manufacturing**

The then Chief Secretary told the House:

"Manufacturing profitability is higher than at any point since 1973, and manufacturing exports have reached record levels. Since 1979, productivity in this country has risen faster than in any other industrialised country, by 3½ per cent a year."

[OR 18 February vol 110 no 55 col 928]

4. **Balance of payments**

In his Budget Statement the Chancellor told the House:

"The recorded current account of the balance of payments went into deficit in 1986 by around £1 billion. This followed a cumulative surplus of some £20 billion between 1979 and 1985. Some deterioration in our current account was inevitable in the face of a £4 billion loss of earnings on oil trade virtually overnight. But the significance of this should not be exaggerated. The exchange rate adjustment that followed the fall in the oil price is already contributing to an improved non-oil trade performance. And earnings from the massive stock of net overseas assets we have acquired since 1979 will provide a continuing support to the current account in the years ahead.

...Despite the strong growth in exports, it will inevitably take time for the full effect of the exchange rate adjustment to work through. The current account is thus likely to remain in deficit this year, by some £2½ billion, around half of 1 per cent of GDP."

[OR 17 March vol 112 no 74 col 816]

However, during the Finance Bill's Committee of the whole House he said:

"The current account of the balance of payments is... performing better, so far, than I predicted"

[OR 29 April vol 115 no 98 col 324.]

During an economic policy debate the Chancellor commented:

"... the collapse of the oil price has for the time being pushed us into deficit, but that was only to be expected. It is clearly arithmetically impossible for every economy in the world to be in surplus every year. ... What matters is that we should keep control of our domestic costs, so that the exchange rate adjustment that has followed the oil price collapse and which is now completed, will lead in time to a compensating improvement on our non-oil account, both visible and invisible. In this context, the most recent figures for the growth in the United Kingdom's unit labour costs are most encouraging."

[OR 20 January vol 108 no 34 col 774]

In December the Chancellor noted:

"Exports have risen by almost 20 per cent in real terms since the first half of 1979, and the latest figures show us exporting even more goods per head than Japan."

[Speech at Better made in Britain Dinner, 2 December]

The Chancellor told the House:

"Since the upswing began, while most of Europe has seen its share of the world markets decline, ours has held steady and exports continue to rise fast."

[OR 20 January vol 108 no 34 col 774]

At the Lord Mayor's Banquet on 10 November the Prime Minister pointed out:

> "... the City makes an enormous contribution to this country's foreign earnings, a surplus of £7,500 million a year. That's close to the contribution of North Sea oil at its height."

The Chancellor commented:

> "We are now one of the world's largest holders of net overseas assets, probably second only to Japan, and the Invisible Exports Committee expect our surplus on invisibles to be the largest in the world next year [1987]."
>
> [Speech to Daventry Conservative Association, 5 December]

And in his Budget Speech he added:

> "At well over £100 billion, our net overseas assets are now greater than at any time since the War, and second only to those of Japan."

[OR 17 March vol 112 no 74 col 816]

5. **Employment**

During the Public Expenditure White Paper Debate the Chief Secretary said:

> "... the number of new jobs has risen for 14 quarters in a row - the longest period of continuous employment growth for almost 30 years."
>
> [OR 18 February vol 110 no 55 col 928]

In his speech to the Scottish Party Conference on 14 May the Chancellor said:

> "Since the last General Election, we have created a million extra jobs - more than the rest of Europe put together."

On 29 January the Prime Minister told listeners to Radio 4's 'Today' programme:

> "I do believe we shall see full employment again."

6. Unemployment

The Chancellor told the Conservative Party Conference on 9 October:

> "As a result of what we have done, youth unemployment in this country is now below the Common Market average, and it's falling."

And during the Budget Debate he said:

> "Throughout the country ... unemployment is falling ... The same is true for long term unemployment. Youth unemployment has fallen in every region over the past three years. ...
>
> "The solution to unemployment is a vigorous economy, and this Budget is reinforcing the vigorous economy that we have in this country. That is why unemployment is coming down and why it will continue to come down for the rest of this year."
>
> [OR 23 March vol 113 no 78 col 111]

The then Chief Secretary told the House:

> "The latest estimate of the cost of unemployment and supplementary benefit which will be paid to the unemployed in 1987-88 is £6.05 billion. In addition, it is estimated that £1.3 billion will be paid in housing benefit, a benefit which can continue to be paid if the recipient finds employment. It is not possible to estimate the revenue forgone."
>
> [OR 30 April vol 115 no 99 col WA 229]

7. Inflation

At the Conservative Party Conference the Chancellor proclaimed:

> "Bringing inflation down to the lowest levels for twenty years. They said it couldn't be done, but we did it. In the next Parliament, we aim to eliminate inflation together.
> [Speech to Conservative Party Conference, 9 October]

He had earlier told the IMF:

> "Given the continued pursuit of policies of sound money, low inflation can be sustained and eventually eliminated altogether."
> [Speech to the IMF, 30 September]

At the Better made in Britain Dinner on 2 December he said:

"The essence of any successful anti-inflationary policy is non-accommodation -the refusal to validate financially the inflationary pressures that always exist in any modern economy."

In the 'News of the World' on 4 January the Prime Minister said:

"Inflation is under control and back the low levels of the 1960s - and is not going to take off."

And during an economic policy debate the Chancellor pointed out:

"Inflation last year, at 3½% was the lowest for almost twenty years."

[OR 20 January vol 108 no 34 col 773]

In his Budget Statement he forecast:

"As I foreshadowed in the Autumn Statement, inflation may continue to edge up for a time perhaps exceeding 4½ per cent by the summer, before falling back to 4 per cent by the end of the year."

[OR 17 March vol 112 no 74 cols 816-817]

However, in April he told the House:

"Inflation ... is slightly lower than I implied in the Budget."

[OR 29 April vol 115 no 98 col 324]

8. <u>Real take home pay</u>

During the **Budget** Debate the then Chief Secretary noted:

"... following the Budget changes the effect of wages and tax changes combined mean that in real terms the take home pay for a married man without children on average earnings will be up since 1979 by 22½ per cent. It will be up over 18 per cent for the same man on half average earnings."

[OR 18 March vol 112 no 75 col 961]

9. **UK economy: international comparisons**

In his Budget Statement the Chancellor told the House:

> "It is worth recalling that during the 1960s and 1970s, Britain's growth rate was the lowest of all the major European economies. By contrast, during the 1980s our growth rate has been the highest of all the major European economies."
>
> [OR 17 March vol 112 no 74 col 815]

And in a speech to the Interim Committee of the IMF on 9 April he said:

> "As it happens, taking 1986 and 1987 together, the UK is one of the few major countries that is outperforming the Fund's growth forecasts made a year ago."

In his Budget Statement the Chancellor spoke of the performance of manufacturing productivity:

> "During the 1960s and again in the 1970s, growth in manufacturing productivity in the United Kingdom was the lowest of all the seven major industrial countries in the world. During the 1980s our annual rate of growth of output per head in manufacturing has been the highest of all the seven major industrial countries."
>
> [OR 17 March vol 112 no 74 col 816]

And in his Budget broadcast on 17 March he remarked:

> "During the sixties we were bottom of the world productivity league. During the seventies we were still bottom. But now, in the eighties, we're right at the top of the league.
>
> "... Since 1983, France has lost almost a quarter of a million jobs. Italy has gained almost a quarter of a million jobs. And West Germany has created half a million jobs. But here in Britain we now have a million more jobs than we had in 1983. A net gain of a million jobs: more than in all the others put together."

Earlier the Chancellor had told the House:

> "The United Kingdom economy has grown twice as fast as Italy's over the last five years. Real growth has been over 14 per cent - double that of Italy, and faster than in any of the major industrialised countries except Japan. The latest comparison by the OECD suggests that Britain's economy is about 14 per cent larger than Italy's. And living standards per head are about 15 per cent higher. Even if GDP is compared

at market exchange rates, without any allowance for differences in purchasing power, it is about 8 per cent higher in the UK than in Italy, and about 9 per cent higher per head of the population."

[OR 18 February vol 110 no 55 col WA544]

NORTH SEA AND THE UK ECONOMY

10. North Sea revenue

In December the Chancellor said:

"The halving of the oil price has reduced our North Sea oil revenues this year by no less than £6½ billion compared with last year, and our net export earnings from oil in 1986 are expected to be more than £4 billion lower than in 1985."

[Speech at the 'Better Made in Britain Dinner', 2 December]

The Financial Secretary told the House:

"In no way has the £56 billion [North Sea revenue since 1978-79] been wasted. First, it has been used to reduce overseas debt. Secondly, it has been used to acquire overseas assets that will benefit this country for many years to come, and thirdly, it has been used to support a prudent level of expenditure in the country under this Government, including an increase in National Health Service resources way above what the previous Government were able to afford."

[OR 29 January vol 109 no 41 col 479]

MONETARY POLICY

11. General

During the Autumn Statement Debate the Chancellor outlined the Government's monetary policy:

"... the central task of monetary policy is to create monetary conditions that, over time, will bring steady downward pressure on the rate of growth of money GDP, and hence on inflation. The principal indicators of monetary conditions are the rate of growth of both narrow and broad money, and the behaviour of the exchange rate. ... And the essential instrument of monetary policy is the level of short-term interest rates.

I readily concede, though, that in the implementation of policy, a number of things have changed.

First, interest rates have come to bear more weight in restraining money and credit because we have, quite rightly, swept away a whole apparatus of controls. When we took office, we inherited a corset for the banks, foreign exchange controls for everyone, and mortgage rationing for those buying houses. Such controls have increasingly become unworkable, as the financial system becomes more sophisticated. This inevitably puts more immediate weight on interest rates as the instrument of policy.

Secondly, we did for a while come to use systematic overfunding - the practice of selling more gilts than needed to fund the PSBR - as a way of reducing the recorded growth of sterling M3. This led to undesirable distortions in financial markets, which also made policy harder to operate, and so we concluded that the practice could not be justified - a point made forcefully in the past, as I recall, by the Select Committee itself - and I explained that fully in last year's Mansion House Speech.

Thirdly, I accept that in setting interest rates it has become harder to use as a guide the particular measure known as sterling M3. But this is in no sense a bolt from the Blue. The 1980 Green Paper said that, and I quote "no single statistical measure of the money supply can be expected fully to encapsulate conditions."

[OR 17 December vol 107 no 25 col 1238-1239]

In his Mansion House Speech on 16 October the Chancellor commented on the growth of broad money

"Broad money and credit have been growing fast, and I understand the concern that has been aroused on that score. As I pointed out last year, it was clear that the liberalisation of the financial system, the end of mortgage rationing, and the increased competition between financial institutions would lead to a steady increase in the ratio of broad money to GDP. This, indeed, has been a consistent feature of the 1980s. There is every sign that people are holding the increased amounts of broad money quite willingly. And so long as this is so, its growth is not inflationary."

And in December he told the House:

"We cannot and we do not ignore the continued rapid growth of sterling M3 and other measures of broad money, but for a long period now, this growth has proved consistent with downward pressure on inflation, so it must be looked at in conjunction with evidence of other indicators. Principal among these is MO, the broad monetary base, which has proved a reliable indicator with a stable trend in velocity. This is why, throughout my time as Chancellor, I have chosen to set targets for narrow money in terms of MO."

[OR 17 December vol 107 no 25 cols 1239-1240]

In his Budget Statement the Chancellor reiterated the main aim of the medium-term financial strategy and announced he would not be setting a target for £M3:

"The central objective of the MTFS is gradually to reduce the growth of money GDP over the medium term so as to squeeze inflation out of the system and ultimately to achieve price stability. This requires monetary discipline buttressed by low public sector borrowing. The essential instrument of monetary policy must remain short term interest rates. These will continue to be set in the light of monetary conditions as indicated principally by the growth of narrow and broad money and the behaviour of the exchange rate.

For narrow money, MO, the target range for (1987-88) will be 2-6 per cent, as foreshadowed in last year's MTFS. For broad money, ...as the Governor of the Bank of England cogently argued in his Loughborough lecture last October, it is probably wiser in current circumstances to eschew an explicit target altogether. But broad money will continue to be taken into account in assessing monetary conditions...."

[OR 17 March vol 112 no 74 col 817]

12. **Interest rates**

In evidence to the TCSC on 20 November, the Chancellor commented:

"The role of (short term interest rates) is to keep financial conditions sufficiently stringent to ensure that inflation remains low and ultimately to eliminate inflation altogether and have stable prices."

He also noted:

"... It is absolutely true that if industry were to get a better grip of its costs, in particular its pay costs, then I do not think it would be necessary, as part of the anti-inflationary strategy, to have interest rates as high as they are today."

[Second Report from the Treasury and Civil Service Committee, Session 1986-87 "The Government's Economic Policy: Autumn Statement" p20-21]

13. **Personal debt**

The Chancellor told the TCSC on 30 March:

"I think what you may be concerned about ... is the rate at which private sector borrowing has been growing. There is a sort of myth it is all plastic, but growth as a share of GDP is entirely attributable to the growth of mortgage borrowing. Although there is no doubt some equity withdrawal, this borrowing is primarily for the purpose of house-purchase and house improvement. It is part of the Government's policy to encourage home ownership, including the purchase by council tenants of the homes in which they live. That therefore leads to more mortgages being taken out. Provided that we can contain the monetary consequences of that - which we are doing, and have done - then I do not regard that as a matter of concern."

[Sixth Report from the Treasury and Civil Service Committee, Session 1986-87, "The 1987 Budget" p30]

14. **Exchange rate policy**

During the Autumn Statement Debate, the Chancellor remarked:

"In operating and formulating monetary policy, the exchange rate is clearly very important both as a transmission mechanism and as an indicator of monetary conditions. In this country, as in the other major economies, it has come to play a more prominent policy role in recent years as institutional developments have made the monetary aggregates more difficult to interpret. But as long ago as 1980 and early 1981, interest rates were reduced because the exchange rate was clearly indicating that conditions were tight, despite the fact that at that time there was a monetary overshoot, measured by sterling M3."

[OR 17 December vol 107 no 25 col 1240]

On the level of sterling the Chancellor commented:

"... the exchange rate should always be exercising a financial discipline on the economy, I do not believe in a weak exchange rate. I think you will be seeing an anti-inflationary policy and it is desirable to have an exchange rate which is exercising it. What we had to do earlier this year was to allow the exchange rate to fall because of the sharp collapse of the oil price, there clearly had to be a step change in the exchange rate and that duly occurred."

[Second Report from the Treasury and Civil Service Committee, Session 1986-87, "The Government's Economic Policy: Autumn Statement" p19]

And in December he returned to this subject adding:

"But the important point is that that adjustment has now happened. And industry should plan on the basis that we shall maintain a firm exchange rate, as we have done before."

[Speech at the Better Made in Britain Dinner, 2 December]

However, the Chancellor remarked in his opening statement to the Treasury and Civil Service Committee on 30 March:

"I do not wish to see a substantial rise of the exchange rate... as it would clearly not make sense to reverse the exchange rate fall that had been the proper response to lower oil prices. Since then we have had the Paris Accord. All of us who were present agreed a period of exchange rate stability was both practicable and desirable."

On the question of publishing exchange rate targets the Chancellor told the Treasury and Civil Service Committee on 30 March:

"...it does not make practical sense to publish the "bands" within which you are operating. It would just help those who are seeking to make money at the expense of the policy. It is for precisely the same reason that the other countries who are party to what I call Plaza II ... do not publish bands either. ... If domestic action is needed there is the presumption that that would be taken by the country that needs to take the action. If, however, it does not appear that that is the case and therefore, that intervention would be appropriate in the currency markets, that intervention would be concerted."

[Sixth Report from the Treasury and Civil Service Committee, Session 1986-87, "The 1987 Budget" p34-35]

On 9 April he told the Interim Committee of the IMF:

"Although we cannot be sure that we now have precisely the correct alignment of exchange rates that, in the long run, is consistent with current account balance, we can be quite sure that repeated doses of depreciation will simply prolong the adverse effects of the J-curve and lead to an overshoot in the opposite direction. That is the last thing we want to see."

In his Budget Statement the Chancellor announced:

"In 1979, a few months after the present Government had first taken office, my predecessor announced the abolition of exchange controls, which had been in continuous operation ever since the outbreak of war in 1939. That bold action has, over the past seven and a half years, proved wholly beneficial to the British economy; and I am glad to note that other European countries are now moving in the same direction.

But the Exchange Control Act remains on the statue book. The time has come to repeal it. The necessary legislation will be contained in this year's Finance Bill."

[OR 17 March vol 112 no 74 col 819]

The Prime Minister told the 'Financial Times' in January:

"When we go in [to the exchange rate mechanism of the EMS] we will go in strong and stay in."

[Interview with the 'Financial Times', 4 January]

TAXATION

15. Income tax

In his Budget Statement the Chancellor announced further reductions in direct taxation:

"There is now a worldwide consensus on the economic desirability of tax reform and tax reduction, and in particular the reduction of income tax. This was demonstrated most recently by the various national policy declarations that emerged from last month's meeting of Finance Ministers from the major industrial nations.

Lower rates of tax sharpen up incentives and stimulate enterprise, which in turn is the only route to better economic performance.

... That is why, ever since we first took office in 1979, we have consistently sought to reduce the burden of income tax. We have cut the basic rate of tax from 33 per cent to 29 per cent, and sharply reduced the punitive higher rates we inherited from the Labour Party. And we have increased the main tax allowances by 22 per cent more than inflation, taking almost 1½ million people out of income tax altogether.

For 1987-88 I propose to raise all the main thresholds and allowances by the statutory indexation factor of 3.7 per cent, rounded up. Thus the single person's allowance will rise by £90 to £2,425 and the married man's allowance by £140 to £3,795. The single age allowance will rise by £110 to £2,960 and the married age allowance by £170 to £4,675. The age allowance income limit becomes £9,800. I propose to raise the first 40 per cent higher rate threshold by £700 to £17,900, in line with statutory indexation; but the threshold for the 45 per cent rate will go up by only £200 to £20,400. The other higher rate thresholds will remain unchanged. ...

... I propose to give an additional increase in the age allowance for those aged 80 or over. For them, the increase will be double the amount due under statutory indexation so that, for the very elderly, the single age allowance will rise by £220 to £3,070 and the married age allowance by £340 to £4,845. Around 400,000 taxpayers will benefit from this new measure, and up to 25,000 of them will be taken out of income tax altogether.

Second, the blind person's allowance has remained unchanged since 1981, when it was increased by £180 to its present level of £360. For 1987-88 I propose to increase it by a further £180, to £540.

... The basic rate of income tax. ... is the starting rate of income tax for everyone and the marginal rate for the overwhelming majority of taxpayers.

In my Budget speech last year, I reaffirmed the aim set out by my predecessor in 1979, to reduce the basic rate of income tax to no more than 25 per cent. That remains my firm objective.

However, given my decision to use the greater part of fiscal scope I now have to reduce the public sector borrowing requirement that goal cannot be achieved in this Budget.

I can, however, take a further step towards it, as I did last year. I am therefore reducing the basic rate of income tax by 2p to 27 per cent. This reduction, which will benefit every taxpayer in the land, will be worth more than £3 a week to a man on average earnings.

There will, of course, be a consequential reduction in the rate of advance corporation tax, and - as last year - I also propose a corresponding cut in the small companies' rate of corporation tax from 29 per cent to 27 per cent."

[OR 17 March vol 112 no 74 cols 827-828]

During the Budget Debate the then Chief Secretary told the House:

"The cut in the basic rate improves incentives for nearly 21 million taxpayers of working age, 94 per cent of the total, whose marginal rate is the basic rate. It improves incentives for everybody paying tax at the basic rate including... unincorporated businesses and the self employed, while an increase of equivalent cost

in the allowances improves incentives only for those people taken out of
Moreover, under 10 per cent of the 1.2 million who would have been taken out of tax by such an increase are families with children.

... For a married man on average earnings this year's Budget is equivalent, in itself, to a 2.7 per cent pay increase without adding a penny to industry's costs."

[OR 18 March vol 112 no 75 col 960]

In April the Chancellor told the House:

"... the dynamic effect of reductions in tax rates can often mean not lower but higher revenues.

... for income tax, the higher rates applying in 1987-88 ... are expected to yield 90 per cent more in real terms and the top 5 per cent of taxpayers now contribute 28 per cent of income tax, compared to 24 per cent in Labour's last year."

[OR 29 April vol 115 no 98 col 322]

16. <u>Green Paper on the "Reform of Personal Taxation"</u>

During the Budget Debate the Financial Secretary announced:

"The response to the Green Paper has been disappointingly thin. Although the majority of those who responded to the Government's invitation expressed themselves in favour of transferable allowances, the Government do not yet feel that there is sufficient support to take a decision now to go ahead with so far-reaching a reform. Nevertheless, the Government consider it important both that the tax system should give women a fair deal and that the tax penalties in marriage should be removed, so we will be considering the matter further and will be exploring whether there is any satisfactory halfway house to the approach in the Green Paper."

[OR 18 March vol 112 no 75 col 1012]

In the Adjournment Debate on 23 April he added:

"I hope that the time will not be too long before we can make further progress."

[OR 23 April vol 114 no 94 col 894]

17. Profit related pay

The Chancellor announced some changes to his plans to introduce a scheme of tax relief:

> "My proposals depart from those in the Green Paper in one important respect. I am doubling the proportion of an employee's profit-related pay that will be tax free from a quarter to a half, and I am also increasing the upper limits on the relief. For a married man on average earnings receiving 5 per cent of his pay in profit-related form, the tax relief will be equivalent to a penny off the basic rate of income tax."
>
> [OR 17 March vol 112 no 74 col 823]

Opening a conference on "Company Success", to mark the 25 Anniversary of the National Economic Development Council, on 31 March the Chancellor remarked:

> "A significant number of companies already have PRP schemes. These companies invariably report that as a result, their employees are more committed to their job, and more aware of how their firm is doing. And there is evidence that these companies are more likely to have an expanding business and a growing workforce than companies without schemes.
>
> ... PRP builds in an element of flexibility on the pay side, so redundancies should become less likely, and firms can be more confident about taking on new employees to meet new opportunities.
>
> ... a wider spread of PRP should be of considerable benefit to the economy. What is essential is that it is seen, by management and workforce alike, as an integral part of pay, and not as simply another type of bonus. Moreover, if management need to keep down the cost of taking on new staff, I have provided that PRP need not apply to new recruits; so there is no risk of it exacerbating the so-called "insider-outsider" problem.
>
> ... PRP is not a panacea. Nor is it a closet way of reducing pay levels - those employees who already have profit related pay will have done very well in recent years, as profits have risen to record levels. What it is is a practical measure to help British business overcome two persistent problems: first the "them and us" syndrome, by giving workers a direct stake in the health of the business; and second, the rigid nature of our labour market, by promoting pay flexibility."

And in First Order questions he told the House:

> "I am glad to say that over 3,500 employers have registered their interest in profit-related pay with the Inland Revenue."
>
> [OR 30 April vol 115 no 99 col 396]

18. **Business taxation**

In his Budget Statement the Chancellor announced:

> "... the main rate of corporation tax in 1987-88 will be unchanged at 35 per cent - lower than in any other major industrial nation, though the United States is now set to emulate us.
>
> The low rate of corporation tax enables me to introduce a further simplification into the system.
>
> At present, while companies' capital gains are liable to corporation tax, the amount of such gains is first adjusted by a certain fraction so that the effective rate of tax is the same as that on capital gains made by individuals. This dates back to the time when the two rates of tax were far apart.
>
> This is no longer the case. Indeed, the corporation tax rate for small companies is now below the capital gains tax rate. I therefore propose that, from today, companies' capital gains be charged at the appropriate corporation tax rate, without adjustment, save for the indexation which applies to all post-1982 gains.
>
> Hitherto, companies have not been allowed to set payments of advance corporation tax against their liability to tax on capital gains. This means that, where companies distribute capital gains as dividends, the gains are, in effect, taxed twice - once in the hands of the company, and once in the hands of the shareholder. I propose that, under the new system, companies should be able to set ACT payments against tax on capital gains.
>
> ...I also propose to legislate now to pave the way for a new method of collecting corporation tax to be known as pay and file. Under this system companies will estimate their tax liabilities themselves, and pay on the normal due date. Where it turns out that the initial payment was too low, the company will pay interest to the Revenue; where the initial payment was too high, the Revenue will pay interest to the company. This new approach, which has already been generally welcomed by the business community, is part of a wider programme of streamlining tax collection, and will not come into force until the early 1990s."

Turning to oil taxation he said:

> "I propose two further petroleum revenue tax reliefs. First, as from today, companies may elect to have up to 10 per cent of the costs of developing certain new fields set against their petroleum revenue tax liabilities in existing fields, until such time as the income of those new fields, exceeds the costs incurred. Second, there will be a new relief against PRT for spending on research into United Kingdom oil extraction that is not related to any particular field.

I believe that these carefully targeted changes will give a worthwhile measure of relief to the North sea oil sector."

While on the business expansion scheme he explained:

"... Last year I put the business expansion scheme on to a permanent footing. However, the present rules still produce too much end-year bunching of BES investments, and hence may crowd out some projects and lead to bad decisions on others. I propose, therefore, to permit someone who invests in the first half of the year to claim part of the relief against his previous year's income. This will make it easier for companies to raise BES finance throughout the year."

He also introduced VAT measures affecting small businesses:

"The past few years have seen a remarkable and welcome growth in the number of small businesses and the self-employed. The Government have done a great deal to lighten the burdens on this vitally important sector of the economy. But I am well aware that problems remain, not least in the field of VAT.

Accordingly, I asked Customs and Excise to issue a consultative document last autumn canvassing a number of changes. In the light of the responses to that document, I have four proposals to make.

Perhaps the biggest problem faced by the small businessman today is the trade customer who is late in paying his bills: so late sometimes that VAT beomes due before the bill has been paid. I can do nothing about late payment; but I can, I hope do something about the VAT problem.

My first and most important proposal, therefore, is that, as from 1 October, businesses whose annual turnover is under £¼ million, which covers more than half of all traders registered for VAT, will be able to choose to account for VAT on the basis of cash paid and received. In other words, they will have no liability to pay VAT until they themselves have recieved the money from their customers. In addition to easing the cash flow problems caused by late payers, this system will, of course, provide automatic VAT relief on bad debts.

I have to warn the House, however, that I cannot legally introduce this change without first obtaining a derogation from the European Community's sixth VAT directive. I am applying for the necessary derogation today.

Second, I propose to give these businesses the option of accounting for VAT on an annual basis. Instead of making quarterly returns, they would make regular payments on account, and then file a single return at the end of the year. This option, which offers considerable streamlining, will be available next year.

Third, the period within which business must apply to be registered for VAT will be extended from 10 to 30 days.

Fourth, there will be changes to the rules for the special VAT schemes for retailers, and more small and medium sized businesses will be able to make use of the simpler schemes.

... In addition, I propose to increase the VAT threshold to £21,300, to keep it at the maximum permitted under existing European Community law."

[OR 17 March vol 112 no 74 cols 819-822]

19. Capital taxation

In his Budget Statement the Chancellor announced:

"The abolition of the tax on lifetime giving was of the first importance to family businesses, but I remain conscious that it did little to help the smallest taxable estates, where the family home is often the principal asset.

I therefore propose to make a substantial increase in the threshold for inheritance tax, from £71,000 to £90,000, coupled with a simplification of the rate structure from seven rates to four. As a result of this change, the number of estates liable to inheritance tax will be cut by roughly a third. The cost will be £75 million in 1987-88 and £170 million in 1988-89.

Despite this substantial relief, however, and all the other much-needed reliefs that my predecessor and I have introduced since 1979, the House may be interested to learn that the expected yield of inheritance tax in 1987-88, at over £1 billion, is three times the yield of capital transfer tax in 1978-79, an increase in real terms of almost 50 per cent."

[OR 17 March col 112 no 74 col 826]

20. Personal pensions

In his Budget Statement the Chancellor announced further measues to promote personal pensions:

"Personal pensions are an important new dimension of ownership. They will enable employees - if they so wish - to opt out of their employers' schemes and make their own arrangements, tailored to fit their own circumstances. And they will provide a new opportunity for the 10 million employees who at present do not belong to an occupational scheme to make provision of their own and, if they so wish, to contract out of SERPS.

In my Budget last year I undertook to bring forward proposals to give personal pensions the same favourable tax treatment as is currently enjoyed by retirement annuities. These were duly published in a consultative document last November, and the necessary legislation will be contained in this year's Finance Bill.

In addition, to encourage a wider spread of occupational schemes, employers will be able to set up simplified schemes with the minimum of red tape. This will be particularly welcome to many small employers who have been discouraged by the complexity and open-ended commitment of a full-blown final salary scheme. And there will be much greater scope for transferring between different types of pension scheme. Again, the Finance Bill will contain the necessary tax provisions.

Finally, I have decided to go beyond the proposals set out in the consultative document in one important respect.

Starting in October, I propose to allow members of occupational pension schemes to make additional voluntary contributions, with full tax relief, to a separate plan of their own choice instead of, as now, being restricted to plans within their employers' schemes. They will be able to top their pensions up to the present tax approval limits.

But the generous tax treatment of pensions can be justified only if it is not abused. I propose, therefore, to introduce some limited changes to the present rules to restrict the excessive relief which can be obtained in some circumstances, particularly by a few very highly paid people. These will include a stricter definition of final salary and, for all arrangements entered into from today, an upper limit of £150,000 on the maximum permissible tax-free lump sum, coupled with more rigourous rules on how pension and lump sum benefits can be calculated."

[OR 17 March vol 112 no 74 cols 824-825]

21. Lloyd's 'reinsurance to close'

In his Budget Statement the Chancellor announced:

"... the tax treatment of Lloyd's syndicates as it applies to the reinsurance to close system is clearly unsatisfactory. I therefore propose to bring it into line with that of provisions for outstanding liabilities made by ordinary insurance companies and, indeed, of comparable provisions made by other financial traders. I have asked the Inland Revenue to consult urgently with Lloyd's about the details of the legislation. The new rules will first apply to premiums payable for the Lloyd's account which closes on 31 December this year."

[OR 17 March vol 112 no 74 col 823]

22. Indirect taxation

In his Budget Statement the Chancellor announced few changes to the excise duties:

> "I propose to maintain the revenue from the taxation of gambling, but to make some readjustment within the total. I therefore propose to increase the gaming machine licence duty by about a quarter, which will restore it in real terms to its 1982 level, when it was last increased; and to offset this by abolishing, from 29 March, the tax on on-course betting.
>
> In my Budget statement last year I undertook to introduce a tax differential in favour of unleaded petrol, to offset its higher production cost. I can now announce that the differential will be 5p a gallon. This means that the pump price of unleaded petrol should be no higher than that of four-star petrol. The change will take effect from 6 o'clock this evening.
>
> In my 1985 Budget I announced the first stage in the process of increasing the rates of vehicle excise duties on farmers' heavy lorries to bring them into line with the use they make of public roads. I introduced the second stage in last year's Budget and propose to complete the process this year. I also propose to increase the rates of duty on trade licences and to rationalise the taxation of recovery vehicles.
>
> I have no further changes to propose this year in the rates of excise duty."
>
> [OR 17 March col 112 no 74 cols 826-827]

On the question of whether the Government plans to extend the scope or increase the rate of VAT the Prime Minister told the House:

> "There is no way in which a Government of any political colour can say that they will never increase either value added tax or income tax."
>
> [OR 28 April vol 115 no 97 col 158]

The Chancellor, however, pointed out to the House:

> "My right hon. Friend the Prime Minister made it clear as far back as 1984 that we have no intention of extending VAT to food. Beyond that, the incidence of taxation has to be determined in the light of the budgetary needs at the time, and no responsible Government could conceivably take any other position."
>
> [OR 29 April vol 115 no 98 col 321]

He also commented on the allegation that work has been carried out in the Treasury on plans to extend or increase VAT:

> "The Economic and Social Research Council, the Treasury and others have been jointly funding academic research on taxation since 1983 ... No work has been commissioned or undertaken inside or outside the Treasury on any proposal by Ministers to increase VAT or extend its coverage."
>
> [OR 29 April vol 115 no 98 col 329]

23. Charities

In December the Chancellor said:

> "...recorded giving to charity has doubled in real terms since 1979."
>
> [Statement by the Chancellor of the Exchequer, 16 December]

In his Budget Statement the Chancellor announced some further measures to help charities:

> "... in the light of representations I have received, I have decided to extend slightly the VAT reliefs I introduced last year for certain aspects of charitable work. I propose to relieve charities from VAT on certain welfare vehicles used by hospices to transport the terminally ill; on installing or adapting lavatory or bathroom facilities in charity homes for the disabled; on drugs and chemicals used by a charity in medical research; and on specialised location and identification equipment employed by mountain rescue and first aid services.
>
> While on the subject of charitable giving, I should remind the House that this year's Finance Bill will increase the limit on donations to charity under the new payroll giving scheme, which starts next month, from £100 to £120 a year."
>
> [OR 17 March vol 112 no 74 col 826]

24. Burden of tax

In his Budget Statement the Chancellor noted that the Government's prudent fiscal policy:

> "Inevitably ... greatly diminishes the scope I have this year for reducing the burden of taxation, which of course remains a major objective of Government policy."
>
> [OR 17 March vol 112 no 74 col 818]

The Financial Secretary published a table showing how the burden of tax has changed since 1978-79. Selected figures for those on ½, ¾, 1, 2 and 5 times average earnings are shown below:

All figures are percentages of gross income

50 per cent of average male earnings

	Single	Married no children	Married both working	Married 2 children
1978-79				
Income tax	17.0	9.5	0.0	6.3
NIC	6.5	6.5	6.5	5.9
Total	23.6	16.0	6.5	12.2
1987-88	15.9	9.7	0.0	8.6
Income tax	9.0	9.0	6.2	8.0
NIC	24.9	18.7	6.2	16.6

75 per cent of average male earnings

	Single	Married no children	Married both working	Married 2 children
1978-79				
Income tax	22.4	17.3	7.6	14.5
NIC	6.5	6.5	6.8	6.0
VAT	2.6	2.4	2.9	2.4
Other indirect	8.9	10.2	11.8	9.3
Domestic rates	3.4	3.4	4.1	3.2
Total	43.7	39.8	32.9	35.4
1987-88				
Income tax	19.6	15.4	8.1	14.2
NIC	9.0	9.0	8.2	8.3
VAT	4.8	4.5	5.1	4.2
Other indirect	8.2	9.1	10.6	8.4
Domestic rates	4.1	4.0	5.0	3.7
	45.7	42.1	37.0	38.8

100 per cent of average male earnings

	Single	Married no children	Married both working	Married 2 children
1978-79				
Income tax	25.0	21.3	13.3	18.8
NIC	6.5	6.5	6.5	6.2
NIC	2.7	2.6	3.0	2.5
Other indirect	8.1	9.1	10.2	8.1
Domestic rates	3.1	2.1	3.3	2.8
Total	45.4	42.4	36.3	38.4
1987-88				
Income tax	21.5	18.3	12.8	17.2
NIC	9.0	9.0	8.2	8.5
VAT	4.8	4.7	5.3	4.6
Other indirect	7.6	8.3	9.3	7.5
Domestic rates	3.8	3.5	4.0	3.4
	46.7	43.9	39.6	41.2

150 per cent of average male earnings

	Single	Married no children	Married both working	Married 2 children
1978-79				
Income tax	27.7	25.2	19.9	23.4
NIC	5.6	5.6	6.5	5.4
VAT	2.8	2.8	3.0	2.6
Other indirect	7.4	8.1	8.6	6.9
Domestic rates	2.8	2.5	2.5	2.5
Total	46.3	44.1	40.5	40.8
1987-88				
Income tax	23.3	21.2	17.5	20.4
NIC	7.8	7.8	9.0	7.5
VAT	4.9	5.0	5.4	5.2
Other indirect	7.2	7.7	8.0	6.7
Domestic rates	3.5	3.0	3.0	3.1
Total	46.7	44.7	42.9	42.8

200 per cent of average male earnings

	Single	Married no Children	Married both working	Married 2 children
1978-79				
Income tax	29.5	27.2	23.1	25.7
NIC	4.2	4.2	6.5	4.1
Total	33.7	31.4	29.6	29.8
1987-88				
Income tax	26.2	23.7	19.9	23.0
NIC	5.8	5.8	9.0	5.7
Total	32.1	29.6	28.9	28.7

500 per cent of average male earnings

	Single	Married no children	Married both working	Married 2 children
1978-79				
Income tax	50.5	48.8	34.0	47.7
NIC	2.7	1.7	3.4	1.7
Total	52.2	50.5	37.3	49.3
1987-88				
Income tax	43.4	42.0	30.6	41.5
NIC	2.3	2.3	4.7	2.3
Total	45.8	44.4	35.3	43.8

[OR 27 March vol 115 no 82 WA cols 310-337]

On the rise in the burden of taxation the Financial Secretary told the House:

"What matters to ordinary people is what happens to their real take-home pay after taking account of inflation. ... At every level of earnings real take-home pay has increased substantially under this Government. ... For a man on average earnings with two children, real take-home pay has gone up by over 21 per cent since 1978-79.

... The overall impact of the [Finance] Bill is to reduce taxes by £2.5 billion in 1987-88. As a result of the implementation of the Bill we estimate that the percentage of earnings taken in income tax, national insurance contributions and indirect taxes will fall for virtually everyone except the very highest paid."

[OR 22 April vol 114 no 93 col 761]

25. Finance Bill

After the announcement of a General Election the Chancellor explained:

"The Government propose to reintroduce all those provisions which have had to be left out of the shortened Finance Bill as early as possible in the next Parliament. For those measures which would have taken effect from Royal Assent to the original Bill, the operative date will be Royal Assent to the new legislation. In other cases it is intended to retain the operative date proposed in the original Bill."

[OR 12 May vol 116 no 107 col WA 140]

PUBLIC EXPENDITURE

26. General

On 'This Week Next Week', the Chancellor said:

"What we have said is that public expenditure needs to be got down as much as we can as a proportion of the total output and that the private sector takes a larger and larger share of the economy. And that is what we have achieved since 82-83 successfully, ...

... During the 10 years prior to our election in 1978-79, that's the 10 years up to 78-79, public expenditure and this is indeed, this is the total public expenditure to get the underlying trend, I strip away the privatisation proceeds altogther, total public expenditure rose by 3 per cent a year, in real terms. During our first Parliament from 78-79 to 82-83 it rose at 2¼ per cent a year, we got it down to that in real terms. During our second Parliament from 82-83 now to this year, 86-87, the next four year period, it came down further to 1¾ per cent in real terms. The figures that I gave the House on Thursday get it down further, to 1 per cent a year in real terms."

[BBC TV's 'This Week Next Week', 9 November]

On 20 November, the Chancellor told the Treasury and Civil Service Committee

"The reserves are, with the exception of last year the highest we have ever had both in absolute terms and as a proportion of the planning total."

[Second Report from the Treasury and Civil Service Committee, Session 1986-87, "The Government's Economic Policy: Autumn Statement", p16]

In the Public Expenditure White Paper Debate the then Chief Secretary justified the increase in the spending plans:

"Our determination to give priority to strengthening the economy by reducing the inflation and achieving sustained growth has been entirely vindicated. As a result, we were able in the Autumn Statement to make a significant addition to our spending plans of £4.7 billion in 1987-88, and to do so safely because it stems from our improved economic performance."

[OR 18 February vol 110 no 55 col 927]

27. Health

In December the then Chief Secretary said:

"Spending on the National Health Service has risen by over 24 per cent in real terms since 1978-79 and capital spending on the NHS has risen over 30 per cent.

... spending on hospital and communty health services will be up by 2½ per cent in real terms next year [1987-88], exactly the same increase as we planned for this year."

[Speech to Sun Life seminar, 1 December]

In a speech to the Young Conservatives Conference on 7 February the Prime Minister said:

"Did you know that the Health Service is treating a million more patients a year than in 1979? And many of them are now able to receive operations and treatment that simply weren't available a few years ago. ... Every new discovery creates a new waiting list. So although waiting lists are lower than when we came into office, we are making more money available for the specific purpose of bringing waiting lists down."

And in the Public Expenditure White Paper Debate the then Chief Secretary forecast:

"... more than 100 new hospitals should be completed by 1990. Within our plans, £50 million has been specifically allocated to reduce waiting lists and waiting times during the next two years."

[OR 18 February col 110 no 55 col 929]

28. Education

The then Chief Secretary speaking at the Sun Life seminar on 1 December noted:

"Spending per pupil is now at an all-time high, with both the proportion of 18-19 year olds entering higher education and the number of graduates also at record levels."

And in the Public Expenditure White Paper Debate he said:

"The largest cash increase in this year's White Paper is for the education programme. Spending per pupil has already increased by nearly a quarter from 1979-80 to 1985-86."

[OR 18 February vol 110 no 55 col 929]

29. Housing

The then Chief Secretary at the Sun Life seminar 1 December said:

"Despite the switch of emphasis in housing provision, we are making an extra £450 million available next year and £350 million the year after, particularly focused on the renovation of the existing housing stock."

And during an economic policy debate the Chancellor said:

... spending on housing renovation is up by over 50 per cent."

[OR 20 January vol 108 no 34 col 776]

30. Research and development

In November the then Chief Secretary said:

> "Government funded R&D is higher as a percentage of GDP than in the US or Japan."
>
> [Speech to the Federation of Sussex Industries, 25 November]

31. Law and order

During the Public Expenditure White Paper Debate the Chief Secretary emphasised:

> "Law and order has always been a priority, and will continue to be. Spending has gone up by 50 per cent in real terms since 1978-79, and this is by no means all for the police."
>
> [OR 18 February vol 110 no 55 col 929]

While, in his speech at the Sun Life seminar 1 December he had forecast:

> "We will be spending over £700 million more on the police in each of the next two years. By 1987-88 the numbers of uniformed officers will have risen by 10,000 since we took office in 1979."

He also noted:

> "Our programme provides for 16 prisons to be built, plus the design of four more. By the end of last year [1985] we had more than doubled spending on new prisons since 1978-79."

32. Local authorities

In November the then Chief Secretary said:

> "Next year the Government will be increasing Aggregate Exchequer Grant, that is the contribution which taxpayers nationally make to local authority finance, by nearly £1½ billion, an increase of nearly 10 per cent, against a rate of inflation of around 3½ per cent. By any standards this a very generous settlement. If local authorities budget responsibly, rate rises next year should be in low single figures, even taking account of the extra rates needed to help pay for the teachers' pay bill."

[Speech to the CBI National Conference Small Firms Lunch, 10 December]

33. Agriculture

The then Chief Secretary in a speech to the Oxford Farming Conference on 6 January said:

"Resources which are being poured into agriculture to produce surpluses that no-one wants or can only be disposed of at further heavy cost to the taxpayer means resources being drained away from other sectors of the economy, leading to the misallocation of resources in general.

... the overall cost [of US/EC agricultural support] is no longer sensible for the taxpayer, the consumer, the farmer or the national or international economy.

... We have suggested certain guiding principles for reform:-

First, that the intervention system should be brought back to its original intended purpose, as a safety net to support the market at times of particular pressure and not as a normal alternative market outlet. This means more realistic levels of support prices, more price signals to producers that reflect the market's needs; and - directions in which we in the UK have already been making significant advances - more emphasis on production for markets and on marketing for consumers.

Second, supply and demand need to be brought back more into balance in the surplus sectors, with reductions in production being backed by continuing structural support to ease the transition.

Third, price support policies should wherever possible be flexibly operated so that commercial risks are not borne in their entirety through public finance.

And fourth, there must be equity of treatment between Member States.

... severe price restraint will have to continue to be a predominant feature of support policies for some time to come, especially for those products in surplus.

... reform of the cereals sector must now lie ahead.

... the best prospect, both technically and politically, lies in some form of set aside scheme for diversion of land from cereals either to fallow or to alternative crops not in surplus."

34. Value for money

In the Public Expenditure White Paper debate the then Chief Secretary announced:

"Immense efforts have been made by the Government to improve the efficiency and cost-effectiveness of the delivery of public goods and services, and results are now showing through quite strikingly. ... I cannot underline too strongly the significance of the White Paper in this respect. It provides an account across the whole of Government not only of what is planned to be spent but of what the country is getting for it. This year, there are about 1,800 illustrations of output being achieved, of measures of performance and of the targets which Departments are setting themselves compared with about 1,200 in last year's White Paper. That is a significant advance. ... because of the better value for money we are getting from the roads programme, we can build four miles of road for the same price in real terms as three in 1979-80."

[OR 18 February vol 110 no 55 col 930]

FISCAL POLICY

35. PSBR

In his Budget Statement the Chancellor told the House:

"The final outturn for the public sector borrowing requirement last year, 1985-86, was just under £6 billion, equivalent to 1½ per cent of GDP, the lowest level since 1970-71. In my Budget last year, faced with a massive loss of what now looks to be almost £7 billion of North sea oil revenue, I nonetheless decided to hold the PSBR for this year, 1986-87, to £7 billion, or 1¾ per cent of GDP.

In the event, this year's PSBR looks like turning out at only £4 billion, or 1 per cent of GDP - the second successive year of significant undershoot. This successful outcome is chiefly attributable to the remarkable buoyancy of non-oil tax revenues in general and of the corporation tax paid by an increasingly profitable business sector in particular.

... But it is clear that the increased flow of non-oil tax revenues, coupled with the prospective further growth of the economy in excess of the growth of public expenditure, puts the public finances in a very strong position. I intend to keep it that way.

Last year's MTFS indicated a PSBR for 1987-88 of £7 billion, or 1¾ per cent of GDP; and, as the House will recall, I gave an assurance at the time of the Autumn Statement, when I announced a £4¾ billion increase in planned public expenditure in 1987-88, that on no account would I exceed that figure.

Indeed, I believe it is right to go below it. Since its inception in 1980, the MTFS has indicated a steadily declining path for the PSBR expressed as a percentage of GDP. We have now reached what I judge to be its appropriate destination - a PSBR of 1 per cent of GDP. My aim will be to keep it there over the years ahead. This will maintain a degree of fiscal prudence that, until this year, had been achieved on only two occasions since 1950.

Accordingly, I have decided to provide for a PSBR in 1987-88 of £4 billion."

[OR 17 March vol 112 no 74 cols 817-818]

And in April he told the House:

"The PSBR for 1986-87 has come out lower than I forecast in the Budget."

[OR 29 April vol 115 no 98 col 324]

In evidence to the TCSC on 30 March the Chancellor explained his wish to keep to a PSBR of 1 per cent of GDP:

"The reasoning behind the 1 per cent equilibrium level ... was made rather more explicit in my Lombard Association speech last April; let me quote from that: 'There is, of course, no scientific formula for determining the 'right' size of the PSBR ... But ... over the medium and longer term, it is clearly important that the amount of public debt, and the burden this imposes, should not rise as a proportion of GDP.'

Over the medium and longer term the Government's objective is zero inflation. It follows that money GDP will by then grow at the real rate of growth of the economy, perhaps an underlying 2½ per cent a year, to be on the safe side. Against that background a 1 per cent PSBR will ensure that public debt does not rise as a share of GDP. This is the modern equivalent of the balanced budget doctrine."

[Sixth Report from the Treasury and Civil Service Committee, Session 1986-87, "The 1987 Budget" p27]

PRIVATISATION AND WIDER SHARE OWNERSHIP

36. Progress and aims

The Chancellor told the Conservative Party Conference on 9 October:

> "Privatising two-fifths of the state-owned sector of industry which we inherited. They said it couldn't be done but we did it. In the next Parliament we will privatise most of the rest."

37. British Telecom

The Financial Secretary told the Conservative Party Conference on 7 October:

> "The fact that 9 out of 10 British Telecom workers, no less than 220,000 workers, own shares is the best guarantee that the service to the public will continue to improve."

38. British Gas

On the success of the flotation the Financial Secretary said:

> "With British Gas, 5 million people came into an offer that was widely seen as tightly priced. There were no quick profits in prospect. Sixty per cent of these people opted for bonus shares which means they expect to retain their shares for at least three years."
>
> [Speech in New Malden 12 December]

39. BP

During the Budget Debate the Financial Secretary announced:

> "... the Government's policy is to sell their minority shareholdings in companies as and when circumstances permit. Among these holdings ... are about 578.5 million shares in BP, nearly 32 per cent of the total. As part of this policy, I am now able to announce that, subject to market conditions, the Government will sell this remaining shareholdi ng in BP during the 1987-88 financial year."
>
> [OR 18 March vol 112 no 75 col 1011]

40. Number of shareholders

In First Order questions the Chancellor remarked:

"We have already trebled the number of shareholders in this country, and, with further progress on the privatisation programme and with further progress on personal equity plans, which, despite the many critics, are proving an outstanding success, we shall increase this far further."

[OR 29 January vol 109 no 41 col 476]

He explained in more detail during his Budget Statement:

"... there have been no official figures for the more explosive growth of share ownership in Britain over the past eight years. The Treasury and the Stock Exchange therefore jointly commissioned a major independent survey of individual shareholdings in Britain.

The results are now available. They show that there are now some 8½ million individual shareholders in this country, amounting to one fifth of the total adult population, and roughly three times the number there were in 1979."

[OR 17 March vol 112 no 74 col 823]

During the Budget Debate the Financial Secretary added:

"The increase in share ownership has been widely spread across social groups, with the most marked increases being among the less well off ... Of the 5.5 million new shareholders, the great majority have bought shares as the direct result of Government policy, notably the outstandingly successful privatisation programme and the incentives provided for employee share schemes."

[OR 18 March vol 112 no 75 col 1011]

41. Employee share schemes

The Financial Secretary told the House:

"Our measures to promote employee share ownership have met with ... success. It is here that the benefits of share ownership are clearest. It is where people can identify with the company with which they work. There has been a spectacular growth as a result of the measures which we have taken. There are now more than 1,200 all employee share schemes, against 30 in 1979."

[OR 18 March vol 112 no 75 col 1011]

BUSINESS AND INDUSTRY

42. Industrial strategy

On 25 November the then Chief Secretary told the Federation of Sussex Industries:

> "Let me make it clear that the Government attaches the highest importance to a competitive, profitable and technologically advanced industrial sector.
>
> ... It is essential that as a nation we place a higher value on industrial and commercial activity, that we recognise its crucial role in the process of creating the wealth on which better standards in our public services depend.
>
> ... we must recognise that it is for companies, and not Government, to decide where the profitable opportunities lie and how they should be exploited.
>
> ... we must remove unnecessary controls and regulations. No longer do you have to ask Whitehall what prices you can charge or what dividends you can pay, or where you invest your money ... And bit by bit we are cutting through the jungle of regulations which small businesses in particular find such a burden.
>
> ... we must return industry to the private sector. ... It is not the job of Government to run commercial undertakings, and it is not something that in general the Government does well.
>
> ... we must increase competition and make markets work. New opportunities are being opened up ... in the bus industry, in telecommunications and in air services. And we are currently undertaking a review of existing policies on mergers and restrictive practices.
>
> ... we are building a better climate of industrial relations and encouraging better flexibility of labour:
>
> - by giving more employees the chance to share in the profits of their enterprise.
> - by making unions accountable to their members and responsible in the use of their power.
> - by removing obstacles in the labour market and easing wage rigidities.
>
> ... we are seeking to improve technology in this country not by backing a few prestige projects and hoping the benefits will trickle through to the rest of the economy, but by supporting R&D and innovation, promoting technologies and disseminating a good practice which many sectors can use to advantage.
>
> ... industry needs a stable financial framework - a break from the past of boom and bust. This we have provided through tight control of public spending and borrowing.

43. Investment

During First Order questions, the then Chief Secretary said:

> "Investment is at record levels, the profitability of industry is back to the levels of many years ago, and liquidity is high. The plain fact is that investment is going ahead strongly."
>
> [OR 29 January vol 109 no 41 col 476]

And in a speech to the British Venture Capital Association (BVCA) on 4 December, he acknowledged:

> "The BVCA invested £278 million in companies in the UK in 1985 and I am told that this year's figure is likely to be even higher. Of that sum, £32 million was invested in start-ups, £104 million in expansion and £101 million in buy-outs and buy-ins. Although the percentage invested in start-ups has declined, the absolute amount still represents an increase of nearly one-third over 1984."

During the Second Reading of the Finance Bill the then Chief Secretary told the House:

> "Venture capital investment in the United Kingdom is now higher as a proportion of gross domestic product than in the United States.
>
> ... The venture capital industry looks to the long term. Its growth under the Government is one further signal of investors' confidence - and of international investors' confidence too - in the prospects for British industry. That is also illustrated by the high level of overseas investment in the United Kingdom in recent years, reflecting the increased profitability of British industry, which in 1985 was at its highest level since 1964."
>
> [OR 22 April vol 114 no 93 col 684]

44. Training

In evidence to the Treasury and Civil Service Committee on 20 November, the Chancellor remarked:

> "I think it is a great weakness in this country that British industry, British employers spend so little money on training, and I think this is something which is being increasingly recognised."

In his Budget Statement the Chancellor announced:

"Training and retraining are vital to a flexible and competitive economy. At present, training financed by an employer that is related to the employee's current job is allowance against tax for the employer and imposes no tax burden on the employee. But an employer who is willing to finance the retraining of workers for future employment elsewhere may find that the cost of this is not allowable against tax, and the employee may find that he has received a taxable benefit. I propose to remove both of those obstacles. This should help more workers to acquire new skills for new jobs."

[OR 17 March vol 112 no 74 col 821]

During the Budget Debate the then Paymaster General said:

"Our strategy tackles the need for training in the economy. The new job training scheme will help the unemployed to raise their skill levels, which will get them back into employment, and gradually improve the skill level of many in the labour force. The taxation changes announced in the Budget will give a tax incentive both to employers and to employees who are prepared to retrain for new employment opportunities.

... about 1 million people in the coming year will be undergoing training under the YTS, the JTS, the enterprise training scheme and the adult training strategy, and those 1 million will be training with employers, supported by the Government."

[OR 19 March vol 112 no 76 cols 1060-1061]

45. Regional policy

On BBC TV's 'This Week Next Week' 9 November, the Chancellor admitted:

"... it is absolutely true that there is a north-south divide, it's something which concerns me very considerably, it's why we do continue to have a regional policy, which of course, has been with us for a very long time."

During a debate on the economy the Chancellor said:

"Regional assistance, although reduced in overall size, has been much more closely targeted on jobs. We have multiplied spending on top of that on specific employment and training measures tenfold and this massive expenditure has in practice been heavily skewed towards the north. We have also greatly expanded urban development grant spending, where each £1 of public money has levered in £4 of private sector financing.

...The revival of the hard-hit regions of our country will come about only on the basis of enterprise, whether local or coming in from outside. The Government's task is to create, so far as local government allows us to, the climate for enterprise of that kind."

[OR 20 January vol 108 no 34 cols 777-778]

During the same debate the then Paymaster General explained:

"Our approach when we see that the recovery and the growth of new jobs is occurring faster in the south than in the north is to address ourselves to the problems of making the north as attractive a place for new investment and new business as the south and of ensuring that it widens its economic base and attracts those types of industry that give rise to growth in the south. We are looking forward to a new northern economy. We are bringing in new ideas to stimulate growth. We are encouraging enterprise and entrepreneurship there."

[OR 20 January vol 108 no 34 col 833]

During First Order questions, the then Chief Secretary said:

"... the change in regional policy - regional development grants and regional selective assistance - followed a substantial review which was undertaken a few years ago, which is now being implemented. The effect of that is that regional development policy is now targeted more on the areas of high unemployment and on the need for investment which helps with additional labour."

[OR 29 January vol 109 no 41 col 478]

And in the Public Expenditure White Paper Debate the Financial Secretary said:

"... under the White Paper, regional policy is increased by about £36 million on the previous survey."

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INTERNATIONAL DEVELOPMENTS

46. World economy

At the Interim Committee of the IMF on 9 April the Chancellor commented:

"... over the past year the world economy has not fully lived up to earlier expectations. A year ago, the Fund staff were looking to 3 per cent growth in output for the industrialised countries in 1986, followed by 3¼ per cent growth in 1987. They now estimate that the growth outturn for 1986 was 2½ per cent and have revised their 1987 forecast down to 2¾ per cent.

... But why has this overall performance shortfall occurred? What 1986 and 1987 have in common is that they have both been profoundly affected by shocks to the world economy which have inevitably created problems of adjustment.

In 1986, it was the effects of the collapse of oil and commodity prices that dominated the picture. Domestic demand in the major industrial countries grew by 3½ per cent - much as expected. The shortfall in world output growth was caused by a weakening in the imports of the oil and commodity producers, who were obliged to respond rapidly to their revenue loss.

In 1987, the central problem is the difficulties of adjusting to the sharp depreciation of the dollar. In particular, there are clear signs that, as a result, domestic demand in the main industrial countries is slowing; that appears to be the main reason for the revision to the forecast."

47. Protectionism

The Chancellor at the Better made in Britain Dinner on 2 December pointed out:

"A retreat into protectionism, either directly through tariffs, or through non-tariff barriers, would be a disastrous step backwards. Quite apart from the serious danger of retaliation,

- Protection increases domestic prices, and thus creates inflationary pressure.
- By reducing competition, it fosters inefficiency, poor productivity, and overmanning in industry.
- It deters firms from directing their energies towards those products where they may have a genuine competitive advantage.
- And protection in one area can damage the chances of other firms which would otherwise be able to compete successfully. A manufacturer stands less chance of winning orders if he is forced to buy home-produced components at a higher price than those available to his competitors.

In the long run, the effect of protection can only be to make the economy less flexible and adaptable, and hence to reduce living standards. The United States would do w[illegible] to recognise that, powerful as it is, it has far more to gain from co-operation than from confrontation. We have already co-operated with America over exchange rates, in the shape of the Plaza agreement to engineer a substantial fall in the international value of the dollar, so as to make US industry more competitive. Again, the United States were prime movers in seeking a new GATT round; and that, too, is now in place. There can be no excuse for a US lurch to protectionism. Nor, however, does salvation lie in progressive depreciation of the currency - progressive devaluation. By insulating domestic industries from the stimulus of competition, this produces the same effects as protection - inefficiency and resistance to change. We have had plenty of experience of that in the past, and it has done this country no good. Quite the contrary: it has done us a great deal of harm. Devaluation means surrender to inflation: it simply perpetuates the inflationary spiral."

48. Debt

On 9 April the Chancellor told the Interim Committee of the IMF

"Let us not delude ourselves. The debt problem remains acute.

... I am not saying that the present debt strategy is misconceived: indeed I believe we should persevere with it.

... It is because I support the present strategy that I have become increasingly concerned over the past year at the progressive weakening of IMF conditionality ... I trust that the fund management will always insist on adequate adjustment measures in its programmes - and I include here supply-side improvement.

... As an integral part of this, I should like to see more use made of market mechanisms.

- Secondary markets in debt can usefully allow claims to be spread more widely. We should therefore encourage this process, including the greater securitisation of creditors' assets, especially where this spreads risk outside the banking system altogether.
- We must also encourage direct investment, and other forms of financing such as debt/equity swaps and portfolio investment. It makes no sense for either creditors or debtors to maintain barriers which impede such flows.

... But I have to say this. I believe we must now recognise that the process cannot realistically be applied to many of the very poor countries of sub-Saharan Africa.

... I therefore propose that the creditor nations should together agree to help the poorest and most indebted of these countries to make progress on three fronts. First, for those which are pursuing satisfactory adjustment policies, we should convert our aid loans into outright grants; the UK has almost completed doing this for its loans to sub-Saharan African countries and I urge other Governments to follow suit, as many are already doing.

Second, we must allow longer repayment periods - of up to twenty years - when we are rescheduling other official loans to those countries, providing that they themselves are pursuing appropriate domestic policies. And we should consider generous grace periods before capital repayments are due. These proposals are already under discussion in the Paris Club, and the Government of the United Kingdom has given them its full support.

But those two proposals alone will not be enough. The key problem for many countries is that the interest payments on their debt are too high. The interest is therefore capitalised, so that the total debt increases exponetially. My third proposal is therefore that creditor countries should join together to reduce the interest rate on the debt to a few points below market levels, to give these very poor countries the chance to start to reduce their overall burden - in short, to provide them with some light at the end of the tunnel. But I must make it clear that this relief should apply only where the debtor countries are implementing appropriate reform policies."

49. Agricultural subsidies

On 10 April at the Development Committee of the IMF, the Chancellor said:

"The 1986 World Development Report showed some of the nonsenses produced by subsidising agriculture in industrial countries and taxing it in poor ones. Since then the problems have, if anything, got worse. Let me give some illustrations.

- In Japan, farmers receive around eight times the world price for rise, sugar and butter; and they grow so much rice that much of it has to be sold as animal feed.
- In the European community, farmers receive between two and three times the world price for sugar, beef and butter. Half of the community budget is devoted to storing and dumping surpluses.
- Farmers in the United States get around three times the world price for sugar and butter.

The cost of all this interference is massive, and still rising. It has been well documented by the Fund, the Bank and the OECD. One estimate is that, in the

European Community, the burden on each family may be as high as $900 every year, taking account of subsidies, higher taxation and higher prices.

Britain has consistently pressed for lower support prices within the European Community, and some progress was made in restraining support for dairy products and beef under the British Pressidency last year. We have also taken action of our own to encourage alternative uses for farm land. But as I said last autumn, real progress depends on multilateral disarmament. Industrial countries - not just the European Community - must reduce all forms of intervention, including subsidies.

Once this process is under way, the present vicious circle could turn into a virtuous circle.

- closing the gap between domestic and world prices would cut the cost of subsidies, thus reducing the burden on the rest of the economy.
- Farmers would only produce goods for which there was a genuine demand, rather than those bought by Governments to add to stockpiles.
- Poor countries would find it more worth their while to export farm produce.

There is I believe a growing consensus on the need for long term reform of this sort."