PO-CH/NL/0023
PART A

SECRET

(Circulate under cover and notify REGISTRY of movement)

PO -CH /NL/0023

PART A

1987 BUDGET SPEECH

PO -CH /NL/0023

PART A

DD's 25 years NAZIZ 24-3-95.

17.3.87

From 23-1-87

TO 23-3-87

Budget Speech

PWP

HOUSE OF COMMONS
LONDON SW1A 0AA

D BUSINESS AND ENTERPRISE

D 1. I now turn to the taxation of business and enterprise.

D 2. The fundamental reform of the Corporation Tax system which I introduced in 1984 came fully into effect last April. ~~It~~ The new system has undoubtedly improved the quality of business investment decisions in Britain, and is encouraging overseas companies to set up here, thus creating more jobs.

D 3. During the transition to the new system, companies were given advance notice of the main rate of Corporation Tax for the year ahead. This helped them in their forward planning, and I intend as far as possible to continue the practice of ~~the~~ setting the rate in advance. Accordingly, I can announce now that 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.

D 4. The low rate of Corporation Tax enables ~~me~~ me to introduce a further simplification into the system.

D 5. At present, while companies' capital gains are liable to Corporation Tax, the amount of such gains is first adjusted by a ~~certain~~ certain fraction so that the effective rate of tax is the same as that on ~~individuals'~~ capital gains made by individuals. This ~~treat~~ dates back to the time when the two rates of tax were far apart.

D 6. This is no longer the case: indeed, the Corporation Tax rate for small companies is now below the Capital Gains Tax rate.

D 7. I therefore propose that, from today, companies' capital gains ~~will~~ be charged at the appropriate Corporation Tax rate, without adjustment, save for the indexation which applies to all post-1982 gains.

Budget - Business & Enterprise 2

HOUSE OF COMMONS
LONDON SW1A 0AA

8. It has, however, been argued that capital gains made by companies can in some cases be taxed twice, once in the hands of the company and once in the hands of the shareholder. I believe there is some justice in this complaint. Accordingly, I propose to remedy it by allowing companies to set payments of Advance Corporation Tax against their liability to tax on capital gains.

9. Taken together, these changes should yield £60 million in 1988-89.

10. I have one further simplification and rationalisation of the Corporation Tax system to announce.

11. At present, companies established before 1965 do not have to pay their Corporation Tax until 21 months after the end of the period for which it is due, while companies established since 1965 have to pay their tax after 9 months - and some building societies have to pay sooner still.

12. This difference in treatment of different companies cannot be justified. Moreover, it is open to an abuse which could put the timing of a substantial proportion of the total Corporation Tax yield at risk.

13. I therefore propose that all companies and building societies should be treated the same way, with all liable to pay Corporation Tax nine months after the end of the accounting period on which the tax is due. There will be a transitional period during which the change will be phased in, but I would expect it to yield around £100 million in 1988-89.

D 14. ~~48.~~ 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. At present, many company accounts are not received in time to agree the tax liability before payment is due. So there is a laborious process of an estimated assessment from the Inland Revenue and an appeal from the company. Under Pay and File companies will estimate their tax liabilities themselves, and pay on the normal due date. Tax liabilities will be finalised once companies submit their returns and accounts. Where it turns out that the company's initial payment was too high, the Revenue will pay interest on the excess; where the initial payment was too low the company will pay interest.

D 15. ~~49.~~ This new approach was set out in last December's consultative document on the recommendations in the Keith Committee Report and was generally welcomed ~~both~~ by the business community ~~and by tax specialists.~~ and their tax advisers.

D 16. ~~50.~~ As this is part of a wider programme of streamlining tax collection, including major developments in the Inland Revenue's computer systems, it will not come into force until the early 1990s. But by legislating now I am ~~we are~~ giving taxpayers and their advisers a firm basis on which to prepare for the new scheme.

Budget - Bus/Ent 4

HOUSE OF COMMONS
LONDON SW1A 0AA

17. While business and industry as a whole is doing well, the North Sea oil sector has inevitably been hard hit by last year's oil price collapse. My Rt Hon Friend the Secretary of State for Energy and I have followed closely the effects on North Sea producers and their suppliers. The industry itself is generally confident about the longer-term prospects; while as for the tax system, not only is it inherently price-sensitive, but the ~~industry itself has~~ companies themselves have always stressed their desire for stability.

18. However, in the light of the immediate problems I introduced last autumn legislation to bring forward the repayment of over £300 million of Advance Petroleum Revenue Tax. This has already helped many of the smaller companies faced with cash flow difficulties.

19. I now propose two further Petroleum Revenue Tax reliefs. First, as from today and until such time as incomes from new fields exceeds the costs incurred, companies may elect to have up to 10 per cent of the costs of developing new oil fields set against their Petroleum Revenue Tax liabilities in existing fields. Second, there will be a new relief against PRT for research spending on oil extraction not related to any particular field.

20. I hope that these carefully targeted changes will give a worthwhile measure of help to the North Sea oil sector.

~~[nb have to say something about cost - & what about oil cos ACT?]~~ companies'

21. I have to set the 1988-89 car and car fuel benefit scales for those with company cars. The car scale charges still fall well short of the true value of the benefit, and as last year I propose to increase them by 10 per cent. There will be no change in the car fuel benefit scales which, from 6 April, will also be used for VAT purposes.

Budget Bus/Ent 5

HOUSE OF COMMONS
LONDON SW1A 0AA

22. Last year I put the Business Expansion Scheme onto a permanent footing. This year I have two further improvements to propose. First, the rules will be relaxed to make it easier for independent film companies to benefit from the scheme. Second, for investments made in the first half of the tax year, the investor will be able to claim part of the relief against his previous year's income. This should deal with the persistent problem of the end-year bunching of BES investment, thus making it easier for companies to raise BES finance throughout the year.

23. [Training para: to be written when policy decision finally taken]

24. The past few years have seen a remarkable and most welcome growth in the number of small businesses and the self-employed. The Government has done a great deal to ~~remove~~ 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.

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

26. Perhaps the biggest problem faced by the small businessman today is the trade customer who ~~pays~~ is late in paying his bills: so late, sometimes, that VAT becomes 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.

27. My first and most important proposal, therefore, is that, as from 1 October, companies ~~with~~ whose annual turnover is ~~not more than~~ under £¼ million 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 received the money from their customers. In

HOUSE OF COMMONS
LONDON SW1A 0AA

addition to easing the cash flow problems caused by late payers, this system will of course provide automatic VAT ~~xxxxxx~~ relief for bad debts.

28. 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.

29. Second, I propose to give businesses whose annual turnover is under £¼ million the option of accounting for VAT on an annual basis. That is to say, they will be able to make payments on account and send only one return a year to the Customs and Excise. ~~[Can MST improve this last sentence?]~~ This change will come into effect next year.

30. Third, the period within which businesses must apply to be registered for VAT will be extended from ten to thirty days.

Check 31. Fourth, the rules for the special VAT schemes for retailers will be changed to make them simpler for small and medium-sized businesses.

32. I believe that the changes I have outlined, and in particular the option to move to cash accounting, will be widely welcomed by the small business community. They will cost £115 million in 1987-88 and £60 million in 1988-89.

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

34. The House will also note that, in the light of the responses to the consultative document, I shall not be going ahead ~~with~~ either with the withdrawal of the so-called standard method of accounting for VAT for retailers or ~~the~~ with the compulsory deregistration of traders below the VAT threshold.

Budget - Bud/Ent 6A

HOUSE OF COMMONS
LONDON SW1A 0AA

D35 ~~34A~~. I have one further ~~proposal~~ measure to help the small ~~businessxsectorx~~ businessman, unrelated to VAT. I propose to increase the limit for Capital Gains Tax retirement relief by 25 per cent, from ~~£5~~ £100,000 to £125,000. At the same time the annual exempt amount will be increased to £6,600, in line with statutory indexation.

HOUSE OF COMMONS
LONDON SW1A 0AA

D36 35. An essential element in any ongoing programme of tax reduction and reform must always be the elimination of unintended or unjustified tax breaks which cause rates of tax generally to be higher than they need to be. Accordingly, I have four proposals to make today to this end.

D37 36. The first concerns VAT, and has already been the subject of extensive consultation. The House will be aware that a business that provides a service that is exempt from VAT cannot in turn deduct input tax on its purchases. But where the activities of a business are in part liable to VAT and in part exempt, the existing rules are excessively generous as to the amount of input tax that can be deducted; and this generosity is being exploited on a growing scale. The rules must therefore be changed, and the changes will come into effect on 1 April. There will be special arrangements to help small businesses. The yield from this, which in effect is a measure of the potential revenue loss, will be some £300 million in 1987-88 and £400 million in 1988-89.

D38 37. Second, I propose to change the law so that companies in multinational groups which enjoy dual residence will no longer be able to secure tax relief twice on one and the same interest payment. Genuine trading companies will not be affected. This change, which will take effect on 1 April, follows the similar action taken by the United States as part of its recently-enacted tax reform package. [The House may be interested to note that, (Substantially ~~of all the~~] tax shelters removed by the American tax reform package, this is the only one that exists in this country: the others have either never existed here or have been abolished some time ago.]

The change will yield £125 million in 1988-89.

d Keith (per spk)

HOUSE OF COMMONS
LONDON SW1A 0AA

D39 38. Third, I propose to end the present excessively generous treatment of tax credit relief for foreign withholding tax paid on interest on bank loans. In future, banks will be able to offset this tax credit only against tax on the profit on the relevant loan, and not more widely. This will bring our rules broadly into line with those in most other countries. The change will apply from 1 April this year for new loans and from 1 April next year for existing loans. It will yield some £20 million in 1988-89.

D40 39. Fourth, I propose to bring to an end the unsatisfactory tax treatment of Lloyds syndicates as it applies to the so-called Reinsurance to Close system. At present, tax relief is in effect given for provision for losses that may or may not materialise, with no subsequent adjustment when the facts are known. I therefore propose to bring the tax treatment of Lloyds into line with the tax treatment of provisions for outstanding liabilities made by ordinary insurance companies and indeed of similar provision made by other financial traders. I have asked the Inland Revenue to consult urgently with Lloyds about the details of an equitable scheme. The new rules will first apply to premiums paid for the Lloyds account which closes on 31 December this year. The yield will depend on the precise details of the new treatment.

D41. 40. I have one further proposal to make in the broad field of the taxation of business and enterprise.

D42 41. In my Budget last year I suggested the possibility of introducing a measure of tax relief for profit-related pay.

D43 42. I pointed then to two considerable advantages that might be expected to flow from arrangements which relate pay to profits. First, the workforce

HOUSE OF COMMONS
LONDON SW1A 0AA

would have a more direct personal interest in the profits earned by their company; and, second, there would be a greater degree of pay flexibility in the face of changing market conditions, which is absolutely essential if, as a nation, we are to defeat the scourge of unemployment.

D44 43. Last July my Rt Hon and Noble Friend the Secretary of State for Employment, my Rt Hon Friend the Secretary of State for Trade and Industry and I presented a Green Paper on Profit-Related Pay; and I believe the time has come to introduce a scheme of tax relief broadly along the lines floated in the Green Paper.

D45 44. The principal change I propose is to double the proportion of an employee's profit related pay that is eligible for tax relief from a quarter to a half. So for someone on average earnings receiving 5 per cent of their pay in profit-related form, the tax relief will be equivalent to a penny off the basic rate of income tax. Full details of the scheme are contained in an Inland Revenue press release published today. The cost will depend on take-up: it could be £35 million in 1988-89, rising year by year as take-up grows.

D46 45. Profit-related pay is no panacea. But then there are no panaceas. What it is is a tool to help British business gradually to overcome one of our biggest national handicaps: the nature and behaviour of our labour market. I am today challenging British management to take advantage of that tool and to make good use of it, for the good of their company, their workforce and their country.

HOUSE OF COMMONS
LONDON SW1A 0AA

E. TAXES ON SAVING

~~SAVINGS AND INVESTMENT~~

Ixtuxxx

E 1. I turn now to the taxation of savings. ~~and investment.~~

E 2. ThisxGoxzThezGovernment A central theme and purpose of the Government's policies is the creation of a genuine popular capitalism: what used to be called, when ambitions were more limited and language more inhibited, a property-owning democracy.

E 3. That means wider home ~~share~~ ownership, wider share ownership, and wider pension ownership. Over the past eight years, the Government has (promoted) ~~actively promoted all three.~~ the first two, and has now embarked on the third. Home ownership, above all through the council tenant's right to buy. ~~And~~ Share ownership, through the encouragement of employee share schemes, which now xxxxx involve 1½ million workers, compared with [40,000] in 1979; through the massively successful privatisation programme, where Britain has led the world; and most recently through ~~by~~ the Personal Equity Plan scheme, which I announced in last year's Budget and which started up on 1 January this year. More txx than 2,000 people a day [* UPDATE AS NECESSARY] ~~CHECK LATEST FIGS WHEN WE GET THEM~~ are currently taking out Personal Equity Plans, many of them first-time investors, as I had hoped. ~~And then pension owership, through the development of personal pensions.~~

E 4. We know that 63 ~~xx~~ per cent of households xx now own their own homes, compared with 55 ~~yy~~ per cent in 1979. There are, however, no official figures for ~~of~~ the xxx rather more explosive growth of share ownership in Britain over the past eight ~~8~~ years. The Treasury and the Stock Exchange have therefore jointly commissioned a major independent survey of individual shareholding in Britain. The results are now available. They show that there are now some

HOUSE OF COMMONS
LONDON SW1A 0AA

xx million individual shareholders in this country, amounting to yy per cent of the total adult population, and fully three times the number there were in 1979.

E 5. And then there is wider pension ownership. This will be brought about by the introduction on 1 January next year of the new personal pensions developed by my Rt Hon Friend the Secretary of State for Social Services.

E ~~102~~ 6. Personal pensions are an important ~~development~~ dimension of ownership in three ways. First, they will enable employees - if they so wish - to opt out of their employers' schemes and make their own arrangements. Second, they will be a new opportunity for [the] millions ~~of~~ employees who at present do not belong to an occupational scheme. And third, people may, again if they so wish, use them to contract out of SERPS.

E 7. 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 contained in a consultative document published last November, and the necessary legislation will be contained in this year's Finance Bill.

E 8. This will also implement other ~~xxfx~~ useful reforms proposed in the consultative document. In particular,

SECRET

HOUSE OF COMMONS
LONDON SW1A 0AA

~~105.~~ Employers will be ~~able~~ permitted to set up simplified occupational schemes with the minimum of red tape. This will be particularly ~~good news for~~ 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.

E 9. In addition, I have decided ~~106. I intend~~ to go beyond ~~my original proposals in one further, important way. I propose new~~ the proposals set out in the consultative document in one important respect. ~~I propose to introduce new arrangements which will~~ 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 employer's schemes. They will be able to top their pensions right up to the present tax approval limits.

~~kOxxThe~~

E 10. The cost of the proposed tax concessions for personal pensions and freestanding additonal voluntary contributions will be £75 million in 1988-89.

HOUSE OF COMMONS
LONDON SW1A 0AA

BUDGET LIST ONLY

BUDGET SECRET

E 14. ~~110.~~ In my 1984 Budget I ~~reformed~~ tightened the limits that apply to tax exempt life assurance issued by friendly societies. I did so because certain new friendly societies, ~~had widely abused the privileges traditionally enjoyed by the friendly society movement. These societies were~~ set up purely for commercial reasons, far removed from the mutual self-help role which the movement has sponsored for decades, were engaged in large-scale exploitation of the movement's tax privileges.

E 15. ~~111.~~ To improve the position of the older, long-established societies, I now propose ~~that~~ to permit societies ~~should in future be able~~ to offer tax-exempt policies based on annual premiums of up to £100. This will enable the older societies to survive and flourish, without ~~exposing the~~ creating ~~operate economically, without effectively changing~~ ~~loophole exploited by the~~ a new loophole for the ~~the position of~~ commercial societies to exploit.

[What actually is the proposal? Is this wording right?]

E 16. Finally, in this section, I turn to Inheritance Tax.

E 17. In my Budget last year I abolished the pernicious tax on lifetime gifts between individuals, which was particularly damaging to the ownership and health of family businesses. This year I propose to extend the same exemption from tax, on similar terms, to gifts involving settled property where there is an interest in possession. This will not, however, apply to discretionary trusts.

HOUSE OF COMMONS
LONDON SW1A 0AA

E 11. The proposals I have outlined ~~107. All these proposals~~ will make it easier for people to take their pensions with them when they change jobs, which will be good for labour mobility and independence. It will widen the range of choices people can make about their pensions; and it will mean that in future they will have more control over the way in which their pension contributions are invested.

E 12. But the generous tax treatment of pensions ~~108. But these far-reaching improvements~~ can be justified only if it is not abused. ~~Accordingly.~~ ~~they are properly used. Some new safeguards are necessary~~ I propose, therefore, to ~~to discourage exploitation of the very generous reliefs, particularly by a few very highly paid people. I intend, 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, for all arrangements entered into from today, ~~a cap~~ an upper limit of £150,000 on the maximum permissible tax-free lump sum, coupled with more rigorous ~~on the maximum tax-free lump sum of £150,000 and stricter~~ rules on how pension and lump-sum benefits can be calculated, including a ~~stricter~~ stricter) definition of final salary.

E 13. Details of all these changes ~~xxxxxx~~ are set out in an Inland Revenue press notice published today.

HOUSE OF COMMONS
LONDON SW1A 0AA

18. I also propose to make two minor changes affecting business assets. First, in what is perhaps an unwanted tribute to the unlisted securities market, holdings in USM companies will henceforth be treated for Inheritance Tax purposes in precisely the same way as holdings in companies with a full Stock Exchange listing. Second, business relief for minority holdings in excess of 25 per cent in unquoted companies will be ~~increase~~ increased from 30 per cent to 50 per cent. The purpose of both these changes is to concentrate business relief more accurately on those assets which ~~do not readily provide~~ could provide funds ~~for~~ to pay the tax only at the risk of damaging the business.

19. I am, however, conscious that the reform I introduced last year, with the transformation of Capital Transfer Tax into Inheritance Tax by the abolition of the tax on lifetime giving, while of the first importance to family businesses, did ~~nothing~~ little to help the smallest taxable estates, many of which consist almost entirely of the family home, and which can find themselves taxed more heavily than when the Rt Hon Member for Leeds East first ~~introduced~~ enacted the Capital Transfer Tax in 1975.

20. 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 £70 million in 1987-88 and £150 million in 1988-89.

21. Despite this substantial relief, however, and all the other much-needed reliefs that ~~have been introduced by~~ my predecessor and I have introduced since 1979, the House may be interested to learn that the

HOUSE OF COMMONS
LONDON SW1A 0AA

expecyed 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 zz per cent.

HOUSE OF COMMONS
LONDON SW1A 0AA

F. TAXES ON SPENDING

F 1. I now turn to the taxation of spending.

F 2. I have already announced some important changes in ~~XXZzzø~~ VAT to prevent avoidance and to help the small businessman. I have no other proposals for major changes in value added tax this year.

F 3. However, 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.

F 4. 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 goods [donated ~~byxx~~ for export by a charity for relief of distress] ~~this is the wording of the previous draft, which is ambiguous, obscure & must be changed~~]; and on drugs and chemicals supplied to a charity and used ~~in~~ exclusively ~~in~~ in medical research. I also propose to relieve from VAT specialised location and identification equipment used by mountain rescue and first aid services.

F 5. 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 ~~xxh~~ charity under the new payroll ~~gx~~ giving scheme, which starts next month, from £100 to £120 a year.

F 6. Next, the excise duties. I do not believe it would be right to reduce the revenue I get from the taxation of gambling. But I do believe that some readjustment ~~withxin~~ within the total is called for. I therefore propose to increase the gaming machine licence duty by ~~x~~about a quarter,

HOUSE OF COMMONS
LONDON SW1A 0AA

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. I hope this measure will be of some assistance to the racing and bloodstock industry, as well as consoling those hon Members who have complained to me about the clash this year between Budget Day and the Champion Hurdle.

F 7. In my Budget Statement last year, I gave advance notice of my intention to introduce a duty differential in favour of unleaded petrol so as to offset its higher production cost. I can now announce that the differential will be 5 pence a gallon. This means that the pump price of unleaded petrol should be no higher than that of 4-star leaded petrol. The change will take effect from 6 o'clock this evening.

F 8. Following on from the action I took last year, I propose to increase the rates of Vehicle Excise Duty on farmers' lorries, to bring them into line with the use they make of the public roads. This change will take effect from midnight tonight. I also propose to increase the rates of duty on trade licences and to create a new taxation class for recovery vehicles. ~~/CLARIFY/~~

F 9. I have no further changes to propose this year in the rates of excise duty.

Budget - Income tax

HOUSE OF COMMONS
LONDON SW1A 0AA

INCOME TAX

G 1. Finally, I turn to income tax.

G 2. 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 ~~reaffirmed most recently at last month's meeting of the~~ demonstrated most recently by the various national policy declarations that emerged from ~~the~~ last month's meeting of Finance Ministers from the major industrial nations.

G 3. Lower rates of tax sharpen up incentives and stimulate enterprise, which in turn is the only route to improved economic performance. And it is only by improving our economic performance that we will be able to afford to spend more on public services; only by improving our economic performance that we will be able to create jobs on the scale we all want to see.

~~4. Since we first took office in 1979, we have~~

G 4. 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 ~~Labour~~ the Party Opposite. We have increased the main tax allowances by 22 per cent more than inflation, taking almost 1½ million people out of income tax altogether.

G 5. Year in, year out, we must seek, step by step, to carry this process further.

G 6. 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

HOUSE OF COMMONS
LONDON SW1A 0AA

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 ~~/CHECK/~~. I propose to raise the first, 40 per cent, higher rate threshold by £700 to £17,900, in line with ~~xtxmt~~ 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.

G 7. I have two other changes in allowances to announce. First, I propose to give an ~~extraxincreasexin~~ 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 very elderly taxpayers will benefit from this new concession, and up to 25,000 of them will be taken out of income tax altogether.

G 8. Second, the blind person's allowance has remained unchanged since 1981, when it was increased by £180 to is present level of £360. For 1987-88 I propose to increase it by a further £180, to £540.

G 9. Finally, I turn to the basic rate of income tax. This is the ~~xtrxtx~~ starting rate of income tax for everyone and the marginal rate for the overwhelming majority of taxpayers.

G 10. 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.

G 11. However, given my decision to use the greater part of the fiscal

HOUSE OF COMMONS
LONDON SW1A 0AA

scope I now have to reduce the Public Sector Borrowing Requirement, that goal cannot be achieved in this Budget.

G 12. 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 twopence, to 27 per cent. This reduction will be worth over £3 a week to a married man on average earnings.

G 13. 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.

G 14. The income tax changes I have announced today will take effect under PAYE on the first pay day after 17 May. They will cost a little over £2 billion in 1987-88 over and above the cost of statutory indexation.

G 15. The overall cost of all the measures in this year's Budget, again on an indexed basis, is a little over £2½ billion. This is fully consistent with my objective of a PSBR of £4 billion.

WRITTEN
~~/FINAL SECTION - CONCLUSION - TO BE DONE LATER/~~

Working copy
Amended!
NJ 9/2

FROM: C R PICKERING
DATE: 23 January 1987

MR PICKFORD

cc Mr Culpin
Miss O'Mara
Mr Hacche
Mr Woodall
Mr S Kemp
A/52

BUDGET - SPEECH HEADLINING

EB, other duties permitting, will gladly act as long-stop on checking the headlined version of the speech, on the morning of Budget Day.

2. Can Mr Fray please amend the aide memoire accordingly. Responsibility should be given to EB: we will decide who will take this on when IDT deliver the speech, after they have checked it.

3. Can Mr Kemp please make the same amendment to EB's timetable.

C R Pickering

C R PICKERING

SPEECH 23. 2. 87.

Econ. Background

PEM Play up tribulations

Fiscal policy: nearly home, now home.

Monetary policy: Loughborough.

APH — Business & enterprise:

Reorder & Start with (a) C.T chunk – main rate.
– capital gains
– PAY & File.

(b) Oil

(c) Small business – VAT package

MCS

(d) Anti-avoidance – para of homily at the start, central element of tax reform is closing loopholes. Incl. VAT partial exemption.

~~(e)~~ (i) Dual-resident companies cf US.

~~(f)~~ (ii) Payment dates

~~(g)~~ (iii) Banks

~~(h)~~ (iv) Lloyds

(e) 3 odds & ends (i) BES
(ii) coy cars
(iii) PRP.

MCS — Savings & Investment

Start with WSO. (a) WSO

(b) Pensions

(c) IHT.

Pensions – have to say more on anti-avoidance. (ARG point.)

IHT – add Trusts. Para 117 v. unclear.

CGT – Friendly Societies shd come before IHT.

End section on good news on IHT.

APH — Spending

122 much later. But do specifics before VAT.

VAT – training: businesses & enterprise

APH — Income tax

134 out of place.
After ~~134~~ 135–137 want: over 80s
138
145 (HR thresholds)
139 (redraft last sentence)
[140 — omit]
141
142 — redrafted to read clearly no possibility for this yr, but can make a further step twds it this yr, & ∴ reduce to... worth... consequentials...
? ~~144~~ (Delete 1st sentence)
147
148
[143] — i.e. total costs of Bgt, then PSBR.
2nd ½ of 144
146

Then say total PSBR of...

1253/30

N423 A.

BUDGET SECRET

FROM: A ROSS GOOBEY
DATE: 12 FEBRUARY 1987

CHANCELLOR

cc Mr Cropper
Mr Tyrie

BUDGET CONSULTATIONS

It has become even clearer that the pensioner does not feel loved.

2. Of course, we will always be outbid in an auction of their favour, but I think the Members and candidates really need something specific to offer them.

3. Against this, I think the £200 million package on IHT is an unnecessary item this year. As Peter has pointed out, even if you think the tax is iniquitous and although 2/3 of estates will be removed, the marginal rate at £300,000 is still high. In fact I am not greatly in favour of giving help to self-perpetuating oligarchies anyway.

4. Again, I realise that the Budget is not the place for extra public expenditure. Many pensioners are not going to benefit from tax cuts directly and I can hear the voice of Yorkshire already: "What has this Budget given to the unemployed, the old, the sick?". What it will have given is of course a very buoyant economy with the ability to make greater overall provision, but, in addition to this I would make the following and overtly political gesture.

5. Double the Christmas bonus at a cost of £115 million; bring up to full benefit the over-80's without contribution records (as David Atkinson suggested) cost (?)under £10 million.

6. This may seem out of character but I guarantee a loud cheeer and good debating ammunition.

7. My note on pensioners' incomes since 1979 will follow after the weekend.

ARG

A ROSS GOOBEY

ALLOCATION OF MINISTERIAL RESPONSIBILITIES

MR 9/60

BUDGET SECRET

pup

FROM: A C S ALLAN
DATE: 19 February 1987

PS/CHIEF SECRETARY

Agree!

cc: PS/FST
PS/EST
PS/MST

ALLOCATION OF RESPONSIBILITIES FOR BUDGET PRESENTATION

The Chancellor proposes the following provisional allocation of responsibility for working up the presentation of the various aspects of the Budget. He would like to discuss this at Prayers tomorrow.

CST

Business, including

- CT
- Small/unincorporated businesses
- Small business VAT package

FST

Income tax, including

- MIR
- Car/fuel benefits

Plus

- Inheritance tax
- PEPs/WSO
- North Sea
- Pensions

FST

City issues, including

- Lloyds
- Banks

(continued)

Plus

- **Dual resident companies**
- **Keith**
- **Stamp duty**

MST

Customs stuff

- Excise duties
- VAT partial exemption
- VAT lollipops
- On-course betting

Plus

- PRP
- Employee share schemes.

ACSA.

A C S ALLAN

Thanks. In the light of this the 4/4 forecast, which requires only a v. small mortgage rate reduction towards the end of the year, seems entirely appropriate. N

FROM: P N SEDGWICK
DATE: 24 FEBRUARY 1987

CHANCELLOR

Ch
Makes 4 look attainable with only a little squeeze
AA

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Odling-Smee
Mr Scholar
Mr S Davies

RPI PROSPECTS

Paragraph 2(iv) of my note to you of today discusses the forecast to be published for the RPI in Part 3 of the FSBR. Our best estimate depends crucially on the policy assumptions used. The table below shows our best guess at the outcome on different assumptions about interest rates and the budget package. We assume that a one per cent cut in base rates would lead to ¾ of a percentage point off the mortgage rate. All the columns have the effect on the RPI of the assumed cut in the basic rate.

2. We are now assuming that the sterling index will remain constant at 69 throughout 1987. This marginally reduces inflation at the end of 1987 as compared with the January forecast, in which the sterling index was assumed to fall to 68.3 by the end of 1987.

RPI PROSPECTS

	(i) Present package and no cut in interest rates	(ii) As (i) with no revalorisation of specific duties	(iii) As (i) with a ¾ per cent cut in the mortgage rate	(iv) As (i) with both a cut in the mortgage rate and no revalorisation of specific duties
1987(4)	4.5(4½)	4.2(4¼)	4.1(4)	3.8(3¾)
1988(2)	4.4(4½)	4.4(4½)	4.0(4)	4.0(4)

P.N.S

P N SEDGWICK

BUDGET SECRET

COPY NO 8 OF 8 PUP wot's this?

FROM: A C S ALLAN

DATE: 25 February 1987

MR SEDGWICK

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Odling-Smee
Mr Scholar
Mr S Davies

RPI PROSPECTS

The Chancellor was grateful for your minute of 24 February. In the light of the figures you gave, he feels that the forecast of a 4 per cent increase in the RPI for Q4 1987 and Q2 1988, requiring only a very small mortgage rate reduction towards the end of the year, seems entirely appropriate.

ACSA

A C S ALLAN

(C)

ANNEX

THE BUDGET 1987: INCOME TAX

MAIN ALLOWANCES & THRESHOLDS AS INDEXED* IN ACCORDANCE WITH SECTION 24, FINANCE ACT 1980

1. Allowances	**1987-88 indexed and proposed**
	£
Single person's allowance and wife's earned income allowance	2,425
Married man's allowance	3,795
Age allowance (single)§	2,960
Age allowance (married)§	4,675
Age allowance income limit	9,800
Additional personal allowance and widow's bereavement allowance	1,370

§ A new higher level of age allowance is proposed for 1987-88 for those aged 80 and over. The allowance will be £3,070 for single people and £4,845 for married couples.

2. Higher rate thresholds and bands

	Taxable income	
Rate	**1987-88 indexed**	**1987-88 proposed**
per cent	**£**	**£**
27	-	0-17,900
29	0-17,900	-
40	17,901-21,100	17,901-20,400
45	21,101-26,500	20,401-25,400
50	26,501-34,700	25,401-33,300
55	34,701-42,900	33,301-41,200
60	Over 42,900	Over 41,200

* Section 24 requires 1986-87 allowances and rate bands to be increased by the same percentage (3.7 per cent) as the percentage increase in the general index of retail prices (RPI) between December 1985 and December 1986; and

i. in the case of the rate bands and the age allowance income limit, the result to be rounded up to the nearest multiple of £100; and

ii. otherwise, the increase to be rounded up to the nearest multiple of £10; although

iii. additional personal allowance and widow's bereavement allowance are automatically equal to the difference between the married man's allowance and the single person's allowance.

MR 4/86

BUDGET CONFIDENTIAL

FROM: A P HUDSON
DATE: 4 March 1987

MR M F BROWN

cc: FST
Mr Cassell
Mr Scholar
Mrs Lomax
Mr Culpin
Mr Ilett
Mr Neilson
Mr Betenson
Mr Cropper
Mr Ross Goobey

BUDGET SPEECH: OWNERSHIP

The Chancellor has seen your minute of 3 March giving the results of the Treasury/Stock Exchange share ownership survey.

2. He has commented that, in the Budget Speech, he can clearly say that share ownership has "trebled", since there is reason to believe that the 1979 estimate of 3 million is a shade on the high side, and "almost 20 per cent of the adult population".

3. I attach the relevant section of the Budget Speech, am~~m~~ended to take in these decisions. Please could you let me have any comments by tonight if at all possible.

4. Please could Mr Betenson confirm the references to home ownership in paragraphs E3 and E4.

APH

A P HUDSON

E. TAXES ON SAVING 13,09

E1. I turn now to the taxation of savings.

E2. A central theme and purpose of the Government's policies is the creation of a genuine popular capitalism: what used to be called, when ambitions were more limited and language more inhibited, a property-owning democracy.

E3. That means wider home ownership, wider share ownership, and wider pension ownership. Over the past eight years, the Government has actively promoted the first two, and has now embarked on the third. Home ownership, above all through the council tenant's right to buy. And share ownership, through the encouragement of employee share schemes, which now involve 1½ million workers, compared with [40,000] in 1979; through the massively successful privatisation programme, where Britain has led the world; and most recently through the Personal Equity Plan scheme, which I announced in last year's Budget and which started up on 1 January this year. More than 2,000 people a day [UPDATE AS NECESSARY] are currently taking out Personal Equity Plans, many of them first-time investors, as I had hoped.

E4. We know that 63 per cent of households now own their own homes, compared with 55 per cent in 1979. There are, however, no official figures for the rather more explosive growth of share ownership in Britain over the past eight years. The Treasury and the Stock Exchange have therefore jointly commissioned a major independent survey of individual shareholding in Britain. The results are now available. They show that there are now some 8½ ~~xx~~ million individual shareholders in this country, amounting to almost 20 ~~yy~~ per cent of the total adult population, and ~~fully~~ three times the number there were in 1979.

MR 2/11

BUDGET CONFIDENTIAL

FROM: A W KUCZYS
DATE: 6 March 1987

PS/FINANCIAL SECRETARY

cc: PS/CST
PS/EST
PS/MST
Sir P Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Haigh
Mr Cropper
Mr Graham - OPC
PS/IR

CONTROLLED FOREIGN COMPANIES: IMMIGRATION

The Chancellor has seen your minute of 5 March. He agrees with the Financial Secretary's recommendations.

2. The Chancellor would like a sentence or two for the Budget Speech, and Andrew Hudson is pursuing this with the Revenue.

AWK

A W KUCZYS

RT4.83

BUDGET CONFIDENTIAL

FROM: A W KUCZYS
DATE: 9 March 1987

PS/MINISTER OF STATE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Mr Monck
Mr Scholar
Mr Culpin
Mr P Gray
Mr Guy
Mr Cropper
Mr Ross Goobey
Mr Isaac - IR
Mr Lewis - IR
Mr Farmer - IR

PRP - PUBLICITY AND COSTS

The Chancellor has seen your minute of 6 March, and Mr Gray's of the same date.

2. On your note, the Chancellor has commented that the proposals all seem sensible. He does propose to mention PRP in the Budget broadcast.

3. On Mr Gray's note, for which the Chancellor was grateful, he has incorporated the shorter formulation (Mr Gray's paragraph 9) in the Budget Speech.

AWK

A W KUCZYS

Covering BLO
BUDGET SECRET
until after Budget Speech on 17.3.87
then UNCLASSIFIED

PWP

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

Copy no 9 of 11

BUDGET

FROM: MISS M O'MARA
DATE: 17 MARCH 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Scholar
Mr Culpin
Mr Hacche
Mr Hudson
A/55

SECRET

1987 BUDGET: KEY FACTS AND FIGURES

I attach an aide memoire, pulling out some of the key points and statistics from the Budget Brief. It does not purport to provide a comprehensive or balanced summary but simply attempts to extract some of the more interesting information which might otherwise lie buried.

B.L.O.

MOM

MISS M O'MARA

SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

ECONOMY

Industry Act forecast

	per cent changes 1986 to 1987
GDP	3 (3½)
of which manufacturing	4
consumption	4
investment	4
exports of goods and services	4 (5)
imports of goods and services	6 (7)

Non-oil shown in brackets

Inflation	
1986Q4 to 1987Q4	4
1987Q2 to 1988Q2	4
Balance of payments £billion	
1987	- 2½
1988H1 (at annual rate)	- 2
PSBR £billion	
1986-87	4
1987-88	4

(i) By end 1987, UK will have registered longest period of steady growth, at rate approaching 3 per cent a year, that economy has known since War.

(ii) Growth balanced: Investment and exports forecast to grow as fast as consumption.

(iii) With non-oil economy set to grow at 3½ per cent, every prospect of unemployment continuing to fall throughout year.

Assumptions

(a) Exchange rate remains close to its current level.

(b) North Sea oil prices average $15/bl in 1987-88.

Economic record

(i) Entering fifth year of steady growth and low inflation combined.

(ii) Since 1980 UK has grown faster on average than other major EC countries. Over previous two decades UK bottom of growth league.

(iii) Over upswing investment risen faster than consumption (and twice as fast as EC average). Reverse of recovery 1975-79 under Labour Government.

(iv) Number of strikes now around lowest level for almost 50 years; number of working days lost lowest for almost 20 years.

(v) Government inherited inflation rate of over 10 per cent and rising. Average for 1986, 3.4 per cent, lowest for almost 20 years. Averaged over 15 per cent under Labour Government (a little over 8 per cent since 1979).

(vi) Net UK assets overseas thought to have risen to £110 billion at end 1986 (28 per cent of GDP) compared with 7 per cent at end 1978. Second only to Japan and highest since War.

(vii) After Budget tax cuts, for family man on average earnings, real take home pay up over 21 per cent under this Government (1978-79 to 1987-88). ~~Fell slightly (1 per cent)~~ scarcely changed (up 1/2 per cent) under Labour Government.

(viii) In this Parliament:

- GDP growth averaged around 3 per cent a year
- total investment growth averaged 4½ per cent a year
- total employment up by a million, more than rest of EC combined; employment grown for 14 successive quarters; longest period of continuous employment growth for almost 30 years
- inflation averaged under 5 per cent; highest twelve month inflation rate lower than lowest Labour Government achieved.

Manufacturing

(i) Since 1979 manufacturing productivity up by 3¾ per cent a year - fastest growth of all major industrialised countries and three times that under Labour Government. (UK bottom of international league in 1960s and 1970s.)

(ii) Manufacturing profitability highest since 1973. Up from 4½ per cent in 1979 to over 7 per cent in 1985 (latest figures). Contrasts with no overall change between 1974 and 1979.

(iii) UK volume share of developed countries' exports of manufactures stabilised since 1981, halting decades of relative decline. UK forecast to maintain share in 1987.

(iv) Manufacturing output up over 10 per cent since last election. Forecast to rise further 4 per cent in 1987.

(v) In this Parliament:

- manufacturing productivity growth over 4 per cent a year
- manufacturing output up over 10 per cent, and further rise of 4 per cent forecast for 1987
- manufacturing export volumes up about 30 per cent.

PUBLIC FINANCES

PSBR

1986-87

- £4.1 billion (1 per cent of GDP). Lowest since 1969-70. £3 billion lower than 1986 Budget forecast.
- Excluding privatisation proceeds, £8.5 billion (2¼ per cent of GDP). Same as in 1985-86 and lower than any other year since 1971-72.

1987-88

- £3.9 billion (1 per cent of GDP). £3 billion lower than projection in 1986 MTFS.
- Lower as proportion of GDP on only two other occasions since 1950.
- Excluding privatisation proceeds, £8.9 billion (2¼ per cent of GDP).
- If in 1987-88, PSBR set at 1975-76 ratio to GDP (9¼ per cent) would imply figure of around £38 billion.

How the figures add up

(a) In 1987-88

	£ billion
Fiscal adjustment in 1986 MTFS	**2**
Increase in general government expenditure	-3½*
Increase in general government receipts before Budget package	+7*
Fiscal adjustment available pre-Budget	**+5½**
Budget package	-2½
Budget reduction in PSBR	3

*Underlying increases, adjusted for classification changes. (Public expenditure planning total up by £4½ billion, as announced in Autumn Statement.)

(b) In 1988-89 and 1989-90 similar picture, with both expenditure and receipts higher than forecast in 1986 FSBR. PSBR £2½ billion and £2 billion lower than in 1986 FSBR in 1988-89 and 1989-90 respectively.

(c) Government's past prudent policies now permit

- £2½ billion cut in taxes
- £4½ billion increase in public spending

  and

- £3 billion reduction in PSBR

  despite

- oil revenues £7½ billion less than in 1985-86.

Receipts

(a) Non-oil receipts

	per cent changes (on year earlier)		
	1986-87		1987-88
	1986 FSBR*	Latest estimate	Forecast
Income tax	+ 8½	+ 7	+ 4
Non-North Sea corporation tax	+12	+32	+21
VAT receipts	+ 7½	+11	+ 8½
Stamp duty	+13½	+47	+14
Other non-oil taxes	+11	+ 7½	+ 7½
NICs	+ 7½	+ 7½	+ 7½
Total non-oil taxes and NIC recenues	+9½	+10½	+8
Total general government non-oil receipts	+ 8½	+10	+ 7

*adjusted for classification changes

1986-87: Non-oil taxes and NIC revenues £3 billion (over 2 per cent) higher than forecast in 1986 FSBR. Unexpected buoyancy from

- corporation tax up £1.8 billion (19 per cent)
- VAT up £0.8 billion (4 per cent)
- stamp duty up £0.4 billion (29 per cent)

But income tax no higher than forecast.

1987-88:

- Total general government non-oil receipts forecast to rise by 7 per cent, a little below growth of non-oil money GDP.
- Non-oil taxes and NIC revenues forecast to rise by 8 per cent.
- Without Budget tax cuts, increase in non-oil taxes and NIC revenues of nearly 10 per cent.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

(b) North Sea tax revenues

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
						£ billion
1987 FSBR	11½	5	4	4	4	4
1986 FSBR	11½	6	4	4	4	not app

Ready reckoners

	Effect on North Sea tax take £ million 1987-88 receipts	full year
$1 barrel increase in oil price in 1987 (assuming unchanged exchange rate)	+350	+400
1 million tonnes per annum increase in oil production in 1987	+45	+50

Public expenditure

	1986-87 (estimated outturn)	1987-88 (plan)	1988-89 (plan)	1989-90 (plan)	1990-91
Planning total					
cash					
- 1987 PEWP	140.4	148.6	154.2	161.5	not app
- 1987 FSBR	140.0	148.6	154.2	161.5	168
real terms (1985-86 prices)					
- 1987 PEWP	136.5	139.3	139.7	142.1	not app
- 1987 FSBR	135.8	137.9	137.6	139.2	140.6
GGE					
- 1987 PEWP	164.4	173.7	179.6	187.8	not app
- 1987 FSBR	164.9	173.5	180	188	196
% GDP					
- 1987 PEWP	43¼	42¾	41¾	41¼	not app
- 1987 FSBR	43	42¼	41¼	40¾	40

General government expenditure (GGE) fallen steadily as percentage of GDP since 1982-83, including or excluding privatisation proceeds. By 1989-90 GGE projected to be lowest proportion of GDP since early 1970s.

Fiscal adjustment

Implied fiscal adjustment
(to nearest £ billion)

£billion, cash

	1987-88	1988-89	1989-90	1990-91
annual fiscal adjustment	not app	3	2	2
cumulative total	not app	3	5	7

MTFS

(a) PSBR

	1986-87 estimate	1987-88 set in Budget	1988-89*	1989-90*	1990-91*
PSBR	4	4	4	5	5
% of GDP	1	1	1	1	1

*MTFS projection

Maintaining degree of PSBR prudence that, until 1986-87, had been achieved on only two occasions since 1950.

(b) Growth of money GDP

Percentage change on previous financial year

	1986-87*	1987-88*	1988-89+	1989-90+	1990-91+
	6	7½	6½	6	5½

* forecast
\+ MTFS projection

(c) Output and inflation assumptions

	1986-87	1987-88	1988-89	1989-90	1990-91
Real GDP	3	3	2½	2½	2½
GDP deflator	3	4½	4	3½	3

TAX BURDEN

(i) Post-Budget, 1987-88 compared with 1986-87

- Overall tax burden (total tax and NICs) slightly lower as percentage of GDP.
- Non-North Sea tax burden marginally higher as percentage of GDP.
- No change in balance of direct and indirect taxes.

(ii) Post-Budget, 1987-88 compared with 1978-79

- Overall tax burden risen by over 4 percentage points as percentage of GDP and by over £34½ billion in real terms.
- Direct taxes fallen 1.4 percentage points as percentage of total; indirect taxes risen by 1.4 percentage points
- Income tax fallen over 5 percentage points as percentage of total.

(iii) Post-Budget, 1987-88 compared with 1982-83

- Overall tax burden fallen by over 1 percentage point as percentage of GDP (risen by over £16½ bilion in real terms).
- Direct taxes fallen by 1.7 percentage points as percentage of total; indirect taxes risen by 1.7 percentage points
- Income tax fallen by 1.8 percentage points as percentage of total.
- North Sea taxes fallen by 4.6 percentage points as percentage of total.

(iv) Following Budget, burden of tax on individuals in 1987-88 compared with indexed 1978-79 regime

	£billion
Income tax	-12
Employees' NICs	+ 4¼
Indirect taxes on persons (excl LA rates)	+11
Total	+ 3¼

INCOME TAX

Allowances in 1987-88

	£	
Married man's	3,795	(+140)
Single (and wife's earned income)	2,425	(+ 90)
Age: married	4,675	(+170)
Age: single	2,960	(+110)

New weekly tax thresholds: £72.98 married; £46.63 single.

(i) Real value of married man's allowance still highest since Second World War.

(ii) Age allowance at highest ever level in real terms since introduced in 1975-76. About two-thirds of elderly households will pay no tax.

(iii) New, higher level of age allowance for those 80 and over. Increased by twice amounts required under statutory indexation to £3,070 (single) and £4,845 (married). Will benefit about 400,000 single people and married couples.

(iv) Blind person's allowance up by £180 to £540 on top of increase in main allowance. Where both partners in married couple blind, allowance goes up to an additional £1,080.

Thresholds

(i) For first (40 per cent) higher rate, increased by £700 in line with statutory indexation;

(ii) For second (45 per cent) higher rate, increased by £200

(iii) For 50, 55 and 60 per cent higher rates, remain at 1986-87 levels.

Basic rate

(i) Cut 2p to 27p in £.

(i) Improves incentives for 21 million (95 per cent) of taxpayers of working age and for 90 per cent of unincorporated businesses/self employed for whom basic rate is marginal rate.

(iii) If money spent on basic rate reduction had been used to raise main personal allowances further, would have financed additional increase of 12 per cent.

(iv) UK around OECD average in point on income scale at which taxpayer becomes liable to tax (above West Germany). But well out of line in rate at which starts to pay tax.

Typical weekly tax reductions for basic rate taxpayers

	£ per week	
Income £ per week	Single	Married
100	1.57	1.32
150	2.57	2.32
200	3.57	3.32
250	4.57	4.32

Married man on average earnings (£227.30 a week for males)

- gains £3.87 in cash
- gains £3.08 a week compared with indexation alone.

	£ per week in 1987-88		
	Earnings	Cash gain	Gain relative to indexation
Primary school teacher (married male)	280	4.92	4.14
Nurse (single)	155	2.67	2.17

In pay packets on first pay day after 17 May.

Compared with 1986-87, average rates of tax down for everyone except

- most 60 per cent taxpayers;
- single earning £47-£64 a week;
- married earning £73-£100 a week.

Reduced rate band

(i) Very costly. For 2p off basic rate, band of only £1,300 at 20 per cent.

(ii) Would reduce marginal rates only for single earning less than £72 a week and married earning less than £98 a week for only 2.2 million taxpayers (10 per cent). Basic rate cut improves incentives for 94 per cent of all taxpayers.

(iii) Additional administrative costs for employers and Inland Revenue.

Highest paid

- With progressive income tax system, inevitable that higher paid get larger cash reductions but
- less than full indexation of higher rate thresholds means eg married man on £100 a week gains proportionately more in income tax reductions than one earning ten times as much.
- 60 per cent taxpayer gains only £2.17 per week more than under statutory indexation with no basic rate cut. Less than for married man (paying tax) earning £185.

Comparison with Labour Government

(i) Main allowances up 22 per cent in real terms under this Government. Under Labour Government fell 5 per cent for married man and 20 per cent for single person.

(ii) Age allowance around 13 per cent higher in real terms than in 1978-79 (around 17 per cent higher for over 80s).

(iii) Basic rate down from 33p in £ to 27p in £. Under Labour Government, reached 35p in £ (1976-77).

(iv) Top rate reduced from 83 per cent (98 per cent with IIS) to 60 per cent.

(v) Income tax burden down for all in 1987-88 compared with indexed 1978-79 regime. Percentage reduction for those with incomes under £5,000 (27 per cent) substantially larger than average (21 per cent).

(vi) Family on average earnings would be paying £10.50 a week more in income tax under 1978-79 indexed regime.

(vii) About 1.4 million fewer taxpayers in 1987-88 compared with indexed 1978-79 tax regime.

PROFIT RELATED PAY

(i) One half of PRP to be free of income tax up to point where PRP is equal to £3,000 a year or 20 per cent of pay, whichever is lower. Double relief proposed in Government's Green Paper.

(ii) For a married man on average earnings:

- if 5 per cent of pay profit related, tax relief worth about £1.50 a week, equivalent to 1p off basic rate
- if 20 per cent of pay profit related, tax relief worth £6 a week, equivalent to 4p off basic rate.

INDIRECT TAXES

No change in main excise duties

BUT Overall Government has increased duties (including VAT on duty) faster than prices since both 1979 and 1983.

up 38 per cent real since 1979
up 3 per cent real since 1983
down 9 per cent real 1974-79

Duty (including VAT) on cigarettes
up 26 per cent real in first Parliament
up nearly 20 per cent real in second
down 5 per cent 1974-79

Duty (including VAT) on beer
up 38 per cent real in first Parliament
up 1½ per cent real in second
up 11 per cent real 1974-79

Duty (including VAT) on wines and spirits fallen in real terms but almost all in second Parliament.

On wine, reflects Government's response to EC infraction proceedings.
On spirits, reflects Chancellor's deliberate decision to hold down duty, following abolition of stock relief which hit whisky industry particularly hard.
Wine up 80 per cent real 1974-79
Spirits down 20 per cent real 1974-79.

Second year of VED standstill for most vehicles.

SMALL BUSINESSES

(i) Small companies' corporation tax rate reduced to 27 per cent; down over one-third since in 1979 (42 per cent). Rate applying to over 80 per cent of all companies.

(ii) Unincorporated businesses benefit from basic rate reduction - marginal rate for 90 per cent.

(iii) VAT package

- Turnover limits for cash accounting and annual accounting increased from £100,000 in consultation document to £250,000, now covering more than half of all registered traders.
- Easier cash flow position and automatic bad debt relief for those opting for cash accounting.
- VAT threshold increased to £21,300 in line with inflation.

(iv) Rate of IHT business relief increased from 30 per cent to 50 per cent for substantial minority holdings in unquoted companies.

PENSIONS

Gives new opportunities for 10 million unpensioned employees.

INHERITANCE TAX

- Threshold up from £71,000 to £90,000 (only £74,000 if simply indexed). Should reduce number of estates paying IHT by about a third.
- Bands cut from 7 to 4.
- Lifetime exemption for gifts between individuals extended to gifts involving trust property with interest in possession.
- Tax arrangements for protection of heritage property improved.

CAPITAL GAINS

- Taxing company gains at CT rates reduces burdens on small companies (rate down from 30 per cent to 27 per cent).
- Increase in threshold for individuals and trusts keeps 10,000 taxpayers out of CGT.
- Increase in retirement relief ceiling from £100,000 to £125,000 means risen 2½ times in cash since 1984 Budget.
- CGT yield risen more than 80 per cent in real terms since 1978-79.

Budget

PWP

HOUSE OF COMMONS
LONDON SW1A 0AA

A. INTRODUCTION

1. The setting for this year's Budget is more favourable than it has been for very many years. We are entering our seventh successive year of steady growth, at the top of the international league table. We are entering the fifth year in which this steady growth has been combined with low inflation. The public finances are sound and strong, and unemployment is falling.

2. These are the fruits of the Government's determination, in bad times as well as good, to hold firmly to our policies of sound money and free markets. Once again, I reaffirm those policies.

3. So the Budget I present today is a Budget built on success, and a Budget <u>for</u> success.

4. I shall begin, as usual, by reviewing the economic background to the Budget. I shall then turn to monetary policy and to the fiscal prospect this year and next. Finally, I shall propose some changes in taxation designed to improve still further the prospects that lie before us. A number of press releases, filling out the details of my proposals, will be available from the vote office as soon as I have sat down.

Budget

HOUSE OF COMMONS
LONDON SW1A 0AA

B. THE ECONOMIC BACKGROUND

1. I start with the economic background.

2. Nineteen eighty-six was dominated by the sudden collapse of the oil price. Our own economy was affected not only directly, as a major oil producer and exporter, but also by the pause in world growth as the world economy adjusted to what has been described as the third oil shock. Despite this dislocation, however, in most respects the economy has developed as I foreshadowed a year ago.

3. 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. We have now had six years of growth at around 3 per cent a year; one of the longest and steadiest periods of expansion we have known since the war. And it has coincided with falling inflation, which at 3½ per cent in 1986 recorded the lowest figure for almost 20 years. Throughout the lifetime of this Parliament, inflation has averaged less than 5 per cent.

4. During the first half of last year exports were affected by the pause in world growth to which I have already referred. But since the middle of the year they have grown strongly. Indeed, over the last three months the volume of non-oil visible exports was almost 10 per cent higher than a year earlier - a better performance than that of any other major economy. This pattern was reflected in the rapid growth of manufacturing output in the second half of last year.

5. This resurgence of economic growth, coupled with the special measures we have taken, has brought about a welcome fall in the number of people out of work. Since August unemployment has fallen by more than 100,000; the largest six-monthly fall since 1973. Though the numbers out of work are

HOUSE OF COMMONS
LONDON SW1A 0AA

still far too high, both youth unemployment and long-term unemployment are now lower than they were a year ago.

6. Since the early months of last year, there has also been a further surge in productivity, particularly in manufacturing industry. This ~~xxxxxxxxxxx~~ continues the remarkable improvement in productivity growth achieved by British industry throughout the 1980s. In the seven years to 1979 UK productivity growth in manufacturing was the lowest of all the seven major industrial countries in the world. In the seven years since 1979 our annual rate of growth of output per head in manufacturing has been the highest of all the seven major industrial countries.

7. The recorded current account of the balance of payments went into deficit in 1986 by around £1 billion. This followed a cumulative current account surplus of some £20 billion ~~xxxxxxxxxxxxx~~ between 1979 and 1985. Some deterioration in our current account was inevitable in the face of a [£5 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 our massive stock of net overseas assets, which at well over £100 billion ~~xxx~~ is second only to that of Japan, will provide a continuing ~~contribution~~ support to the current account in the years ahead.

8. Looking ahead, I expect 1987 to be another year of steady, balanced growth with low inflation. Total output is forecast to rise by 3 per cent, with exports and investment up rather more than that. ~~Thexxx~~ Manufacturing industry, in particular, should do well. And with the non-oil economy ~~gr~~ set to grow at 3½ per cent, there is every chance of unemployment continuing to fall throughout 1987. In last year's Budget speech I said

HOUSE OF COMMONS
LONDON SW1A 0AA

that the prospect for jobs depended on a sustained improvement in the performance of business and indsutry. That sustained improvement in economic performance has occurred and is continuing.

9. 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 one per cent of GDP.

10. As I foreshadowed in the Autumn Statement, inflation may continue to edge up for a time, perhaps to 5 per cent by the ~~middle of the year~~ summer, before falling back to 4 per cent by the end of the year. While short-term fluctuations are ~~inevitable~~ inescapable, it remains the Government's prime objective to keep inflation on an unambiguously downward underlying trend.

~~Six~~ 11. Given the continuation of present policies in this country, the biggest risk to the excellent prospect I have outlined is that of a downturn in the world economy as a whole. There are still serious imbalances afflicting the three major economies - the United States on the one hand and Japan and Germany on the other - which, if not handled properly, could lead to a simultaneous downturn in all three. And this in turn could be exacerbated by renewed turmoil in the foreign exchange markets, whose tendency to overshoot is as notorious as it is damaging.

12. It was to address these dangers that the Finance Ministers and Central Bank Governors of six major nations met in Paris last month, and agreed among other things to co-operate closely in fostering a period of exchange rate stability. In my Budget speech last year, I said:

HOUSE OF COMMONS
LONDON SW1A 0AA

"Provided we are not over-ambitious, I believe that the Plaza accord is something we can usefully build on."

That is what we ~~jahx~~ have now done, with Plaza II. But it would be ~~idxk~~ idle to deny that the wider risks still remain.

B 13. But short of a world downturn, which can and must be avoided, British industry now has an outstanding opportunity, with growing markets at home and overseas, low inflation, ~~greatly improved~~ rapidly growing productivity and greatly improved profitability. Provided it can control its costs and maintain its ~~xxxpx~~ present competitive advantage we can look forward to many more years of strong growth combined with low inflation.

Budget

HOUSE OF COMMONS
LONDON SW1A 0AA

1. Pl. type on plain for BLO.
2. Pl. bring in each section as soon as it's ready. AH

C. MONETARY POLICY

1. For its part, the Government will keep in place a sound and prudent financial framework. That means, as it has done since 1980, the medium-term financial strategy.

2. The central objective of the MTFS is steadily ~~xx~~ to reduce the growth of money GDP over the medium term, so as to squeeze inflation out of the system ~~altogether and~~ and ultimately to achieve price stability.

3. This requires monetary discipline ~~supported~~ buttressed by low public sector borrowing. The essential instrument of monetary policy must remain short term interest rates. These will ~~be~~ continue to be set in the light of monetary conditions as indicated principally by the ~~movement~~ growth of narrow and broad money and the behaviour of the exchange rate.

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

5. The exchange rate is assumed to remain broadly unchanged.

6. In my Lombard Association speech last April, I set out at ~~some~~ considerable length precisely how monetary policy is operated. While I ~~recognise~~ note that in some quarters this was felt to be unclear or in some other way inadequate, I ~~was~~ am struck by the fact that Mr Paul Volcker, Chairman of the United States Federal Reserve Board, in his written testimony to the Senate last

HOUSE OF COMMONS
LONDON SW1A 0AA

month, explained how the Fed operates monetary policy in remarkably similar terms.

Budget

HOUSE OF COMMONS
LONDON SW1A 0AA

D. PUBLIC SECTOR BORROWING

1. I mentioned a moment ago the need to keep public sector borrowing low.

2. The final outturn for the public sector borrowing requirement in 1985-86 was just under £6 billion, equivalent to 1½ per cent of GDP, the lowest level since ~~1971-72 /or is it~~ [1970-71]?/. In my Budget last year, faced with a massive loss of what now looks like £7 billion of North Sea oil revenue, I nonetheless decided to hold the PSBR for 1986-87 to £7 billion, or 1¾ per cent of GDP.

3. In the event, this year's PSBR looks like turning out at only £5 billion, or 1¼ per cent of GDP: the second successive year of significant undershoot.

4. This successful outcome is chiefly attributable to the unexpected buoyancy of non-oil tax revenues. And this in turn is due not to some short-term surge in consumer spending, but overwhelmingly to an increase of no less than a third in the yield of Corporation Tax from an increasingly profitable business and industry, coupled with substantial rises in the yields from Stamp Duty and the capital taxes.

5. Looking ahead, there is still a degree of uncertainty surrounding oil prices, and I have therefore stuck to the assumption I made last year that the North Sea price will average $15 a barrel. 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 an exceptionally strong position.

6. 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

HOUSE OF COMMONS
LONDON SW1A 0AA

recall, I gave an assurance at the time of the Autumn Statement, when I announced substantial increases in public ~~expens~~ spending, that on no account would I exceed that figure.

7. 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 now have the chance, not merely to take a further step along that path, but to reach what I judge to be its proper destination: a PSBR of 1 per cent of GDP. This would represent a degree of fiscal prudence that has been attained on only x occasions in the past y years. /PLEASE COMPLETE/

8. Accordingly, I have decided to provide for a PSBR in 1987-88 of £4 billion.

9. Inevitably, this greatly diminishes the scope I have this year for reducing the burden of taxation, which remains a major objective of Government policy. But I am sure it is right to err on the side of prudence and caution, and to build a still firmer base for the future. That is the principle on which both I and my predecessor have consistently conducted economic policy these past eight years, and I see no reason to depart from it now. Moreover, as my hon Friends will be glad to learn, it still leaves <u>some</u> scope for reductions in taxation this year.

10. Meanwhile, I would make one further observation, of a different nature. Economic arguments are seldom concluded, one way or another. This is chiefly because it is unusual for economic policies to be held in place long enough to provide sufficient evidence. But the 1980s have been different; and, as a result, one critically important economic argument has now been concluded, finally and decisively. ~~Throughout the~~

HOUSE OF COMMONS
LONDON SW1A 0AA

11. 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. ~~We are~~ The British economy is now embarking on its seventh successive year of steady growth at around 3 per cent a year. And during that time the ~~px~~ 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 shade over 2 per cent. Indeed, had I at any time heeded the advice of our so-called expansionist critics, the [redacted] economy would never have been in the unprecedentedly (favourable) [redacted] position it is in today.

Min.

BUDGET SECRET

COPY NO 4 OF 6

FROM: A P HUDSON
DATE: 2 March 1987

MR SCHOLAR

cc Mr Cassell

BUDGET SPEECH: OIL TAXATION

... I attach the Chancellor's own draft of the section on North Sea oil taxation.

2. The Chancellor noted that something would have to be said about the cost of the package. He also asked what the position is on oil companies' ACT. I shall minute out these questions when circulating the full draft.

APH

A P HUDSON

D17. While business and industry as a whole is doing well, the North Sea oil sector has inevitably been hard hit by last year's oil price collapse. My Rt Hon Friend the Secretary of State for Energy and I have followed closely the effects on North Sea producers and their suppliers. The industry itself is generally confident about the longer-term prospects; while as for the tax system, not only is it inherently price-sensitive, but the companies themselves have always stressed their desire for stability.

D18. However, in the light of the immediate problems I introduced last autumn legislation to bring forward the repayment of over £300 million of Advance Petroleum Revenue Tax. This has already helped many of the smaller companies faced with cash flow difficulties.

D19. I now propose two further Petroleum Revenue Tax reliefs. First, as from today and until such time as income from new fields exceeds the costs incurred, companies may elect to have up to 10 per cent of the costs of developing new oil fields set against their Petroleum Revenue Tax liabilities in existing fields. Second, there will be a new relief against PRT for research spending on oil extraction not related to any particular field.

D20. I hope that these carefully targeted changes will give a worthwhile measure of help to the North Sea oil sector.

MR 9/64

BUDGET SECRET AND PERSONAL

COPY 10 NO 10

FROM: A C S ALLAN
DATE: 2 March 1987

MR C W KELLY

cc: EST
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Scholar
Mr Peretz

BUDGET SPEECH: EXCHANGE CONTROL

... I attach the Chancellor's own draft of this section of the Budget Speech.

2. Please could I have any comments as soon as possible.

ACSA

A C S ALLAN

X. EXCHANGE CONTROL

X1. Before I turn to my proposals for changes in taxation, I have one other important change of a specific nature to announce.

X2. In 1979, a few months after we 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 7½ 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.

X3. But although the operation of exchange control has ceased, the Exchange Control Act itself remains on the Statute book. So long as it does, there is likely to persist a nagging uncertainty that, in some circumstances, exchange control might be reimposed; and such uncertainty could be damaging.

X4. I have therefore concluded that the time has come to repeal the Act. The necessary legislation will be contained in this year's Finance Bill.

X5. I note that, in a major speech in New York in September, the Deputy-Leader of the Labour Party declared that, and I quote:

"The Labour Party has no intention of reintroducing statutory exchange controls".

I am confident, therefore, that the proposal I have just made will be welcomed on all sides of the House.

Pwp

COPY NO 7 OF 8

FROM: A P HUDSON

DATE: 3 March 1987

MR CULPIN

cc Mr Scholar
Miss O'Mara
Mr Allan
Mr Tyrie
Mr Ross Goobey

SPEECHES IN BUDGET WEEK

You were asked at yesterday's Overview meeting to set out the bull points from the Budget.

2. I have been giving some thought to how the more obvious themes might be split between Ministers for speeches in the week following the Budget. As you will know, the Chief Secretary has a meeting to discuss his speech on Friday (6 March).

Wednesday 18 March

3. The Chief Secretary's speech will follow that of Roy Hattersley. This looks to me an occasion for a vigorous rebuttal of Labour attacks, contrasting their policies and record with the Government's, and giving a new figure for Labour's spending plans. The Chief Secretary wanted to talk about pensions, and the Government's record on pensioners; no doubt this can be woven in.

4. I assume the Financial Secretary will wind-up on Wednesday. Perhaps he could say something about wider share ownership, setting out the results of the survey, though this is not strictly a Budget item.

Thursday 19 March

5. Ministers have agreed that the non-Treasury Ministers in the Budget debates should be Mr Clarke and Mr Channon.

6. We get unemployment figures on 19 March, which suggests that Mr Clarke should speak then and talk about jobs, and perhaps PRP.

7. Either the Economic Secretary or the Minister of State will wind-up that day. If it is the Minister of State, he might want to talk about PRP and/or the VAT measures.

Friday 20 March

8. On the Friday, we get the RPI, and the Chancellor is speaking at the Conservative Central Council meeting in Torquay. This speech will be an upbeat, party-orientated version of the overall message of the Budget.

Monday 23 March

9. The CBI Monthly Enquiry is published on the Monday.

10. Assuming Mr Channon speaks that day, he could talk about the success of the company sector and the Government's record both on tax and on other measures for business.

11. The Chancellor already has a news item for his wind-up speech. He could also look back to the Healey Budget of ten years ago, and, no doubt, restate the Government's overall message.

Conclusion

12. If you think this sort of breakdown is useful, perhaps we could incorporate it in the list of bull points.

APH

A P HUDSON

MR 2/5

BUDGET SECRET

Copy No 9 of 10

FROM: A W KUCZYS
DATE: 5 March 1987

MR CASSELL

cc: PS/EST
Sir P Middleton
Mr Scholar
Mr M L Williams
Mr Cropper
Mr Painter
Mr Pitts

OIL PACKAGE

The Chancellor has seen your minute of 4 March. He is content to proceed as you recommend. In particular, he is content with the redraft of D19 of the Budget Speech. He has commented that he had better write to Mr Walker fairly soon enclosing the relevant extract from the Speech. Please could you supply a draft?

A W K

A W KUCZYS

BUDGET SECRET

No 2 of 2* Copies

FROM: A P HUDSON
DATE: 12 March 1987

MR PERETZ

BUDGET SPEECH: ECONOMIC SECTION

I attach the first half of the Budget Speech, as agreed. — Apologies for delay.

2. As well as drafting a sentence or two on gilt auctions, please could you check section X, which may have changed a little since you last saw it?

APH

A P HUDSON

* COPY No 2 WITHOUT ATTACHMENT

RT4.92

BUDGET SECRET

COPY NO 3 OF 3

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

12 March 1987

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy

Dear Peter

BUDGET SPEECH: OIL MEASURES

... I enclose, for your personal use only, an extract from my draft Budget Speech covering the measures we have agreed on North Sea oil taxation.

Yours
Nigel

NIGEL LAWSON

ps4/36L

BUDGET SECRET
until after SPEECH, then UNCLASSIFIED

FROM: A P HUDSON
DATE: 17 March 1987

MR ROSS GOOBEY

cc Mr Cropper
Mr Tyrie

CHANCELLOR'S SPEECH TO CENTRAL COUNCIL, TORQUAY, 20 MARCH 1987: PLEDGES

I attach a first tranche of material for the Chancellor's speech on Friday.

2. I am also doing a section on the Budget measures. Mr Lilley is writing about the economic record, and the Opposition Parties.

3. Perhaps we could have a word about all this tomorrow morning.

APH

A P HUDSON

CHANCELLOR'S SPEECH TO CENTRAL COUNCIL, TORQUAY, 20 MARCH 1987

Pledges Section

Less than six months ago, in Bournemouth, I made four pledges; pledges to take forward the policies we have pursued since 1979. Today, I want to report progress.

2. First, taxation. We inherited a basic rate of income tax of 33 pence in the pound. Geoffrey Howe slashed three points off this within six weeks of taking office, and he promised to get the rate down to no more than 25 per cent.

3. The next step took longer - the overriding need to keep the nation's finances under control limited the room for manoeuvre, though we were able to make substantial increases in tax thresholds, to take the lowest paid out of tax altogether.

4. But last year, I was able to shave another penny off, and this year, twopence. So we are now three-quarters of the way to our goal of a 25 per cent basic rate. And when we get there, we shall not just congratulate ourselves that the job is done. We shall move forward to reduce income tax further still.

5. My second pledge was on privatisation. A policy which has transformed the industrial scene in Britain.

And a policy which the rest of the world is now copying.

6. When I spoke in Bournemouth, we had already privatised one-fifth of the state sector we inherited from Labour. Then - though it seems hard to remember - both British Gas and British Airways were still nationalised industries. Now, six months on, they are enjoying the freedom and challenge of the private sector. And both will flourish, as British Telecom, Cable and Wireless, British Aerospace, and many others are doing already.

7. We are going to build on these successes. Rolls Royce and British Airports will be next, and that will achieve our objective for this Parliament - two-fifths of the old state sector back in private hands. But we shall not stop there. In the next Parliament, we shall move forward and privatise most of the rest. First, the water industry - [where managers are already clamouring for privatisation.] And more to follow - much more.

8. Privatisation has been a great success in industrial and commercial terms. You only have to look at the performance of the companies to see that. The vast majority are operating more effectively, making much higher profits, [and employing more people]. But privatisation has had a vital extra dimension - it has enabled us to introduce millions of the British people to

share ownership for the first time.

9. In 1979, some 3 million British people owned shares. At the Party Conference, I said the number had doubled. Perhaps I was too cautious. Because now - only six months later - a Treasury and Stock Exchange survey shows it has nearly trebled. That's moving forward.

10. A lot of the increase is down to the British Gas sale, of course. And that in itself revealed the transformation in attitudes towards share ownership. In 1979, share issues were aimed at couples with names like [Henry and Caroline]. Perhaps, at a stretch, Nigel and Therese. But any young advertising executive who had suggested Sid would have been laughed at. How things change. Last Autumn, no fewer than 5¾ million people bought shares in British Gas.

11. One in five adults in this country now owns shares. In the United States, where share ownership has long been accepted as a vehicle for ordinary people's savings, the figure is one in four. But we are catching up fast. And a wide range of people are joining in. The Treasury survey shows that one adult in six from what the statisticians call social class C2 is now a shareholder, whereas hardly any did in 1979. Share ownership is spread nationwide, too, and the South West region has the second highest proportion of all.

12. Privatisation is, of course, only one of the ways in which we have encouraged wider share ownership. There has been a rapid growth in employee share schemes, and I made two more changes to help on Tuesday. And in my Budget last year, I announced an entirely new vehicle for people to invest in British industry with no tax on the proceeds - the Personal Equity Plan. The scheme started in January. In the first month an average of 2,000 people invested each day, and one firm estimated that a quarter of their clients were first-time shareholders.

13. In Bournemouth, I promised to double the number of shareholders again. We are already well on the way. And when we get there, we shall carry on upwards.

14. Finally at the Party Conference, I pledged that our aim would be to eliminate inflation and achieve price stability. I repeat that pledge today. I know inflation is edging up a bit at the moment - I can't guarantee to eliminate all fluctuations. But I give you this unequivocal assurance: as long as we are in Government, we shall do whatever is necessary to contain inflation. That is the determination that brought inflation down from the 10 per cent, and rising, that we inherited. And that is the determination that will get us to our ultimate goal of stable prices.

15. So that is my agenda for the future: moving forward to lower income tax; moving forward, with more

privatisation; moving forward to even wider share ownership; and moving forward to the end of inflation.

16. These policies have three things in common. They are all fundamental to Conservative philosophy. They have all played an essential part in the transformation of the British economy to the success it is today. And they are all policies which Labour are committed to reverse.

17. Labour don't like lower income tax. They don't like it because it leaves money in the hands of individuals, families, and businesses, to spend how they choose. But Labour's whole approach to life is that the State knows best - and that includes spending your money for you. Mr Hattersley may write a book called "Choose Freedom". But his policies spell the reverse.

18. Labour don't like privatisation, because it diminishes the power of the State to run industries. No matter that the industries were often unprofitable and inefficient, and are now successful. Labour are committed to renationalise them. As usual, they're trying to pull the wool over people's eyes by giving this policy the euphemistic name of "social ownership". But that fools nobody. It's old-fashioned nationalisation.

19. Labour don't even particularly like wider share ownership. If people have an independent stake in their

firm and their country, they are less at the mercy of the trade unions and the Government. Most of the unions advised their members against buying shares in the privatised companies, but [over 90 per cent] did anyway. Now Mr Hattersley says he would abolish PEPs, which have brought thousands of others into share ownership.

20. Finally - and most serious by far - Labour's policies would unleash inflation again. Big spending from Mr Meacher and his friends, and big wage claims from Mr Willis and his, would put an end to any hopes of financial discipline, just as they did before.

21. So the choice before the British people in the next election - whenever that comes - will be as stark as it was in 1979 and 1983. As stark as it has ever been. To move forward, in a spirit of free enterprise and initiative. Or back, to the days of State planning and regulation. To move forward, with incentives to succeed. Or back, to the days of penalties on success. To move forward, to compete with confidence in world markets. Or back, to try to hide behind a barrier of controls. To move forward into the 1990s. Or back, to the 1970s. The way forward - the only way forward - is with another Conservative Government. And that is the message we all have to spread.

BLO PWP

This paragraph to go in Chancellor's copy only

[Changes on on-course betting duty, gaming machine licence duty and pool betting duty] [Changes on unleaded petrol] apart from these changes, and some changes in minor VED rates, I do not propose to make any changes to the excise duties this year. So for over this Parliament, they will still have more than kept pace with inflation -they will have risen about 4 per cent in real terms. The duty on cigarettes will still have risen in real terms by about 20 per cent over this period; the duties on beer and petrol will have broadly kept pace with inflation.

I propose to increase the rates of vehicle excise duty on farmers' lorries, to [as the first stage of] bring~~ing~~ them into line with the use they make of the public roads. This change will take effect from midnight tonight. I also propose to increase the rates of duty on trade licences and to create a new taxation class for recovery vehicles. These changes take effect from 1 January 1988.

BLO

PWP

BUDGET CONFIDENTIAL

I turn ~~Turning~~ now to the duties on betting and gaming. ~~I note that~~ The gaming machine licence duty has not been changed since 1982, and I propose to increase it by about a quarter, which will ~~to~~ restore it to its 1982 value. I propose no change in the level of duty on off-course betting, noting that reforms introduced by ~~bets, where the efforts of~~ my rt hon Friend the Home Secretary have done much to improve betting shops' prospects. But, mindful of the adverse effects of declining attendances at racecourses ~~(particularly on the setting of starting prices)~~, and with a view to consoling the ~~I propose a measure that will console~~ those hon Members who, but for my choice of Budget date, would have spent the day at Cheltenham, watching the Champion Hurdle, I propose to abolish the duty on on-course betting ~~bets will be abolished~~ from 29 March. Taken together, these measures are broadly revenue neutral.

AH 26.2

Mr Hudson, Chancellor's Office

We suggest the above alternative approach for the Budget Statement.

P. G. W.
Customs. 26.2.87

Mr Scholar cc self

1. C&E were unhappy with any version of para 124 ~~to~~ to date. Apparently, the changes in regulations for off-course betting cannot be described as the reason for declining attendances.

2. I told Mr Wilmott that I thought we needed a longish build up to the announcement here. He volunteered this. As amended, I think it's OK, but ~~not~~ still not great.

AH 26.2.

Taxes on Spending

121. [Introduction setting scene - depends on decision on excise duties.]

122. [Excise duties - passage in light of decisions.]

123. In last year's Budget I announced that I had decided to introduce a duty differential in favour of unleaded petrol, to offset its higher production costs. I can now announce that the differential will be 5 pence. This means that unleaded petrol should be ~~cheaper~~ no dearer at the pump than 4 star leaded petrol, encouraging the switch to less polluting fuel. The measure will take effect from 6 o'clock this evening.

C+E ? ×
×

C&E still unhappy - thinking of new version

124. ~~Following~~ Recent changes to the regulations for betting shops~~, whose effect has been to tilt~~ have tilted the balance of advantage towards off-course betting compared with on-course betting, which has contributed to ~~and in the light of~~ ~~I am also aware that there is~~ concern ~~in some quarters~~ about declining attendances at race courses. I have therefore decided to abolish from ~~today~~ 29 March the duty on on-course betting. ~~Later~~ I hope this will help to console those Hon Members who, but for my choice of Budget Day, would have spent today at Cheltenham watching the Champion Hurdle. ~~At the same time~~ In addition, I propose to increase the duty on gaming machine licences, which has remained unchanged since 1982. Taken together, these measures are broadly revenue-neutral

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

127. ~~Last year I introduced a very significant~~ following the package of new ~~tax~~ reliefs I introduced last year, and ~~to encourage charitable giving,~~ in particular ~~These included~~ the ~~new~~ payroll giving scheme which starts next month. As I announced before Christmas, I propose to increase the limit on donations under the scheme to £120 a year.

128. We now have a very generous tax regime for charitable giving, ~~and~~ I know charities will not expect any further major reliefs ~~on this front~~ this year. But following representations from the Charities VAT and Tax Reform Group, I have decided to ~~make~~ extend last year's ~~am prepared to agree to certain additions to the VAT concessions which were introduced last year.~~ ~~to extend~~ to certain new areas:

~~129. I propose to extend VAT relief~~ (2) certain ~~to~~ welfare vehicles used by hospices to transport the terminally ill; to (5) specialised location or identification equipment used by mountain rescue and first aid services; ~~to the donation of goods for export to a charity;~~ (1) to installing or adapting lavatory or bathroom facilities in charity residential homes for the disabled; [~~and~~ (3) to drugs and chemicals supplied to charities and directly used in medical research]; (4) goods donated for export by a charity for relief of distress [or animal welfare]; and.

~~130. [I also propose relief from car tax on vehicles supplied to Motability for leasing]~~

I have no changes to announce in the rate or coverage of Value Added Tax, except ~~concerning~~ for some further reliefs for charities. //

ACSA

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET SECRET

COPY 8 OF 10

FROM: A C S ALLAN
DATE: 13 March 1987

MISS O'MARA

cc Mr Scholar
Mr Culpin
Mr Pickford
Miss C Evans
Mr Pickering

BUDGET BRIEF

The Chancellor has the following comments on Brief A1: Budget strategy.

2. Factual (vi) to (x): should be amended to read:

(vi) Budget reduces basic rate of income tax by 2p to 27p: further substantial step towards 25p objective.

(vii) Budget encourages personal pension provision through major package of reform.

(viii) Budget contains measures to lighten burden on small businesses.

(ix) Budget introduces tax incentive for profit related pay.

(x) Standstill on excise duties.

3. His other comments on this brief are:

- In Positive (i): change "fourth" to "fifth" in the second indent; and delete "remain" in the fourth indent.
- In Positive (ii): add "(and highest since War)" at the end of the final indent.
- In Positive (iii): delete "fiscal" in the first line; and change "only one third of level" to "£7 billion less than" in the last indent.
- In Positive (ix): change "in last 35 years" to "since 1950".
- In Positive (xi): add "and starting rate for everyone" at the end.

- Delete Positive (xii).
- Begin Positive (xiii) "After Budget tax cuts ...".
- In Positive (xiv): change "around half" to "over half" in the first indent; and change the second indent to "Small companies corporate tax rate cut from 29 per cent to 27 per cent".
- In Positive (xvi): add new sentence at end "And gives individuals more choice in provision for retirement".
- Change Positive (xix): to read "Changes to inheritance tax raise threshold by over 25 per cent (to £90,000) and cut number of estates liable by about a third".
- In Defensive (iii): delete the last indent; and delete the reference to profit related pay in the third indent and add a separate new indent referring to it as an important flexibility measure.
- The Chancellor has discussed with you the line in Defensive (iv) and (vii).
- Change Defensive (viii): to read "Overall tax burden does fall slightly, but bigger tax cuts this year would not have been prudent. Government remains firmly committed to significant reduction in burden over medium-term".
- You will need to amend Defensive (x) and (xi) (no revalorisation) in the light of the points the Chancellor made when he discussed this with you. The reference to duties on alcohol and tobacco still being near the top of the EC league should be deleted. And the action on unleaded petrol is a bull point and worth a separate item of its own.
- Can we tidy-up the references to the cumulative current account surplus (Defensive (xviii). Don't we refer to a cumulative surplus of £20 billion up to 1985?

CHANCELLOR OF THE EXCHEQUER

- In Defensive (xxii): change the second sentence to read "Government deliberately adopting cautious policy".

4. In Brief C2, Defensive (vi) we should refer to "cautious" Revenue projections/assumptions not "neutral" ones. This point may also apply elsewhere in the brief.

5. In Brief D3 the Chancellor was not at all happy with Section E on Indirect Taxes. He felt we did not want to highlight gains from a decision not to raise excise duties. I discussed this with you, and we agreed that the page should be recast to make it clear it is a purely factual underpinning to the aggregate figure for charges from a fully indexed base, and that it does not contain any points to make. An appropriate reference to the Excise Duty brief should be added..

ACSA

A C S ALLAN

10920

067

pup

RESOLUTIONS TO BE MOVED BY THE CHANCELLOR OF THE EXCHEQUER

17th MARCH 1987

SECOND PRINT

Mr Chancellor of the Exchequer

Provisional Collection of Taxes: That, pursuant to section 5 of the Provisional Collection of Taxes Act 1968, provisional statutory effect shall be given to the following Motions:—

(a) Unleaded petrol (Motion No. 1); and

(b) Vehicles excise duty (farmers' goods vehicles) (Motion No. 3).

ARRANGEMENT OF WAYS AND MEANS RESOLUTIONS

1. Amendment of the law

That it is expedient to amend the law with respect to the National Debt and public revenue and to make further provision in connection with finance; but this Resolution does not extend to the making of any amendment with respect to value added tax so as to provide—

(*a*) for zero-rating or exempting any supply;

(*b*) for refunding any amount of tax;

(*c*) for varying the rate of that tax otherwise than in relation to all supplies and importations; or

(*d*) for relief other than relief applying to goods of whatever description or services of whatever description.

2. Unleaded petrol

That, as from 6 o'clock in the evening of 17th March 1987,—

(1) after section 13 of the Hydrocarbon Oil Duties Act 1979 there shall be inserted the following section—

"Rebate on unleaded petrol.

13A.—(1) On unleaded petrol charged with the excise duty on hydrocarbon oil and delivered for home use there shall be allowed at the time of delivery a rebate of duty at the rate of £0·0096 a litre.

(2) For the purposes of this section petrol is "unleaded" if it contains not more than 0·013 grams of lead per litre of petrol or, if the petrol is delivered for home use before 1st April 1990, not more than 0·020 grams of lead per litre of petrol.

(3) Rebate shall not be allowed under this section in any case where it is allowed under section 14 below.";

(2) in section 24 of that Act (control of use of duty-free and rebated oil) in subsection (1) (power of Commissioners to make regulations) after the words "section 12" there shall be inserted "section 13A"; and

(3) in section 27 of that Act (interpretation) in the definition of "rebate" after the words "section 11" there shall be inserted "13A":

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

3. Vehicles excise duty (farmers' goods vehicles)

That Schedule 4 to each of the Vehicles (Excise) Act 1971 and the Vehicles (Excise) Act (Northern Ireland) 1972 shall have effect, in relation to licences taken out after 17th March 1987, with the amendments set out below;

But this Resolution shall not authorise the making of amendments which would result in different provisions being in force in different parts of Great Britain:

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968:

(1) In Part I, in sub-paragraph (2) of paragraph 6 (farmer's goods vehicle or showman's goods vehicle having a plated gross weight or a plated train weight) in paragraph (b) (weight exceeding 7.5 tonnes but not exceeding 12 tonnes) for "£155" (which applies to farmers' goods vehicles only) there shall be substituted "£175"; and

(2) In Part II, for Tables A(1), C(1) and D(1) (rates for farmers' goods vehicles having plated weight exceeding 12 tonnes) there shall be substituted the Tables set out below:

TABLE A(1)

RATES OF DUTY ON RIGID GOODS VEHICLES EXCEEDING 12 TONNES PLATED GROSS WEIGHT

RATES FOR FARMERS' GOODS VEHICLES

Plated gross weight of vehicle		Rate of duty		
1. Exceeding	2. Not exceeding	3. Two axle vehicle	4. Three axle vehicle	5. Four or more axle vehicle
tonnes	tonnes	£	£	£
12	13	245	190	190
13	14	340	205	205
14	15	445	205	205
15	17	620	205	205
17	19	—	295	205
19	21	—	395	205
21	23	—	540	295
23	25	—	965	415
25	27	—	—	600
27	29	—	—	880
29	30.49	—	—	1,450

TABLE C(1)

RATES OF DUTY ON TRACTOR UNITS EXCEEDING 12 TONNES PLATED TRAIN WEIGHT AND HAVING ONLY 2 AXLES

RATES FOR FARMERS' GOODS VEHICLES

Plated train weight of tractor unit		Rate of duty		
1. Exceeding	2. Not exceeding	3. For a tractor unit to be used with semi-trailers with any number of axles	4. For a tractor unit to be used only with semi-trailers with not less than two axles	5. For a tractor unit to be used only with semi-trailers with not less than three axles
tonnes	tonnes	£	£	£
12	14	280	250	250
14	16	355	265	265
16	18	415	265	265
18	20	485	265	265
20	22	565	330	265
22	23	600	370	265
23	25	690	470	265
25	26	690	520	320
26	28	690	655	430
28	29	725	725	490
29	31	1,010	1,010	630
31	33	1,470	1,470	1,010
33	34	1,470	1,470	1,350
34	36	1,650	1,650	1,650
36	38	1,860	1,860	1,860

TABLE D(1)

RATES OF DUTY ON TRACTOR UNITS EXCEEDING 12 TONNES PLATED TRAIN WEIGHT AND HAVING THREE OR MORE AXLES

RATES FOR FARMERS' GOODS VEHICLES

Plated train weight of tractor unit		Rate of duty		
1. Exceeding	2. Not exceeding	3. For a tractor unit to be used with semi-trailers with any number of axles	4. For a tractor unit to be used only with semi-trailers with not less than two axles	5. For a tractor unit to be used only with semi-trailers with not less than three axles
tonnes	tonnes	£	£	£
12	14	250	250	250
14	20	265	265	265
20	22	330	265	265
22	23	370	265	265
23	25	470	265	265
25	26	520	265	265
26	28	655	265	265
28	29	725	310	265
29	31	1,010	385	265
31	33	1,470	580	265
33	34	1,470	850	330
34	36	1,470	1,220	500
36	38	1,640	1,640	745

4. Vehicles excise duty (recovery vehicles)

That provision may be made for, and in connection with, charging duty in respect of recovery vehicles by reference to an annual rate of £50 under the Vehicles (Excise) Act 1971 and the Vehicles (Excise) Act (Northern Ireland) 1972.

5. Vehicles excise duty (trade licences)

That provision may be made with respect to the rates of duty applicable to trade licences under section 16 of each of the Vehicles (Excise) Act 1971 and the Vehicles (Excise) Act (Northern Ireland) 1972.

6. Abolition of general betting duty on on-course bets

That—

(1) general betting duty shall not be chargeable on any bet made on or after 29th March 1987 which is an on-course bet within the meaning of Part I of the Betting and Gaming Duties Act 1981 ("the 1981 Act");

(2) nothing in this Resolution shall affect—

(*a*) the question whether a person is for the purposes of Schedule 1 to the 1981 Act carrying on a general betting business or engaged in an activity by reason of which he is or may be or become liable for general betting duty, or

(*b*) the question whether a person is for the purposes of Schedule 2 to the Miscellaneous Transferred Excise Duties Act (Northern Ireland) 1972 carrying on a business which involves or may involve general betting duty becoming payable or engaged in an activity by reason of which he is or may be or become liable for duty:

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

7. Gaming machine licence duty (rates)

That, with respect to licences for any period beginning on or after 1st June 1987, for the Tables set out in section 23(1) of the Betting and Gaming Duties Act 1981 there shall be substituted the following Tables:

TABLE A

Small-prize machines

Description of machines authorised by the licence	Duty on whole-year licence
Chargeable at the lower rate	£150 per machine
Chargeable at the higher rate	£375 per machine

TABLE B

Other machines

Description of machines authorised by the licence	Duty on whole-year licence
Chargeable at the lower rate	£375 per machine
Chargeable at the higher rate	£960 per machine

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

8. Gaming machine licence duty (exemptions etc.)

That provision may be made amending Schedule 4 to the Betting and Gaming Duties Act 1981 (exemptions and supplementary provisions relating to gaming machine licence duty).

9. Value added tax (credit for input tax)

That, in relation to supplies and importations made on or after 1st April 1987, the Value Added Tax Act 1983 shall have effect with the following amendments:

(1) In section 15, for subsections (1) to (3) there shall be substituted—

"(1) The amount of input tax for which a taxable person is entitled to credit at the end of any period shall be so much of the input tax for the period (that is input tax on supplies and importations in the period) as is allowable by or under regulations as being attributable to supplies within subsection (2) below.

(2) The supplies within this subsection are the following supplies made or to be made by the taxable person in the course or furtherance of his business—

(*a*) taxable supplies;

(*b*) supplies outside the United Kingdom which would be taxable supplies if made in the United Kingdom;

(*c*) supplies which section 35 below provides are to be disregarded for the purposes of this Act and which would otherwise be taxable supplies

(3) The Commissioners shall make regulations for securing a fair and reasonable attribution of input tax to supplies within subsection (2) above, and any such regulations may provide for—

(*a*) determining a proportion by reference to which input tax for and prescribed accounting period is to be provisionally attributed to those supplies;

(*b*) adjusting, in accordance with a proportion determined in like manner for any longer period comprising two or more prescribed accounting periods or parts thereof, the provisional attribution for any of those periods; and

(*c*) the making of payments in respect of input tax, by the Commissioners to a taxable person (or a person who has been a taxable person) or by a taxable person (or a person who has been a taxable person) to the Commissioners, in cases where events prove inaccurate an estimate on the basis of which an attribution was made."

(2) In section 6(1), for the words "the charge to tax" there shall be substituted the words "this Act".

(3) In section 35(1) and (2), for the words "shall be disregarded" there shall be substituted the words "shall, except where the contrary intention appears, be disregarded".

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

10. Value added tax (supplies to groups)

That, in relation to transfers of assets made on or after 1st April 1987, the Value Added Tax Act 1983 shall have effect with the insertion after section 29 of the following section—

"Supplies to groups. 29A.—(1) Subject to subsections (2) and (3) below, subsection (4) below applies where—

(*a*) a business, or part of a business, carried on by a taxable person is transferred as a going concern to a body corporate treated as a member of a group under section 29 above;

(*b*) on the transfer of the business or part, chargeable assets of the business are transferred to the body corporate; and

(*c*) the transfer of the assets is treated by virtue of section 3(3) (*c*) above as neither a supply of goods nor a supply of services.

(2) Subsection (4) below shall not apply if the representative member of the group is entitled to credit for the whole of the input tax on supplies to it or importations by it—

(*a*) during the prescribed accounting period in which the assets are transferred, and

(*b*) during any longer period to which regulations under section 15(3) (*b*) above relate and in which the assets are transferred.

(3) Subsection (4) below shall not apply if the Commissioners are satisfied that the assets were acquired by the taxable person transferring them more than three years before the day on which they are transferred.

(4) The chargeable assets shall be treated for the purposes of this Act as being, on the day on which they are transferred, both supplied to the representative member of the group for the purpose of its business and supplied by that member in the course or furtherance of its business.

(5) A supply treated under subsection (4) above as made by a representative member shall not be taken into account as a supply made by him when determining the allowance of input tax in his case under section 15 above.

(6) The value of a supply treated under subsection (4) above as made to or by a representative member shall be taken to be the open market value of the chargeable assets.

(7) For the purposes of this section, the open market value of any chargeable assets shall be taken to be the price that would be paid on a sale (on which no tax is payable) between a buyer and a seller who are not in such a relationship as to affect the price.

(8) The Commissioners may reduce the tax chargeable by virtue of subsection (4) above in a case where they are satisfied that the person by whom the chargeable assets are transferred has not received credit for the full amount of input tax arising on the acquisition by him of the chargeable assets.

(9) For the purposes of this section, assets are chargeable assets if their supply in the United Kingdom by a taxable person in the course or furtherance of his business would be a taxable supply (and not a zero-rated supply).".

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

11. Value added tax (valuation)

That, in relation to supplies made on or after 1st April 1987, Schedule 4 to the Value Added Tax Act 1983 shall have effect with the insertion, at the beginning of paragraph 1(1) (c), of the words "if the supply is a taxable supply,".

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

12. Value added tax (issue of securities)

That, in relation to supplies made on or after 1st April 1987, Group 5 in Schedule 6 to the Value Added Tax Act 1983 shall have effect with the following amendments—

(*a*) at the end of item 5 there shall be added the words "or the underwriting of an issue within item 1"; and

(*b*) after item 6 there shall be inserted the following item—

"6A. The making of arrangements for, or the underwriting of, an issue within item 6.".

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

13. Value added tax (supplies received from abroad)

That, with respect to services supplied on or after 1st April 1987, section 7 of the Value Added Tax Act 1983 (reverse charge on supplies received from abroad) shall be amended as follows—

(*a*) in paragraph (*b*) of subsection (1), for the words "taxable person" there shall be substituted "person (in this section referred to as 'the recipient')";

(*b*) in subsection (1), in the words following paragraph (*b*) for the words "as if the taxable person" there shall be substituted "as if the recipient";

(*c*) in subsections (3) and (4) for the words "taxable person" there shall be substituted "recipient"; and

(*d*) in subsection (3) for the words "the allowance" there shall be substituted "any allowance".

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

14. Value added tax (tour operators)

That provision may be made about the treatment for the purposes of value added tax of supplies by tour operators, travel agents and others making like supplies.

15. Value added tax (transfers from the United Kingdom)

That provision may be made repealing item 2 of Group 15 in Schedule 5 to the Value Added Tax Act 1983.

16. Value added tax (registration etc.)

That the Value Added Tax Act 1983 may be amended by provisions as to registration, and provisions treating as taxable persons certain registered persons who neither make nor intend to make taxable supplies.

17. Income tax (charge and rates for 1987–88)

That—

(1) Income tax for the year 1987–88 shall be charged at the basic rate of 27 per cent and, in respect of so much of an individual's total income as exceeds £17,900 (the basic rate limit as determined under subsection (4) of section 24 of the Finance Act 1980—indexation), at such higher rates as are specified in the Table below:

TABLE

Higher rate bands	*Higher rate*
The first £2,500	40 per cent
The next £5,000	45 per cent
The next £7,900	50 per cent
The next £7,900	55 per cent
The remainder	60 per cent

(2) Section 24(4) of the Finance Act 1980 (indexation of thresholds) shall not, so far as it relates to the higher rate bands, apply for the year 1987–88:

(3) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 204 of the Income and Corporation Taxes Act 1970 (pay as you earn) before 18th May 1987:

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxcs Act 1968.

18. Income tax (indexed personal reliefs etc.): operative date for PAYE

That, for the year 1987–88, in subsection (7) of section 24 of the Finance Act 1980 (which specifies the date from which indexed changes in income tax thresholds and allowances are to be brought into account for the purposes of PAYE) for " 5th May " there shall be substituted " 18th May ":

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

19. Increased personal relief for those aged eighty and over

That, for the year 1987–88 and subsequent years of assessment—

(1) Subject to the provisions of this Resolution, subsection (1) of section 8 of the Income and Corporation Taxes Act 1970 (personal reliefs) shall have effect—

(*a*) in relation to a claim by a person who proves that he or his wife was at any time within the year of assessment of the age of eighty or upwards, as if the sum specified in paragraph (*a*) (married) were £4,845; and

(*b*) in relation to a claim by a person who proves that he was at any time within the year of assessment of the age of eighty or upwards, as if the sum specified in paragraph (*b*) (single) were £3,070;

and for this purpose, a person who would have been of the age of eighty or upwards within the year of assessment if he had not died in the course of it shall be treated as having been of that age within that year:

(2) For any year of assessment for which a person is entitled to increased personal relief by virtue of this Resolution, he shall not be entitled to increased relief under subsection (1A) of the said section 8 (increased relief for persons of sixty-five and upwards):

(3) For the purpose of any enactment which refers to Part I of the Income and Corporation Taxes Act 1970 or to Chapter II of that Part, paragraph (1) above shall be taken to be included in that Chapter:

(4) In the following enactments—

(*a*) subsection (1B) of the said section 8 (tapering of relief under subsection (1A)), and

(*b*) paragraph 3(3) of Schedule 4 to the Finance Act 1971 (exclusion of certain reliefs where there is separate taxation of wife's earnings),

any reference to subsection (1A) of the said section 8 shall include a reference to paragraph (1) above:

(5) In subsection (8) of section 36 of the Finance Act 1976 (application of provisions relating to transfer of balance of certain reliefs between spouses) the reference in paragraph (*b*) to subsection (1A)(*b*) of the said section 8 shall include a reference to paragraph (1)(*b*) above:

(6) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 204 of the Income and Corporation Taxes Act 1970 (pay as you earn) before 18th May 1987:

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

20. Increased relief for blind persons

That—

(1) For the year 1987–88 and subsequent years of assessment, in section 18 of the Income and Corporation Taxes Act 1970—

(*a*) in subsection (1) (single blind persons and married couples of whom one is blind) for "£360" there shall be substituted "£540"; and

(*b*) in subsection (2) (married couples, both of whom are blind) for "£720" there shall be substituted "£1,080":

(2) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 204 of the Income and Corporation Taxes Act 1970 (pay as you earn) before 18th May 1987:

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

21. Relief for interest (limit for 1987–88)

That, for the year 1987–88, the qualifying maximum referred to in paragraphs 5(1) and 24(3) of Schedule 1 to the Finance Act 1974 (limit on relief for interest on certain loans for the purchase or improvement of land) shall be £30,000:

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

22. Corporation tax (charge and rate for financial year 1987)

That corporation tax shall be charged for the financial year 1987 at the rate of 35 per cent.

23. Corporation tax (small companies)

That—

(*a*) the small companies rate for the financial year 1987 shall be 27 per cent; and

(*b*) the fraction by reference to which corporation tax charged on income is reduced under section 95(2) of the Finance Act 1972 shall for that financial year be one fiftieth.

24. Companies' chargeable gains

That provision may be made with respect to the treatment of the chargeable gains of companies for the purposes of corporation tax.

25. Charities

That, for the year 1987–88 and subsequent years of assessment, section 27(7) of the Finance Act 1986 (which limits to £100 the payroll deductions attracting relief) shall have effect with the substitution of "£120" for "£100".

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

26. Registered friendly societies

That provision may be made—

(*a*) amending section 332(2) of the Income and Corporation Taxes Act 1970 and section 64 of the Friendly Societies Act 1974 with respect to contracts for the assurance of gross sums under tax exempt life or endowment business of registered friendly societies; and

(*b*) amending the operation of section 400 of that Act with respect to gains arising in connection with policies issued in the course of such business by registered friendly societies.

27. Annuities, etc.

That provision may be made about contracts or trust schemes providing for the payment of annuities or lump sums.

28. Retirement benefits schemes

That provision may be made about retirement benefits schemes.

29. Income support

That provision may be made charging to income tax under Schedule E payments of income support under the Social Security Act 1986 or the Social Security (Northern Ireland) Order 1986.

30. Underwriters

That charges to income tax (including charges for the years of assessment 1985–86 and 1986–87) may be imposed by provisions about underwriters.

31. Foreign partnerships

That provision may be made, with retrospective effect, with respect to the taxation of persons resident in the United Kingdom who are members of partnerships resident outside the United Kingdom.

32. Companies: material interests

That provision may be made as to the cases in which a person is to be regarded as having a material interest in a company for certain purposes of the Tax Acts.

33. Apportionment of income etc. of close companies

That provision may be made amending Schedule 16 to the Finance Act 1972.

34. Corporation tax (payment dates)

That provision may be made as to the time within which corporation tax in respect of any accounting period of a company is required to be paid.

35. Charges on income

That provision may be made with respect to the dates on which certain payments made between companies are to be treated as received.

36. Investment companies

That amendments may be made to section 304 of the Income and Corporation Taxes Act 1970.

37. Recognised investment exchanges

That charges to income tax, corporation tax and capital gains tax may be imposed by provisions enabling enactments referring to The Stock Exchange to have effect, with or without modification, in relation to other recognised investment exchanges.

38. Controlled foreign companies

That provision may be made with respect to the circumstances in which a controlled foreign company, within the meaning of Chapter VI of Part II of the Finance Act 1984, is to be regarded as pursuing an acceptable distribution policy.

39. Dual resident companies

That provision may be made with respect to companies which are resident in the United Kingdom and are also within a charge to tax under the laws of a territory outside the United Kingdom.

40. Double taxation relief: interest on overseas loans

That provision may be made amending sections 65 and 66 of the Finance Act 1982.

41. Advance corporation tax: oil industry

That provision may be made with respect to the setting of advance corporation tax against corporation tax on profits arising from oil extraction activities or oil rights, within the meaning of Part II of the Oil Taxation Act 1975.

42. Commodity futures, financial futures and options

That provision may be made—

(*a*) for bringing gains on certain disposals of commodity futures, financial futures and options within the charge to capital gains tax or corporation tax on chargeable gains, and

(*b*) with respect to the treatment under the Capital Gains Tax Act 1979 of certain options.

43. Stamp duty (clearance services)

That provision may be made with respect to stamp duty in relation to instruments transferring securities to persons concerned with clearance services.

44. Stamp duty (market makers)

That amendments may be made to section 82(6) of the Finance Act 1986.

45. Stamp duty (Crown exemption)

That charges to stamp duty may be imposed by provisions relating to instruments made by, to or with Ministers of the Crown.

46. Stamp duty reserve tax

That charges to stamp duty reserve tax may be imposed by further provisions relating to that tax.

47. Inheritance tax

That charges to inheritance tax may be imposed—

(*a*) by provisions relating to settled property in which there is no qualifying interest in possession, within the meaning of Chapter III of Part III of the Inheritance Act 1984 (settlements without interests in possession);

(*b*) by provisions as to the circumstances in which the settlor is liable for the tax on the value transferred by a potentially exempt transfer made under that Part;

(*c*) by provisions relating to relief under Chapter I (business property) or Chapter II (agricultural property) of Part V of that Act;

(*d*) by provisions relating to settled property of the kind to which Schedule 4 to that Act (maintenance funds for historic buildings etc.) relates; and

(*e*) by provisions relating to the payment of tax by instalments.

48. Oil taxation: nomination scheme

That, in connection with a scheme relating to the nomination of sales and appropriations of oil, provision may be made with respect to the amounts to be taken into account under the Oil Taxation Act 1975 in determining the gross profit or loss accruing to a participator in an oil field in any chargeable period.

49. Oil taxation: market value of oil

That provision may be made with respect to the determination of the market value of oil for the purposes of provisions of the Oil Taxation Act 1975.

50. Collective investment schemes

That charges to income tax, corporation tax, capital gains tax, inheritance tax, stamp duty and stamp duty reserve tax may be imposed by provisions relating to unit trust schemes or to other collective investment schemes.

51. Relief from tax (incidental and consequential charges)

That it is expedient to authorise any incidental or consequential charges to any duty or tax (including charges having retrospective effect) which may arise from provisions designed in general to afford relief from tax.

PROCEDURE RESOLUTIONS

PROCEDURE (EXCHANGE AND FINANCIAL CONTROL): That, notwithstanding anything to the contrary in the practice of the House relating to matters which may be included in Finance Bills, any Finance Bill of the present Session may—

(*a*) make provision for and in connection with the repeal of the Exchange Control Act 1947; and

(*b*) amend section 2 of the Banking and Financial Dealings Act 1971.

PROCEDURE (FUTURE TAXATION): That, notwithstanding anything to the contrary in the practice of the House relating to matters which may be included in Finance Bills, any Finance Bill of the present Session may contain provisions taking effect in a future year with respect to the time within which corporation tax in respect of any accounting period of a building society is required to be paid.

xiii—D(2)

11 March 1987

Draft of 13 March

COMPLETE DRAFT OF 13 MARCH (PM)

A. INTRODUCTION

A1. The setting for this year's Budget is more favourable than it has been for very many years. We are entering our seventh successive year of steady growth, now at the top of the international league table. We are entering the fifth year in which this steady growth has been combined with low inflation. The public finances are sound and strong, and unemployment is falling.

Terry: (True for '87, but not for '86.)

A2. These are the fruits of the Government's determination, in bad times as well as good, to hold firmly to our policies of sound money and free markets. Once again, I reaffirm those policies.

A3. So the Budget I present today is a Budget built on success, and a Budget for success.

P. Cropper

A4. I shall begin, as usual, by reviewing the economic background to the Budget. I shall then turn to monetary policy and to the fiscal prospect this year and next. Finally, I shall propose some changes in taxation designed to improve still further the prospects that lie before us. A number of press releases, filling out the details of my proposals, will be available from the Vote Office as soon as I have sat down.

B. THE ECONOMIC BACKGROUND

B1. I start with the economic background.

B2. Nineteen eighty-six was dominated by the sudden collapse of the oil price. Our own economy was affected not only directly, as a major oil producer and exporter, but also by the pause in world growth as the world economy adjusted to what has been described as the third oil shock. Despite this dislocation, however, the economy has developed in most respects as I foreshadowed a year ago.

B3. 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. It is worth recalling that in the 1960s, and again in the 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.

B4. And this greatly improved growth performance has [coincided] been accompanied by with falling inflation, which at 3½ per cent in 1986 recorded the lowest figure for

A. Tyrie [not coincidence]

Terry.

almost 20 years. Over the lifetime of this Parliament, inflation has averaged less than 5 per cent, and growth nearly 3 per cent.

B5. During the first half of last year exports and hence output were affected by the pause in world growth to which I have already referred. But since the middle of the year exports have grown strongly. Indeed, over the last three months the volume of exports of manufactures was 6 per cent higher than a year earlier - a better performance than that of any other major economy. This pattern was reflected in the rapid growth of manufacturing output in the second half of last year.

~~Gwyn Hacche says unemployment peaked in July~~ G. Hacche: 6 month period is July-Jan.

B6. This resurgence of economic growth, coupled with the special measures we have taken, has brought about a welcome fall in the number of people out of work. Since ~~[August]~~ July unemployment has fallen by more than 100,000; the largest six-monthly fall since 1973. Though the numbers out of work are still far too high, both youth unemployment and long-term unemployment are now lower than they were a year ago.

B7. I announced a number of specific employment measures in my last Budget, and since then, my Rt Hon and Noble Friend the Secretary of State for Employment has further extended the successful

Restart programme for the long-term unemployed. There will also be more places on the successful Enterprise Allowance Scheme, and the number of Jobclubs is to be quadrupled. The new Job Training Scheme will in due course give a quarter of a million people, most of them youngsters, vocational training leading to recognised qualifications. With these and other measures, this Government has developed its employment and training programmes on a scale which no other country can match. But the best hope of all for the unemployed lies in the continuing vigour of the economy.

N.Monck

B8. Since the early months of last year, there has been a further surge in manufacturing productivity. This continues the remarkable improvement in productivity growth achieved by British industry throughout the 1980s. In the 1960s, and again in the 1970s, growth in manufacturing productivity in the UK 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.

B9. The recorded current account of the balance of payments went into deficit in 1986 by around £1 billion. This followed a cumulative current account surplus of some £20 billion between 1979 and

1985. Some deterioration in our current account was inevitable in the face of a £5 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 valuable [massive] stock of net overseas assets we have acquired since 1979, which at well over £100 billion is second only to that of Japan, will provide a continuing support to the current account in the years ahead.

A. Tyrie

B10. 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 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. Manufacturing industry, in particular, should do well in 1987. And with the non-oil economy set to grow at 3½ per cent, there is every prospect of unemployment continuing to fall throughout the year. In last year's Budget Speech I said that the outlook for jobs depended on a sustained improvement in the performance of business and industry. That sustained improvement in economic performance has occurred and is continuing.

B11. 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 one per cent of GDP.

B12. As I foreshadowed in the Autumn Statement, inflation may continue to edge up for a time, perhaps to a little over 4½ per cent by the Summer, before falling back to 4 per cent by the end of the year. While short-term fluctuations are inescapable, it remains the Government's prime objective to keep inflation on an [unambiguously] downward underlying trend.

~~A. Tyrie~~

A. Tyrie

B13. Given the continuation of present policies in this country, the biggest risk to the excellent prospect I have outlined is that of a downturn in the world economy as a whole. There are still serious imbalances afflicting the three major economies - the United States on the one hand and Japan and Germany on the other - which, if not handled properly, could lead to a simultaneous downturn in all three. And this in turn could be exacerbated by renewed turmoil in the foreign exchange markets, whose tendency to overshoot is as notorious as it is damaging.

B14. It was to address these dangers that the Finance Ministers and Central Bank Governors of six major nations met in Paris last month, and agreed among other things to co-operate closely in fostering a period of exchange rate stability. In my Budget Speech last year, I said:

> "Provided we are not over-ambitious, I believe that the Plaza accord is something we can usefully build on."

That is what we have now done, with Plaza II. But it would be idle to deny that the wider risks still remain.

B15. Short of a world downturn, which can and must be avoided, British industry now has an outstanding opportunity, with growing markets at home and overseas, low inflation, rapidly growing productivity and greatly improved profitability. Provided it can control its costs and maintain its present competitive advantage, and assuming the continuation of present policies, we can look forward to many more years of strong growth combined with low inflation.

C. MONETARY POLICY

C1. For its part, the Government will keep in place a sound and prudent financial framework. That means, as it has done since 1980, the medium-term financial strategy.

C2. The central objective of the MTFS is steadily 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.

C3. 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.

C4. For narrow money, MO, the target range for next year will be 2 to 6 per cent, as foreshadowed in last year's MTFS. For broad money, however, as the Governor of the Bank of England cogently argued in his Loughborough lecture last October, in current circumstances it is probably wiser to eschew an explicit target altogether. But broad money will continue to be taken into account in assessing monetary conditions, as of course will the exchange rate.

EST thinks this looks "a bit spare" - suggests putting it, with minor amendments, before C1. You are considering this para anyway.

C5. In my Lombard Association speech last April, I set out at considerable length precisely how in practice monetary policy is operated. Rt Hon and Hon Members who are interested in such matters will no doubt have observed that Mr Paul Volcker, Chairman of the United States Federal Reserve Board, in his written testimony to the Senate last month, explained how the Fed operates monetary policy in remarkably similar terms.

D. PUBLIC SECTOR BORROWING

D1. I mentioned a moment ago the need to keep public sector borrowing low.

D2. 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 like £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.

D3. 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.

D4. This successful outcome is chiefly attributable to the remarkable buoyancy of non-oil tax revenues. ~~And~~ This buoyancy in turn is due not to some short-term surge in consumer spending; ~~but~~ it is due, in particular to an increase over last year of no less than a third in the yield of Corporation Tax from an increasingly profitable business sector. and industry.

P. Cropper
N. Monck wonders if we want to draw so much attention to CT increases.

EST thinks this reads oddly. Drafting suggestion is mine.

D5. Looking ahead, there is still a degree of uncertainty surrounding oil prices, and I have therefore stuck to the assumption I made last year that the North Sea price will average $15 a barrel. 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 an exceptionally strong position.

D6. I intend to keep it that way. Last year's MTFS indicated a PSBR for 1987-88 of £7 billion, or $1\frac{3}{4}$ 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 £$4\frac{3}{4}$ billion increase in planned public spending in 1987-88, that on no account would I exceed that figure.

D7. 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. I intend to [stick to that figure]. This will establish [maintain] a degree of fiscal [PSBR] prudence that, until this year, had been achieved on only two occasions since 1950.

PEM
maintain the PSBR over the medium term at around that figure.

D8. Accordingly, I have decided to provide for a PSBR in 1987-88 of £4 billion.

D9. Inevitably, this greatly diminishes the scope I have this year for reducing the burden of taxation, which of course remains a major objective of Government policy. But I am sure it is right to err on the side of prudence and caution, and to build a still firmer base for the future. That is the principle on which both I and my predecessor have consistently conducted economic policy these past eight years, and I see no reason to depart from it now.

D10. Meanwhile, I would make one further observation, of a different nature. Economic arguments are seldom concluded, one way or another. This is chiefly because it is unusual for economic policies to be held in place long enough to provide sufficient evidence. But the 1980s have been different; and, as a result, one critically important economic argument has now been concluded, finally and decisively.

D11. 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.

C.
You thought you ~~would~~ might shorten this, as suggested by Sir G L.

X. EXCHANGE CONTROL

X1. Before I turn to my proposals for changes in taxation, I have one other important change of a specific nature to announce.

X2. 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 7½ 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.

X3. But although the operation of exchange control has ceased, the Exchange Control Act itself remains on the Statute book. So long as it does, there is likely to persist a nagging fear that, in certain circumstances, exchange control might be reimposed; and such uncertainty could be damaging.

X4. I have therefore concluded that the time has come to repeal the Act. The necessary legislation will be contained in this year's Finance Bill.

X5. I note that, in what was clearly intended to be a major speech in New York in September, the Deputy-Leader of the Labour Party declared that, and I quote:

> "The Labour Party has no intention of reintroducing statutory exchange controls".

I am confident, therefore, that the proposal I have just made will be welcomed on all sides of the House.

Draft of 13 March

E. **BUSINESS AND ENTERPRISE**

E1. I now turn to taxation. First, taxes on business.

E2. The fundamental reform of the Corporation Tax system which I introduced in 1984 came fully into effect last April. The new system has undoubtedly improved the quality of business investment decisions in Britain, and is also encouraging more overseas companies to set up here.

E3. During the transition to the new system, companies were given advance notice of the main rate of Corporation Tax for the year ahead. This helped them in their forward planning, and I intend as far as possible to continue the practice of setting the rate in advance. Accordingly, I can announce now that 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.

E4. The low rate of Corporation Tax enables me to introduced a further simplification into the system.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

E5. 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.

E6. This is no longer the case: indeed, the Corporation Tax rate for small companies is now below the Capital Gains Tax rate.

E7. 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.

E8. Meanwhile, ~~It~~ it has ~~, however,~~ been argued that, ~~it is wrong that~~, where companies distribute capital gains as dividends, the gains are being taxed twice, once in the hands of the company and once in the hands of the shareholder. I believe there is some justice in this complaint. Accordingly, I propose to remedy it by allowing companies to set payments of Advance Corporation Tax against their liability to tax on capital gains.

P. Cropper says "difficult to deliver" & suggests redraft. The trouble is, I think it makes the sense wrong. We accept that ~~ga~~ distributed gains are taxed twice.

The only way I can see round the present mouthful is to restructure the para: "~~At present, companies~~ see draft below, which I'd have to check with M. Cayley on Monday.

Thanks.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

E9. Taken together, these changes should yield £60 million in 1988-89.

E10. I also have some further simplification and rationalisation of the Corporation Tax system to announce.

E11. At present, some companies established before 1965 do not have to pay their Corporation Tax until up to 21 months after the end of the period for which it is due, whereas companies established since 1965 have to pay their tax after 9 months - and some building societies have to pay sooner still.

E12. This difference in treatment cannot be justified. Moreover, it is open to an abuse which could put the timing of a substantial proportion of the total Corporation Tax yield at risk.

E13. I therefore propose that all companies and building societies should be treated the same way, with all liable to pay Corporation Tax nine months after the end of the accounting period on which the tax is due. The change will be phased in, but I would expect it to yield around £100 million in 1988-89.

E14. 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.

E15. 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. But by legislating now I am giving taxpayers and their advisers a firm basis on which to prepare for the new scheme.

P. Cropper

E16. While business and industry as a whole ~~is~~ are doing well, the North Sea oil sector has inevitably been hard hit by last year's oil price collapse. My Rt Hon Friend the Secretary of State for Energy and I have followed closely the effects on North Sea producers and their suppliers. The industry itself is generally confident about the longer-term prospects; while as for the tax system, not only is it inherently price-sensitive, but the companies themselves have repeatedly stressed their desire for stability.

A. Tyrie

E17. However, in the light of the immediate problems, I introduced last autumn legislation to bring forward the repayment of over £300 million of Advance Petroleum Revenue Tax. This has already helped many of the smaller and medium-sized companies faced with cash flow difficulties.

E18. I now 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 UK oil extraction that is not related to any particular field.

E19. I hope that these carefully targeted changes will give a worthwhile measure of help to the North Sea oil sector, that will assist with the difficulties of the next five years or so.

Mr Pitts (see minute in red folder, Oil Taxation Issues: Presentation)

E20. I have to set the 1988-89 car and car fuel benefit scales for those with company cars. The car scale charges still fall well short of the true value of the benefit, and as last year I propose to increase them by 10 per cent. There will be no change in the car fuel scales which, as already announced, will also be used for VAT purposes from 6 April.

E21. Last year I put the Business Expansion Scheme onto a permanent footing. However, there is evidence that the present rules produce 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 the investor 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.

E22. Training and retraining are vital to a flexible and competitive economy. Some employers may be willing to help with the retraining of workers who are leaving their current employment. At present the tax system can be an obstacle to this. I propose that both employers and employees should be exempt from tax in this kind of case, which should encourage workers to acquire new skills for new jobs.

E23. The past few years have seen a remarkable and most welcome growth in the number of small businesses and the self-employed. The Government has 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.

E24. 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.

E25. 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 becomes 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.

E26. My first and most important proposal, therefore, is that, as from 1 October, businesses whose annual turnover is under £¼ million, which means 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 received 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 for bad debts.

E27. 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. The House will note that the upper limit of £¼ million is considerably greater than the £100,000 suggested in the consultative document.

E28. 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.

E29. Third, the period within which businesses must apply to be registered for VAT will be extended from ten to thirty days.

E30. 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.

E31. I believe that the changes I have outlined, and in particular the option to move to cash accounting, will be widely welcomed by the small business community. The cost will be £115 million in 1987-88 and £60 million in 1988-89.

E32. In addition, I propose to increase the VAT threshold to £21,300, to keep it at the maximum permitted under existing European Community law.

E33. In the light of the responses to the consultative document, I shall not be going ahead either with the withdrawal of the so-called standard method by which retailers calculate their gross takings for VAT, or with the compulsory deregistration of traders below the VAT threshold.

E34. I have one further measure to help the small businessman, unrelated to VAT. I propose to increase the limit for Capital Gains Tax retirement relief by 25 per cent, from £100,000 to £125,000.

E35. An essential element in any ongoing programme of tax reduction and reform must always be the elimination of unintended or unjustified tax breaks, which cause rates of tax generally to be higher than they need to be. Accordingly, I have five proposals to make today to this end.

E36. The first concerns VAT, and has already been the subject of extensive consultation. The House will be aware that a business that provides a service that is exempt from VAT cannot in turn deduct input tax on its purchases. But where the activities of a business are in part liable to VAT and in part exempt, the existing rules are excessively generous as to the amount of input tax that can be deducted; and this generosity is being exploited on a growing scale. The rules must therefore be changed, and the changes, which I proposed announced to the House last December, will come into effect on 1 April. There will be special arrangements to deal with the problem of brewers' tied houses. I am also taking this opportunity to exclude a significant number of small businesses from the scope of this provision. The yield from this change, which in effect is a measure of the potential revenue loss, will be some £300 million in 1987-88 and £400 million in 1988-89.

P. Cropper

A. Tyrie

E37. Second, I propose to change the law so that companies in multinational groups which enjoy dual residence will no longer be able to secure tax relief twice on one and the same interest payment. Genuine trading companies will not be affected. This change, which will take effect on 1 April, follows the similar action recently taken by the

United States. It will yield £125 million in 1988-89.

E38. Third, I propose to end the present excessively generous treatment of tax credit relief for foreign withholding tax paid on interest on bank loans. In future, banks will be able to offset this tax credit only against tax on the profit on the relevant loan, and not more widely. This will bring our rules broadly into line with those in most other countries. The change will apply from 1 April this year for new loans and from 1 April next year for existing loans. It will yield some £20 million in 1988-89.

E39. Fourth, 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 Lloyds account which closes on 31 December this year.

E40 Fifth, I also propose to implement the Keith Committee's recommendation that interest should be charged in the limited number of cases where an employer does not apply PAYE properly and a formal assessment has to be made to recover the tax. The change will take effect from April next year, and the yield in 1988-89 is estimated at £45 million.

E41. I have one further proposal to make in the broad field of the taxation of business and enterprise.

E42. In my Budget last year I suggested the possibility of introducing a measure of tax relief for profit-related pay.

E43. I pointed then to two considerable advantages that might be expected to flow from arrangements which relate pay to profits. First, the workforce would have a more direct personal interest in the profits earned by the firm in which they work; and, second, there would be a greater degree of pay flexibility in the face of changing market conditions. Such flexibility is vital if, as a nation, we are to defeat the scourge of unemployment.

E44. Last July I presented a Green Paper on Profit-Related Pay in conjunction with my Rt Hon and Noble Friend the Secretary of State for Employment and my Rt Hon Friend the Secretary of State for Trade and Industry. I now propose to introduce a scheme of tax relief broadly along the lines floated in the Green Paper.

E45. 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. So 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. The cost will inevitably depend on take-up: it could be £50 million in 1988-89, building up to substantially more than that, as take-up grows, and the proportion of an employee's pay which is profitrelated rises.

E46. Profit-related pay is no panacea. But then there are no panaceas. What it is is a tool to help British business gradually to overcome one of our biggest national handicaps: the nature and behaviour of our labour market. I am today challenging British management to take advantage of that tool and to make good use of it, for the good of their firm, their workforce and their country.

Draft of 13 March

F. TAXES ON SAVING

F1. I turn now to the taxation of savings.

F2. A central theme and purpose of the Government's policies is the creation of a genuine popular capitalism: what used to be called, when ambitions were more limited and language more inhibited, a property-owning democracy.

F3. That means wider home ownership, wider share ownership, and wider pension ownership. Over the past eight years, the Government has actively promoted the first two, and has now embarked on the third. Home ownership, above all through the council tenant's right to buy. And share ownership, through the rapid growth of employee share schemes; through the massively successful privatisation programme, where Britain has led the world; and most recently through the new Personal Equity Plans, which I announced in last year's Budget and which started up on 1 January this year. In the first month of the scheme, more than 2,000 people a day took out Personal Equity Plans, many of them first-time investors, as I had hoped.

F4. We know that 63 per cent of households now own their own homes, 2½ million more than in 1979. There have been, however, 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 shareholding 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.

F5. And then there is wider pension ownership. Two years ago, the Government embarked on a major strategy to extend the coverage of private pension provision and to give individuals far more flexibility and choice in the way they provide for their retirement. We have already introduced a number of important new measures to that end, and the tax changes I am announcing today will complete the picture.

F6. The cornerstone of the Government's pensions strategy is the introduction of an entirely new means of provision for retirement, developed by my Rt Hon Friend the Secretary of State for Social Services. This is the personal pension, which will

Services. This is the personal pension, which will be launched at the beginning of next year, three months earlier than planned.

F7. 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.

F8. 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 contained in a consultative document published last November, and the necessary legislation will be contained in this year's Finance Bill.

F9. 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.

F10. Finally, I have decided to go beyond the proposals set out in the consultative document in one important respect. 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 employer's schemes. They will be able to top their pensions right up to the present tax approval limits.

F11. The proposals I have outlined - along with the measures my Rt Hon Friend has already taken - will make it easier for people to take their pensions with them when they change jobs, which will be good both for labour mobility and for independence. They will widen the range of choices people can make about their pensions; and will mean that in future individuals will have much more control over the way in which their own pension contributions are invested.

F12. Taken as a whole, the changes we have made in the last two years have brought about a radical transformation in the ways people can provide for their retirement. There are new options for employers, and much greater freedom for individuals to plan their own pensions. This will lead to a further major extension of ownership, as people start to take advantage of the new opportunities.

F13. 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 rigorous rules on how pension and lump-sum benefits can be calculated.

F14. The cost of the overall pensions package will inevitably depend on take up, but with that proviso is estimated at £65 million in 1988-89.

F.15 For Friendly Societies, I have decided to replace the existing tax-exempt life assurance limit based on the sum assured with a new limit based on annual premiums. I propose to set this at £100 a year, which will greatly increase the scope of the traditional societies to offer life policies to their members.

F16. The tax-exempt limits governing sickness and accident benefits which trade unions provide for their members have not been changed since 1982. With effect from today, I propose to increase them to £3,000 for lump sums and £625 for annuities.

F17. Finally, in this section, I turn to Inheritance Tax.

F18. In my Budget last year I abolished the pernicious Capital Transfer Tax on lifetime gifts between individuals, which was particularly damaging to the ownership and health of family business. This year I propose to extend the same exemption from tax, on similar terms, to gifts involving settled property where there is an interest in possession. This will not, however, apply to discretionary trusts. These changes will be of particular benefit to family businesses and to heritage properties, both of which are often held in trust.

F19. I also propose to make two minor changes affecting business assets. First, in what is perhaps an unwanted tribute to the unlisted securities market, holdings in USM companies will henceforth be treated for Inheritance Tax purposes in precisely the same way as holdings in companies with a full Stock Exchange listing. Second, business relief for minority holdings in excess of 25 per cent in unquoted companies will be increased from 30 per cent to 50 per cent. The purpose of both these changes is to concentrate business relief more accurately on those assets which could provide funds to pay the tax only at the risk of damaging the business.

F20. 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 main asset.

F21. 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.

F22. 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 ~~nearly~~ three times the yield of Capital Transfer Tax in 1978-79, an increase in real terms of almost 50 per cent.

C. Mowl
(he's right)

F23. As for the other Capital Taxes, over the same period the yield of Capital Gains Tax has risen in real terms by ~~more than~~ 80 per cent and of Stamp Duty by 140 per cent. These increased yields are not unconnected with the fact that, since we first took office, the severity of these taxes has been significantly eased.

C. Mowl

EST suggests, "As for the other capital taxes, their severity has also been significantly eased since we first took office, with the consequence that the yield...". FST agrees (see minute).

MCS does not like "not unconnected", & prefers simply to set the two points - easing, and higher yield - side by side, and let people make the connection themselves. Para could read:

"As for the other capital taxes, the picture is the same. Since we first came to office, the severity of the taxes has been significantly eased. And the yield of Capital Gains Tax has risen in real terms by 80 per cent and that of Stamp Duty by 140 per cent."

Draft of 13 March

G. TAXES ON SPENDING

G1. I now turn to the taxation of spending.

G2. I have already announced some important changes in value added tax to prevent avoidance and to help the small businessman. I have no other proposals for major changes in VAT this year.

G3. However, 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.

G4. 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.

G5. 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.

G6. Next, 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. I hope this measure will be of some assistance to the racing and bloodstock industry, as well as consoling those hon Members who have complained to me about the clash this year between Budget Day and the Champion Hurdle.

G7. In my Budget Statement last year, I gave advance notice of my intention to introduce a tax differential in favour of unleaded petrol so as to offset its higher production cost. I can now announce that the differential will be 5 pence a gallon. This means that the pump price of unleaded petrol should be no higher than that of 4-star leaded petrol. The change will take effect from 6 o'clock this evening.

G8. Following on from the action I took last year, I propose to increase the rates of Vehicle Excise Duty on farmers' lorries, to bring them into line with the use they make of the public roads. This change will take effect from midnight tonight. I also propose to increase the rates of duty on trade licences and to rationalise the taxation of recovery vehicles.

G9. I have no further changes to propose this year in the rates of excise duty.

H. INCOME TAX

H1. Finally, I turn to income tax.

H2. 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.

H3. Lower rates of tax sharpen up incentives and stimulate enterprise, which in turn is the only route to improved economic performance. It is only by improving our economic performance that we will be able to afford to spend more on public services; only by improving our economic performance that we will be able to create jobs on the scale that we all want to see.

Pl. see EST minute.

H4. 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 Party opposite. We have increased the main tax allowances by 22 per cent more than inflation, taking almost 1½ million people out of income tax altogether.

H5. 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.

H6. I have two other changes in allowances to announce. First, 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.

H7. 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.

H8. Finally, I turn to the basic rate of income tax. This is the starting rate of income tax for everyone and the marginal rate for the overwhelming majority of taxpayers.

EST still wants "only" rate. Ignore?

H9. 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.

H10. However, given my decision to use the greater part of the fiscal scope I now have to reduce the Public Sector Borrowing Requirement, that goal cannot be achieved in this Budget.

H11. 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 twopence, to 27 per cent. This reduction, which will benefit every

We spoke.

taxpayer in the land, will be worth more than £3 a week to a married man on average earnings.

H12. 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. Taken together with the income tax change, this will mean a significant reduction in the tax burden on small businesses, which are so crucial for future growth and employment.

M. Monck (to make clear PRP changes come later)

P. Cropper: too many "over"'s in H13-14!

H13. The income tax changes I have just announced ~~today~~ will take effect under PAYE on the first pay day after 17 May. They will cost a little over £2 billion in 1987-88 over and above the cost of statutory indexation.

H14. The total [overall] cost of all the measures in this year's Budget, again on an indexed basis, is a little over £2½ billion. And I have been able to make this worthwhile reduction in tax while still achieving my objective of a PSBR of £4 billion.

1 of 20 008

pugs

RESOLUTIONS TO BE MOVED BY THE CHANCELLOR OF THE EXCHEQUER

17th MARCH 1987

SEMI-FINAL PRINT

Mr Chancellor of the Exchequer

PROVISIONAL COLLECTION OF TAXES: That, pursuant to section 5 of the Provisional Collection of Taxes Act 1968, provisional statutory effect shall be given to the following Motions:—

(a) Unleaded petrol (Motion No. 2); and

(b) Vehicles excise duty (farmers' goods vehicles) (Motion No. 3).

ARRANGEMENT OF WAYS AND MEANS RESOLUTIONS

1. Amendment of the law

That it is expedient to amend the law with respect to the National Debt and public revenue and to make further provision in connection with finance; but this Resolution does not extend to the making of any amendment with respect to value added tax so as to provide—

(*a*) for zero-rating or exempting any supply;

(*b*) for refunding any amount of tax;

(*c*) for varying the rate of that tax otherwise than in relation to all supplies and importations; or

(*d*) for relief other than relief applying to goods of whatever description or services of whatever description.

2. Unleaded petrol

That, as from 6 o'clock in the evening of 17th March 1987,—

(1) after section 13 of the Hydrocarbon Oil Duties Act 1979 there shall be inserted the following section—

"Rebate on unleaded petrol.

13A.—(1) On unleaded petrol charged with the excise duty on hydrocarbon oil and delivered for home use there shall be allowed at the time of delivery a rebate of duty at the rate of £0·0096 a litre.

(2) For the purposes of this section petrol is "unleaded" if it contains not more than 0·013 grams of lead per litre of petrol or, if the petrol is delivered for home use before 1st April 1990, not more than 0·020 grams of lead per litre of petrol.

(3) Rebate shall not be allowed under this section in any case where it is allowed under section 14 below.":

(2) in section 24 of that Act (control of use of duty-free and rebated oil) in subsection (1) (power of Commissioners to make regulations) after the words "section 12" there shall be inserted "section 13A": and

(3) in section 27 of that Act (interpretation) in the definition of "rebate" after the words "section 11" there shall be inserted "13A":

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

3. Vehicles excise duty (farmers' goods vehicles)

That Schedule 4 to each of the Vehicles (Excise) Act 1971 and the Vehicles (Excise) Act (Northern Ireland) 1972 shall have effect, in relation to licences taken out after 17th March 1987, with the amendments set out below:

But this Resolution shall not authorise the making of amendments which would result in different provisions being in force in different parts of Great Britain:

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968:

(1) In Part I, in sub-paragraph (2) of paragraph 6 (farmer's goods vehicle or showman's goods vehicle having a plated gross weight or a plated train weight) in paragraph (b) (weight exceeding 7.5 tonnes but not exceeding 12 tonnes) for "£155" (which applies to farmers' goods vehicles only) there shall be substituted "£175"; and

(2) In Part II, for Tables A(1), C(1) and D(1) (rates for farmers' goods vehicles having plated weight exceeding 12 tonnes) there shall be substituted the Tables set out below:

TABLE A(1)

RATES OF DUTY ON RIGID GOODS VEHICLES EXCEEDING 12 TONNES PLATED GROSS WEIGHT

RATES FOR FARMERS' GOODS VEHICLES

Plated gross weight of vehicle		Rate of duty		
1. Exceeding	2. Not exceeding	3. Two axle vehicle	4. Three axle vehicle	5. Four or more axle vehicle
tonnes	tonnes	£	£	£
12	13	245	190	190
13	14	340	205	205
14	15	445	205	205
15	17	620	205	205
17	19	—	295	205
19	21	—	395	205
21	23	—	540	295
23	25	—	965	415
25	27	—	—	600
27	29	—	—	880
29	30.49	—	—	1,450

TABLE C(1)

RATES OF DUTY ON TRACTOR UNITS EXCEEDING 12 TONNES PLATED TRAIN WEIGHT AND HAVING ONLY 2 AXLES

RATES FOR FARMERS' GOODS VEHICLES

Plated train weight of tractor unit		Rate of duty		
1. Exceeding	2. Not exceeding	3. For a tractor unit to be used with semi-trailers with any number of axles	4. For a tractor unit to be used only with semi-trailers with not less than two axles	5. For a tractor unit to be used only with semi-trailers with not less than three axles
tonnes	tonnes	£	£	£
12	14	280	250	250
14	16	355	265	265
16	18	415	265	265
18	20	485	265	265
20	22	565	330	265
22	23	600	370	265
23	25	690	470	265
25	26	690	520	320
26	28	690	655	430
28	29	725	725	490
29	31	1,010	1,010	630
31	33	1,470	1,470	1,010
33	34	1,470	1,470	1,350
34	36	1,650	1,650	1,650
36	38	1,860	1,860	1,860

TABLE D(1)

RATES OF DUTY ON TRACTOR UNITS EXCEEDING 12 TONNES PLATED TRAIN WEIGHT AND HAVING THREE OR MORE AXLES

RATES FOR FARMERS' GOODS VEHICLES

Plated train weight of tractor unit		Rate of duty		
1. Exceeding	2. Not exceeding	3. For a tractor unit to be used with semi-trailers with any number of axles	4. For a tractor unit to be used only with semi-trailers with not less than two axles	5. For a tractor unit to be used only with semi-trailers with not less than three axles
tonnes	tonnes	£	£	£
12	14	250	250	250
14	20	265	265	265
20	22	330	265	265
22	23	370	265	265
23	25	470	265	265
25	26	520	265	265
26	28	655	265	265
28	29	725	310	265
29	31	1,010	385	265
31	33	1,470	580	265
33	34	1,470	850	330
34	36	1,470	1,220	500
36	38	1,640	1,640	745

4. Vehicles excise duty (recovery vehicles)

That provision may be made for, and in connection with, charging duty in respect of recovery vehicles by reference to an annual rate of £50 under the Vehicles (Excise) Act 1971 and the Vehicles (Excise) Act (Northern Ireland) 1972.

5. Vehicles excise duty (trade licences)

That provision may be made with respect to the rates of duty applicable to trade licences under section 16 of each of the Vehicles (Excise) Act 1971 and the Vehicles (Excise) Act (Northern Ireland) 1972.

6. Abolition of general betting duty on on-course bets

That—

(1) General betting duty shall not be chargeable on any bet made on or after 29th March 1987 which is an on-course bet within the meaning of Part I of the Betting and Gaming Duties Act 1981 (" the 1981 Act"):

(2) Nothing in this Resolution shall affect—

(*a*) the question whether a person is for the purposes of Schedule 1 to the 1981 Act carrying on a general betting business or engaged in an activity by reason of which he is or may be or become liable for general betting duty, or

(*b*) the question whether a person is for the purposes of Schedule 2 to the Miscellaneous Transferred Excise Duties Act (Northern Ireland) 1972 carrying on a business which involves or may involve general betting duty becoming payable or engaged in an activity by reason of which he is or may be or become liable for duty:

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

7. Gaming machine licence duty (rates)

That, with respect to licences for any period beginning on or after 1st June 1987, for the Tables set out in section 23(1) of the Betting and Gaming Duties Act 1981 there shall be substituted the following Tables:

TABLE A

Small-prize machines

Description of machines authorised by the licence	Duty on whole-year licence
Chargeable at the lower rate	£150 per machine
Chargeable at the higher rate	£375 per machine

TABLE B

Other machines

Description of machines authorised by the licence	Duty on whole-year licence
Chargeable at the lower rate	£375 per machine
Chargeable at the higher rate	£960 per machine

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

8. Gaming machine licence duty (exemptions etc.)

That provision may be made amending Schedule 4 to the Betting and Gaming Duties Act 1981 (exemptions and supplementary provisions relating to gaming machine licence duty).

9. Value added tax (credit for input tax)

That, in relation to supplies and importations made on or after 1st April 1987, the Value Added Tax Act 1983 shall have effect with the following amendments:

(1) In section 15, for subsections (1) to (3) there shall be substituted—

"(1) The amount of input tax for which a taxable person is entitled to credit at the end of any period shall be so much of the input tax for the period (that is input tax on supplies and importations in the period) as is allowable by or under regulations as being attributable to supplies within subsection (2) below.

(2) The supplies within this subsection are the following supplies made or to be made by the taxable person in the course or furtherance of his business—

(*a*) taxable supplies;

(*b*) supplies outside the United Kingdom which would be taxable supplies if made in the United Kingdom;

(*c*) supplies which section 35 below provides are to be disregarded for the purposes of this Act and which would otherwise be taxable supplies.

(3) The Commissioners shall make regulations for securing a fair and reasonable attribution of input tax to supplies within subsection (2) above, and any such regulations may provide for—

(*a*) determining a proportion by reference to which input tax for any prescribed accounting period is to be provisionally attributed to those supplies;

(*b*) adjusting, in accordance with a proportion determined in like manner for any longer period comprising two or more prescribed accounting periods or parts thereof, the provisional attribution for any of those periods; and

(*c*) the making of payments in respect of input tax, by the Commissioners to a taxable person (or a person who has been a taxable person) or by a taxable person (or a person who has been a taxable person) to the Commissioners, in cases where events prove inaccurate an estimate on the basis of which an attribution was made."

(2) In section 6(1), for the words "the charge to tax" there shall be substituted the words "this Act".

(3) In section 35(1) and (2), for the words "shall be disregarded" there shall be substituted the words "shall, except where the contrary intention appears, be disregarded".

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

10. Value added tax (supplies to groups)

That, in relation to transfers of assets made on or after 1st April 1987, the Value Added Tax Act 1983 shall have effect with the insertion after section 29 of the following section—

"Supplies to groups.

29A.—(1) Subject to subsections (2) and (3) below, subsection (4) below applies where—

(*a*) a business, or part of a business, carried on by a taxable person is transferred as a going concern to a body corporate treated as a member of a group under section 29 above;

(*b*) on the transfer of the business or part, chargeable assets of the business are transferred to the body corporate; and

(*c*) the transfer of the assets is treated by virtue of section 3(3) (*c*) above as neither a supply of goods nor a supply of services.

(2) Subsection (4) below shall not apply if the representative member of the group is entitled to credit for the whole of the input tax on supplies to it and importations by it—

(*a*) during the prescribed accounting period in which the assets are transferred, and

(*b*) during any longer period to which regulations under section 15(3) (*b*) above relate and in which the assets are transferred.

(3) Subsection (4) below shall not apply if the Commissioners are satisfied that the assets were acquired by the taxable person transferring them more than three years before the day on which they are transferred.

(4) The chargeable assets shall be treated for the purposes of this Act as being, on the day on which they are transferred, both supplied to the representative member of the group for the purpose of its business and supplied by that member in the course or furtherance of its business.

(5) A supply treated under subsection (4) above as made by a representative member shall not be taken into account as a supply made by him when determining the allowance of input tax in his case under section 15 above.

(6) The value of a supply treated under subsection (4) above as made to or by a representative member shall be taken to be the open market value of the chargeable assets.

(7) For the purposes of this section, the open market value of any chargeable assets shall be taken to be the price that would be paid on a sale (on which no tax is payable) between a buyer and a seller who are not in such a relationship as to affect the price.

(8) The Commissioners may reduce the tax chargeable by virtue of subsection (4) above in a case where they are satisfied that the person by whom the chargeable assets are transferred has not received credit for the full amount of input tax arising on the acquisition by him of the chargeable assets.

(9) For the purposes of this section, assets are chargeable assets if their supply in the United Kingdom by a taxable person in the course or furtherance of his business would be a taxable supply (and not a zero-rated supply).".

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

11. Value added tax (valuation)

That, in relation to supplies made on or after 1st April 1987, Schedule 4 to the Value Added Tax Act 1983 shall have effect with the insertion, at the beginning of paragraph 1(1) (c), of the words "if the supply is a taxable supply,".

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

12. Value added tax (issue of securities)

That, in relation to supplies made on or after 1st April 1987, Group 5 in Schedule 6 to the Value Added Tax Act 1983 shall have effect with the following amendments—

(*a*) at the end of item 5 there shall be added the words " or the underwriting of an issue within item 1 "; and

(*b*) after item 6 there shall be inserted the following item—

" **6A.** The making of arrangements for, or the underwriting of, an issue within item 6.".

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

13. Value added tax (supplies received from abroad)

That, with respect to services supplied on or after 1st April 1987, section 7 of the Value Added Tax Act 1983 (reverse charge on supplies received from abroad) shall be amended as follows—

(*a*) in paragraph (*b*) of subsection (1), for the words " taxable person " there shall be substituted " person (in this section referred to as ' the recipient ') ";

(*b*) in subsection (1), in the words following paragraph (*b*) for the words " as if the taxable person " there shall be substituted " as if the recipient ";

(*c*) in subsections (3) and (4) for the words " taxable person " there shall be substituted " recipient "; and

(*d*) in subsection (3) for the words " the allowance " there shall be substituted " any allowance ".

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

14. Value added tax (tour operators)

That provision may be made about the treatment for the purposes of value added tax of supplies by tour operators, travel agents and others making like supplies.

15. Value added tax (transfers from the United Kingdom)

That provision may be made repealing item 2 of Group 15 in Schedule 5 to the Value Added Tax Act 1983.

16. Value added tax (registration etc.)

That the Value Added Tax Act 1983 may be amended by provisions as to registration, and provisions treating as taxable persons certain registered persons who neither make nor intend to make taxable supplies.

17. Income tax (charge and rates for 1987–88)

That—

(1) Income tax for the year 1987–88 shall be charged at the basic rate of 27 per cent. and, in respect of so much of an individual's total income as exceeds £17,900 (the basic rate limit as determined under subsection (4) of section 24 of the Finance Act 1980—indexation), at such higher rates as are specified in the Table below:

TABLE

Higher rate bands	*Higher rate*
The first £2,500	40 per cent.
The next £5,000	45 per cent.
The next £7,900	50 per cent.
The next £7,900	55 per cent.
The remainder	60 per cent.

(2) Section 24(4) of the Finance Act 1980 (indexation of thresholds) shall not, so far as it relates to the higher rate bands, apply for the year 1987–88:

(3) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 204 of the Income and Corporation Taxes Act 1970 (pay as you earn) before 18th May 1987:

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

18. Income tax (indexed personal reliefs etc.): operative date for PAYE

That, for the year 1987–88, in subsection (7) of section 24 of the Finance Act 1980 (which specifies the date from which indexed changes in income tax thresholds and allowances are to be brought into account for the purposes of PAYE) for " 5th May " there shall be substituted " 18th May ":

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

19. Increased personal relief for those aged eighty and over

That, for the year 1987–88 and subsequent years of assessment—

(1) Subject to the provisions of this Resolution, subsection (1) of section 8 of the Income and Corporation Taxes Act 1970 (personal reliefs) shall have effect—

(*a*) in relation to a claim by a person who proves that he or his wife was at any time within the year of assessment of the age of eighty or upwards, as if the sum specified in paragraph (*a*) (married) were £4,845; and

(*b*) in relation to a claim by a person who proves that he was at any time within the year of assessment of the age of eighty or upwards, as if the sum specified in paragraph (*b*) (single) were £3,070;

and for this purpose, a person who would have been of the age of eighty or upwards within the year of assessment if he had not died in the course of it shall be treated as having been of that age within that year:

(2) For any year of assessment for which a person is entitled to increased personal relief by virtue of this Resolution, he shall not be entitled to increased relief under subsection (1A) of the said section 8 (increased relief for persons of sixty-five and upwards):

(3) For the purpose of any enactment which refers to Part I of the Income and Corporation Taxes Act 1970 or to Chapter II of that Part, paragraph (1) above shall be taken to be included in that Chapter:

(4) In the following enactments—

(*a*) subsection (1B) of the said section 8 (tapering of relief under subsection (1A)), and

(*b*) paragraph 3(3) of Schedule 4 to the Finance Act 1971 (exclusion of certain reliefs where there is separate taxation of wife's earnings),

any reference to subsection (1A) of the said section 8 shall include a reference to paragraph (1) above:

(5) In subsection (8) of section 36 of the Finance Act 1976 (application of provisions relating to transfer of balance of certain reliefs between spouses) the reference in paragraph (*b*) to subsection (1A)(*b*) of the said section 8 shall include a reference to paragraph (1)(*b*) above:

(6) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 204 of the Income and Corporation Taxes Act 1970 (pay as you earn) before 18th May 1987:

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

20. Increased relief for blind persons

That—

(1) For the year 1987–88 and subsequent years of assessment, in section 18 of the Income and Corporation Taxes Act 1970—

(*a*) in subsection (1) (single blind persons and married couples of whom one is blind) for "£360" there shall be substituted "£540"; and

(*b*) in subsection (2) (married couples, both of whom are blind) for "£720" there shall be substituted "£1,080":

(2) This Resolution shall not require any change to be made in the amounts deductible or repayable under section 204 of the Income and Corporation Taxes Act 1970 (pay as you earn) before 18th May 1987:

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

21. Relief for interest (limit for 1987–88)

That, for the year 1987–88, the qualifying maximum referred to in paragraphs 5(1) and 24(3) of Schedule 1 to the Finance Act 1974 (limit on relief for interest on certain loans for the purchase or improvement of land) shall be £30,000:

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

22. Corporation tax (charge and rate for financial year 1987)

That corporation tax shall be charged for the financial year 1987 at the rate of 35 per cent.

23. Corporation tax (small companies)

That—

(*a*) the small companies rate for the financial year 1987 shall be 27 per cent; and

(*b*) the fraction by reference to which corporation tax charged on income is reduced under section 95(2) of the Finance Act 1972 shall for that financial year be one fiftieth.

24. Companies' chargeable gains

That provision may be made with respect to the treatment of the chargeable gains of companies for the purposes of corporation tax.

25. Charities

That, for the year 1987–88 and subsequent years of assessment, section 27(7) of the Finance Act 1986 (which limits to £100 the payroll deductions attracting relief) shall have effect with the substitution of "£120" for "£100".

And it is hereby declared that it is expedient in the public interest that this Resolution should have statutory effect under the provisions of the Provisional Collection of Taxes Act 1968.

26. Registered friendly societies

That provision may be made—

(*a*) amending section 332(2) of the Income and Corporation Taxes Act 1970 and section 64 of the Friendly Societies Act 1974 with respect to contracts for the assurance of gross sums under tax exempt life or endowment business of registered friendly societies; and

(*b*) amending the operation of section 400 of that Act with respect to gains arising in connection with policies issued in the course of such business by registered friendly societies.

27. Annuities, etc.

That provision may be made about contracts or trust schemes providing for the payment of annuities or lump sums.

28. Retirement benefits schemes

That provision may be made about retirement benefits schemes.

29. Income support

That provision may be made charging to income tax under Schedule E payments of income support under the Social Security Act 1986 or the Social Security (Northern Ireland) Order 1986.

30. Pay as you earn

That provision may be made with respect to the payments to which section 204 of the Income and Corporation Taxes Act 1970 (pay as you earn) applies.

31. Underwriters

That charges to income tax (including charges for the years of assessment 1985–86 and 1986–87) may be imposed by provisions about underwriters.

32. Foreign partnerships

That provision may be made, with retrospective effect, with respect to the taxation of persons resident in the United Kingdom who are members of partnerships resident outside the United Kingdom.

33. Companies: material interests

That provision may be made as to the cases in which a person is to be regarded as having a material interest in a company for certain purposes of the Tax Acts.

34. Apportionment of income etc. of close companies

That provision may be made amending Schedule 16 to the Finance Act 1972.

35. Corporation tax (payment dates)

That provision may be made as to the time within which corporation tax in respect of any accounting period of a company is required to be paid.

36. Charges on income

That provision may be made with respect to the dates on which certain payments made between companies are to be treated as received.

37. Investment companies

That amendments may be made to section 304 of the Income and Corporation Taxes Act 1970.

38. Recognised investment exchanges

That charges to income tax, corporation tax and capital gains tax may be imposed by provisions enabling enactments referring to The Stock Exchange to have effect, with or without modification, in relation to other recognised investment exchanges.

39. Controlled foreign companies

That provision may be made with respect to the circumstances in which a controlled foreign company, within the meaning of Chapter VI of Part II of the Finance Act 1984, is to be regarded as pursuing an acceptable distribution policy.

40. Dual resident companies

That provision may be made with respect to companies which are resident in the United Kingdom and are also within a charge to tax under the laws of a territory outside the United Kingdom.

41. Double taxation relief: interest on overseas loans

That provision may be made amending sections 65 and 66 of the Finance Act 1982.

42. Advance corporation tax: oil industry

That provision may be made with respect to—

(a) the setting of advance corporation tax against corporation tax on profits arising from oil extraction activities or oil rights, within the meaning of Part II of the Oil Taxation Act 1975; and

(b) the repayment of advance corporation tax under section 17 (3) of that Act and section 127 (5) of the Finance Act 1981.

43. Commodity futures, financial futures and options

That provision may be made—

(*a*) for bringing gains on certain disposals of commodity futures, financial futures and options within the charge to capital gains tax or corporation tax on chargeable gains, and

(*b*) with respect to the treatment under the Capital Gains Tax Act 1979 of certain options.

44. Stamp duty (clearance services)

That provision may be made with respect to stamp duty in relation to instruments transferring securities to persons concerned with clearance services.

45. Stamp duty (market makers)

That amendments may be made to section 82(6) of the Finance Act 1986.

46. Stamp duty (Crown exemption)

That charges to stamp duty may be imposed by provisions relating to instruments made by, to or with Ministers of the Crown.

47. Stamp duty reserve tax

That charges to stamp duty reserve tax may be imposed by further provisions relating to that tax.

48. Inheritance tax

That charges to inheritance tax may be imposed—

(*a*) by provisions relating to settled property in which there is no qualifying interest in possession, within the meaning of Chapter III of Part III of the Inheritance Act 1984 (settlements without interests in possession);

(*b*) by provisions as to the circumstances in which the settlor is liable for the tax on the value transferred by a potentially exempt transfer made under that Part;

(*c*) by provisions relating to relief under Chapter I (business property) or Chapter II (agricultural property) of Part V of that Act;

(*d*) by provisions relating to settled property of the kind to which Schedule 4 to that Act (maintenance funds for historic buildings etc.) relates; and

(*e*) by provisions relating to the payment of tax by instalments.

49. Oil taxation: nomination scheme

That, in connection with a scheme relating to the nomination of sales, appropriations and other disposals of oil, provision may be made with respect to the amounts to be taken into account under the Oil Taxation Act 1975 in determining the gross profit or loss accruing to a participator in an oil field in any chargeable period.

50. Oil taxation: market value of oil

That provision may be made with respect to the determination of the market value of oil for the purposes of provisions of the Oil Taxation Act 1975.

51. Collective investment schemes

That charges to income tax, corporation tax, capital gains tax, inheritance tax, stamp duty and stamp duty reserve tax may be imposed by provisions relating to unit trust schemes or to other collective investment schemes.

52. Relief from tax (incidental and consequential charges)

That it is expedient to authorise any incidental or consequential charges to any duty or tax (including charges having retrospective effect) which may arise from provisions designed in general to afford relief from tax.

PROCEDURE RESOLUTIONS

PROCEDURE (EXCHANGE AND FINANCIAL CONTROL): That, notwithstanding anything to the contrary in the practice of the House relating to matters which may be included in Finance Bills, any Finance Bill of the present Session may—

(*a*) make provision for and in connection with the repeal of the Exchange Control Act 1947; and

(*b*) amend section 2 of the Banking and Financial Dealings Act 1971.

PROCEDURE (FUTURE TAXATION): That, notwithstanding anything to the contrary in the practice of the House relating to matters which may be included in Finance Bills, any Finance Bill of the present Session may contain the following provisions taking effect in a future year—

(*a*) provisions amending the Taxes Management Act 1970;

(*b*) provisions with respect to amounts due by way of penalty or interest;

(*c*) provisions with respect to interest on tax overpaid;

(*d*) provisions with respect to the payment of corporation tax without assessment; and

(*e*) provisions with respect to the time within which corporation tax in respect of any accounting period of a building society is required to be paid.

xiii—D(3)

13 March 1987

FROM: MISS C E C SINCLAIR
DATE: 23 March 1987

MR HUDSON

cc Mr Scholar
Mr Short
Miss Evans

Mr R Eason - IR

CHANCELLOR'S WIND UP SPEECH

You asked how much better off an average person with an average mortgage would be as a result both of the Budget changes and the recent drop in the mortgage rate (here assumed to be 1 per cent).

2. A married man, husband only working, no children, on average earnings of £227 per week (1987/88) with a mortgage of £20,000 will be £5.37p a week better off as a result of the Budget changes and the fall in mortgage interest rates. (This assumes a repayment mortgage - he would be £5.72p a week better of with an endowment mortgage).

3. I am grateful to the Revenue for providing these figures.

Carolyn Sinclair

CAROLYN SINCLAIR

PS The mortgage rate will not actually go down till May.

C

Tax Planning
5 April 1987

Goodman Jones

Goodman Jones
29/30 Fitzroy Square
London W1P 5HH
Telephone: 01-388 2444
Telex: 299759
Fax: 01-388 6736

This publication was written by Michael D. Goldstein BA, MSc., ACA, ATII

TAX PLANNING 5 APRIL 1987

APPENDIX 4

NATIONAL INSURANCE CONTRIBUTIONS

Earnings bands (weekly)		Rates of contribution applied to all earnings			
		Contracted in		Contracted out (see note)	
6/4/86—5/4/87	**6/4/87—5/4/88**	**Employees**	**Employers**	**Employees**	**Employers**
Up to £37.99	Up to £38.99	Nil	Nil	Nil	Nil
£ 38—£ 59.99	£ 39—£ 64.99	5%	5%	5% (2.85%)	5% (0.9%)
£ 60—£ 94.99	£ 65—£ 99.99	7%	7%	7% (4.85%)	9% (2.9%)
£ 95—£139.99	£100—£149.99	9%	9%	9% (6.85%)	9% (4.9%)
£140—£285	£150—£295	9%	10.45%	9% (6.85%)	10.45% (6.35%)
On excess over £285	On excess over £295	Nil	10.45%	Nil	10.45%

Note

For contracted out employess, the first mentioned percentage in each column applies only to the first £38/£39 of earnings.

The balance of those earnings is subject to the second percentage (shown in brackets) determined by reference to total earnings.

For earnings over £285/£295 the percentage is applied only to earnings over the limit and first £38/£39. Earnings between are charged at 6.35%.

CLASS 2 and 4 SELF-EMPLOYED

	1986/87	1987/88
Class 2 fixed rate (per week)	£3.75	£3.85
no liability if earnings below (per annum)	£2,075	£2,125
Class 4 rate	6.3%	6.3%
chargeable on profits between	£4,450—£14,820	£4,590—£15,340

NB (one half of the Class 4 contributions rank as a deduction from total income for income tax purposes)

CLASS 3 NON-EMPLOYED

Voluntary rate (per week)	£3.65	£3.75

N.B. For Class 1 contributions, there is exemption from primary contributions in respect of earnings paid after attaining pensionable age (65 for men, 60 for women). The same applies to Class 2 contributions.

Class 3 contributions may not be paid for the tax year in which pensionable age is attained or subsequent years.

Class 4 contributions are not payable if the individual has attained pensionable age at the beginning of the tax year.

APPENDIX 3

CAPITAL TAXES 1986/87

INHERITANCE TAX

Rate Per Cent	Cumulative Chargeable transfers (gross) £'000
Nil	0— 71
30	71— 95
35	95—129
40	129—164
45	164—206
50	206—257
55	257—317
60	Over 317

N.B. Lifetime chargeable transfers which are not PET's are charged at half the above rates.

Taper relief for transfers made more than three years before death is as follows:

Period elapsed since gift	Proportion of Rate
3 years	80%
4 years	60%
5 years	40%
6 years	20%
7 years	Nil

CAPITAL GAINS TAX

Annual Exempt Amount	£
Individuals	6,300
Trusts	3,150

1. INCOME TAX

Self-Employed

1. It is possible to elect for a wife's earnings (not investment income) to be taxed separately. The election for the year ended 5 April 1987 must be submitted by 5 April 1988 and for the election to be beneficial, combined income before allowances must be at least £26,520. The lower earning spouse must earn at least £6,985. For 1985/86 the figures are £25,361 and £6,956 respectively. The election for 1985/86 must be submitted by 5 April 1987. If your combined income for either year is greater than the above-mentioned figures, the election can be beneficial even if your wife's earnings are lower.

   A married woman's earnings for 1986/87 are tax-free up to £2,335. It is therefore important to review the situation if your wife is working for the family company or business. If she has no other earnings (or the amount of her other earnings is below £2,335) it would be advisable to pay her a salary which would be a deductible expense against business profits and would not be taxable. If her earnings exceed £1,975 (£37.99 per week) for 1986/87 there will be a liability for national insurance contributions. However, it should be recognised that national insurance contributions will be paid at reduced rates for earnings up to £7,280 per year (£140 per week) in 1986/87 and £7,800 per year (£150 per week) in 1987/88. The rate of employer's and employee's contributions is 5% on earnings up to £3,119 per year (£59.99 per week) in 1986/87 and £3,379 per year (£64.99 per week) in 1987/88.

   Whilst paying your wife a salary above the lower earnings limit would render the whole of her earnings liable to national insurance contributions, if these are payable at lower rates the income tax benefit may outweigh the additional national insurance contributions. Your wife would also be entitled to greater social security benefits.
2. For new unincorporated businesses there are special rules regarding the computation of the assessments. For the second and third years of assessment, you have the option of electing for the assessment to be on an actual basis (6 April to 5 April) if this should prove beneficial. There can be an advantage in deferring income or advancing expenditure so as to reduce the assessments. The position should be reviewed carefully in the light of the results for the first period of trading to see if there is scope for reducing the assessments in this way.
3. Tax losses on unincorporated businesses can be used in various ways i.e., set off against other income in the year, carried forward etc. It is important to review your position to ensure that the losses are utilised in the most beneficial manner.
4. Capital allowances are treated in the same way as trading losses. Therefore careful planning of expenditure is necessary in order to maximise the value of these allowances. (See capital allowances section).

Employees

1. If you are a director or in higher-paid employment (earning at the rate of £8,500 p.a. including items entered on Form P11D) you are assessed to income tax on the car provided by your employer according to a set scale. If two or more cars are provided by your employer, it is advantageous to ensure that you travel more than 2,500 business miles in the car with the highest basic scale charge. You should review your use of a company car during the year so that the taxable benefit in kind is minimised. The scale charge is reduced by 50% if you do more than 18,000 business miles in the year, whereas the charge is increased by 50% if business mileage is less than 2,500 miles in the year. You may be assessed for an additional benefit if the cost of *any* petrol used for private motoring is paid for by your employer. This benefit is halved for business use in excess of 18,000 miles per annum.

   The car benefit scales for 1986/87 and 1987/88 are included as Appendix 2 to this booklet. The scales for 1987/88 are based on different engine size bands.

   From 6 April, it will be necessary for businesses registered for VAT to account for VAT output tax in accordance with a prescribed scale, where fuel is provided free or below cost for private use. This new system applies with effect from the first VAT accounting period commencing after 6 April. This means starting on 1 May, 1 June or 1 July depending on the quarters for which VAT returns are prepared, although Customs & Excise will not object if the new system is used from 1 April if it is more convenient for the business to do so.

2. If you have an interest-free or low interest loan from your employer, the difference between the interest actually charged and notional interest calculated at 12% on the loan during the year, is assessed as a benefit in kind. No benefit is assessed if it amounts to less than £200 p.a. (equivalent to a loan of £1,667 at 12% for a full year). Review any potential charges and consider making interest payments to reduce the benefit to less than £200.
3. If you live in a company house costing more than £75,000, the excess over £75,000 is treated as a beneficial loan on which a notional interest charge at 12% p.a. arises. The charge will be based on cost and improvements during the *previous* year of assessment. If improvements are contemplated, it is worth deferring them until after 5 April so that the benefit charge on the improvements will not take effect until 1988/89.
4. Non-cash benefits in kind are not included in the calculation of earnings for national insurance contributions. Consider, where appropriate, taking benefits in this form in order to reduce national insurance contributions. The abolition of the upper earnings limit for employer's contributions has significantly increased the costs of paying high salaries. Considerable savings of national insurance contributions can be achieved by having efficient remuneration packages and we would be pleased to discuss this matter with you.
5. Employees are entitled to a 100% earnings deduction if working full-time abroad. Careful consideration needs to be given to periods spent in the UK and the timing of such visits, whilst engaged on an overseas tour of duty.

Deeds of Covenant

If you have a child over 18, or under 18 and married, and receiving full-time education, it may be advantageous to execute a deed of covenant. This must be capable of exceeding six years although it will automatically lapse when your child ceases to be in full-time education. The payments under the covenant should be at a level which ensure that your child's income does not exceed the single person's allowance (currently £2,335). The deed of covenant must be signed, sealed and witnessed.

You withhold 29% tax on the payments due under the covenant and your child would be able to reclaim this tax, provided that his/her total income does not exceed the personal allowance. Similarly for example, grandparents can covenant payments to their grandchildren under the age of 18, who can reclaim the tax withheld.

For higher rate taxpayers who wish to give sums to charity, it is advisable to do so under a deed of covenant. Covenants to charities must be capable of exceeding three years. You would obtain higher rate income tax relief on the payments. There are a number of different ways of using deeds of covenant to make donations to charity in a tax-efficient way. We would be pleased to advise you in more detail on this matter.

Payroll Deduction Scheme

From 6 April 1987, a new scheme will commence whereby employees can make donations of up to £120 per annum to charities of their own choice through a payroll deduction scheme run by their employer. The donations will be deducted from salary and tax relief will therefore be given under PAYE. However Class 1 national insurance contributions will still be levied on gross pay i.e., before deducting the charitable donation. It is not possible to use this scheme for charitable donations under deed of covenant.

Husband or wife or both can join a scheme provided that their pay is subject to PAYE. Individuals receiving a company pension can also use this scheme.

Children under 18

Income arising to children, on funds gifted directly by a parent will be taxed as the income of the parent whilst the child is under the age of 18. This can be avoided by gifting the funds to trustees

APPENDIX 2

CAR BENEFIT AND CAR FUEL BENEFIT
1986/87 SCALES

	Cars under 4 years old £	Cars 4 years old or more £	Car Fuel Benefit £
A. Cars with original market value up to £19,250 and having cylinder capacity:			
1300 cc or less	450	300	450
1301 cc—1800 cc	575	380	575
over 1800 cc	900	600	900
B. Cars with original market value of up to £19,250 and not having a cylinder capacity:			
less than £6,000	450	300	450
£6,000—£8,499	575	380	575
£8,500—£19,250	900	600	900
C. Cars with original market value over £19,250:			
£19,250—£29,000	1,320	875	900
over £29,000	2,100	1,400	900

1987/88 SCALES

	Cars under 4 years old £	Cars 4 years old or more £	Car Fuel Benefit £
A. Cars with original market value up to £19,250 and having a cylinder capacity:			
1400 cc or less	525	350	480
1401 cc—2000 cc	700	470	600
over 2000 cc	1,100	725	900
B. Cars with original market value of up to £19,250 and not having a cylinder capacity:			
less than £6,000	525	350	480
£6,000—£8,499	700	470	600
£8,500—£19,250	1,100	725	900
C. Cars with original market value over £19,250:			
£19,251—£29,000	1,450	970	900
over £29,000	2,300	1,530	900

For car benefit, the appropriate scale depends on the age of the car at 5 April in the tax year. Car benefit and car fuel benefit charges are halved where business use exceeds 18,000 miles per annum. The car benefit charge is increased by 50% if the business use is less than 2,500 miles per annum, but there is no corresponding increase in car fuel benefit charge. The car scale benefit and car fuel benefit scales are reduced by time - apportionment if the car was made available to the employee for only part of the year or could not be used at all throughout a period of not less than 30 consecutive days. The car fuel benefit is the same irrespective of the age of the car.

APPENDIX 1

INCOME TAX
ALLOWANCES AND RATES 1986/87

	£
Single person's allowance/ Wife's earned income relief	2,335
Married man's allowance	3,655
Age allowance — Single	2,850
Married	4,505
Age allowance income limit	9,400
Widow's bereavement allowance/ additional personal allowance	1,320

Taxable Income	Rate	Tax on Full Band	Cumulative Tax
		£	£
0—17,200	29%	4,988	4,988
17,201—20,200	40%	1,200	6,188
20,201—25,400	45%	2,340	8,528
25,401—33,300	50%	3,950	12,478
33,301—41,200	55%	4,345	16,823
over 41,200	60%	—	—

to hold for the children.

There are basically two possibilities:-

a) An absolute gift to a named child but held in the names of trustees. They retain all the capital, income and any tax reclaimed until the child attains the age of 18. The income arising will be treated as the child's income provided no payment is made to the child. If the income is below £2,335 it will be tax-free. The child will become entitled to the accumulated funds on attaining the age of 18.

b) A gift to trustees to hold the funds for the benefit of the child or children, accumulating the income until they are 18. The trustees would have to pay tax at the rate of 45% on the income until the beneficiaries attain the age of 18 but it is possible to set up the trust so that the beneficiaries do not actually receive the accumulated capital when they reach 18.

Other possible means of providing for children under 18 include:-

1) school fee plans;
2) the use of endowment assurance policies written for the benefit of the children;
3) gifts of high income-yielding assets by grandparents;
4) cash gifts from parents invested in non-income producing assets e.g., National Savings Certificates.

Age Allowance

Where a person, or his wife, is aged 65 or over and has total income less than £9,400 for 1986/87 (£8,800 for 1985/86) an age allowance is given (instead of the ordinary single or married allowances of £2,335 and £3,665 respectively). The age allowance is £2,850 for a single person and £4,405 for a married couple. If the income exceeds £9,400, the allowance is reduced by two thirds of the excess until it is the same as the ordinary single or married allowance. The income level at which the allowance ceases to be effective is £10,173 for a single person and £10,675 for a married couple.

If the income includes building society or bank interest on which tax has been deducted at source, this income must be grossed up at the basic rate when calculating total income.

If you would qualify for this allowance consideration should be given to investing for capital growth or in certain types of National Savings schemes so as to preserve this allowance.

Loan Interest Relief

In order to obtain tax relief for interest paid, it is necessary for the loan to be for a purpose which is specifically approved. The main situations are:

1) The purchase or improvement of the taxpayer's only or main residence or that of a dependant relative, in the UK or Ireland. There is an overriding limit of £30,000 on loans under this heading. If the borrower is currently living in job-related accommodation, a loan to purchase an intended future main residence can qualify. In addition, bridging loan interest on a loan up to £30,000 is eligible for relief, subject to conditions.
2) The purchase of property for letting in the UK or Ireland. The interest is set off against the rental income (except in the case of furnished holiday lettings where the interest can be set against general income if it augments or creates a loss). The property must be let or available for letting at a commercial rent for at least 26 weeks in the year.
3) The purchase of ordinary shares in a close company provided the individual either owns more than five per cent of the shares or works for the greater part of his time in the management of the company. It is possible for shares in the company to be quoted on the Stock Exchange and still obtain tax relief on the interest, provided the company remains a close company.
4) The purchase of ordinary shares by full-time employees in an employee-controlled unquoted trading company.
5) The making of loans to a close company by a shareholder.
6) The purchase of an interest in a partnership or the making of a loan to a partnership of which the individual is a member, provided the loan is used for business purposes.
7) The purchase of a life annuity by individuals over the age of 65 up to a maximum of £30,000, secured on the person's only or main residence.

If you require advice on obtaining tax relief for loan interest paid, please contact us.

2. CORPORATION TAX

General

The rate of corporation tax for the year to 31 March 1987 is 35%. This rate applies where taxable profits exceed £500,000. The small companies rate of corporation tax is 29% on taxable profits not exceeding £100,000. Profits between £100,000 and £500,000 are taxed at a marginal rate which is 36.25% for the year ending 31 March 1987. The limits are divided equally between companies under the same ownership (i.e., part of the same group or owned by the same shareholders).

The marginal rate should be avoided if possible and the following measures should be considered:

- additional remuneration
- pension contributions
- management charges
- equalising profits between associated companies
- minimising the number of associated companies

Although stock relief was abolished in 1984, losses attributable to stock relief for 1980 and subsequent years, will lapse if not used within six years. Disclaiming capital allowances may enable these losses to be utilised, by increasing profits to be covered by brought forward losses.

Certain types of income are only taxed when they are actually received, e.g., UK bank deposit interest and foreign dividends. Deferring receipt of the income until just after the company's year end will defer the corporation tax payable on that income by one year.

Similarly, certain payments e.g., loan interest, pension contributions and royalties are only allowable as deductions against profits if the amounts have actually been paid. Strictly speaking the payment must have actually cleared the payer's bank account in order to be deductible. Payment should therefore be made in good time before the year end, so that a valid deduction can be claimed.

Income on certain investments may only be recognised for tax purposes when the investment, or part of it, is actually sold, e.g., income on deep-discounted bonds and accumulating (roll-up) offshore funds. By investing surplus funds in this way, it is possible to defer tax on the investment income for substantial periods of time.

Trading losses brought forward cannot be offset against non-trading income e.g., deposit interest. Consequently, a company may have to pay corporation tax on this income, although it has substantial losses to carry forward.

To mitigate this liability it is worthwhile considering:

- deferring the income to a later date
- restructuring borrowing arrangements so that the interest payments will be treated as a charge on income. Charges on income are deducted from the total profits of a company whereas overdraft interest would count as a trading deduction.

Donations to charity are not usually an allowable deduction for corporation tax purposes. If the company makes the donation under a deed of covenant the full payment can qualify for tax relief except if the company does not have a corporation tax liability for the year in which the payment is made. There are different ways of obtaining a tax deduction for charitable donations using deeds of covenant and we can provide further details.

A new relief was introduced for non-close companies making one-off donations to charities after 1 April 1986. The gross amount of the gift is treated as a 'charge on income' and is deductible from the company's total profits. The maximum amount on which relief can be claimed is 3% of the ordinary dividends paid by the company in the accounting period in which the donation is paid. Income tax at the basic rate must be deducted from the gift at the time of payment, and paid over to the Inland Revenue. It is not necessary to enter into a deed of covenant under this scheme.

It should be noted that for covenanted donations to charity made after 18 March 1986, it is only possible to obtain tax relief on the payments if the company deducts income tax and accounts for the tax withheld.

The property must be let in the UK as holiday accommodation on a commercial basis and the tenant is entitled to the use of furniture. It must be available to the general public for letting as furnished residential accommodation for at least 140 days and actually let for at least 70 days. During a period of at least seven months (not necessarily continuous) each occupancy should not normally exceed 31 days.

It is possible to claim capital allowances (25% writing down allowance) on the cost of assets e.g., fridges, cookers, provided for use in the property.

Any losses incurred can be set against the total income of the individual or his wife in that or the following year of assessment. Alternatively the losses can be carried forward to cover future profits from the same trade. In the first four years of assessment on this source of income, any losses can be carried back to set off against income in the previous three years.

Profits are treated as earned income for retirement annuity relief. Profits may be liable for Class 4 national insurance contributions. There may also be a liability to pay Class 2 contributions.

Offshore Funds

Income on investments in unapproved (roll up) offshore funds is taxed as income in the year in which any part of the investment is redeemed. If your income is likely to decline, or you intend to become a non UK-resident, it would be advantageous to delay redeeming your investment in an offshore fund until the year in which your income falls or you become non-resident. These funds can be used to defer the tax liability on investment income and give a cashflow advantage.

Personal Equity Plans

This type of investment became available from 1st January 1987 as a fiscal incentive to encourage investment in British companies.

Any individual, aged 18 or over, who is resident and ordinarily resident in the UK may invest up to £2,400 per year in a PEP. Married couples are treated as separate individuals. The money invested in a PEP is used to purchase ordinary shares in quoted UK companies but not shares in companies quoted on the Unlisted Securities Market. A limited amount may be invested in unit or investment trusts either £420 per annum or, if higher, 25% of the total amount invested in a plan.

There is no capital gains tax on the disposal of shares held in the plan. Similarly there is no income tax liability on deposit interest or dividends within the plan. The tax deducted on dividends is reclaimed by the plan manager. Investments must be retained within the plan for at least one full calendar year e.g., shares acquired by an investor in the year to 31st December 1987 will qualify for tax relief provided no withdrawal is made from the plan before 1st January 1989.

After the qualifying period of one full calendar year has ended, investments may be realised at any time without loss of relief. Dividends from shares acquired under the plan will be exempt from tax only if reinvested.

If investments are not held, or dividends are paid out rather than reinvested, during the qualifying period, the plan come to an end and the investor is liable to capital gains tax on any gains or income tax on dividends arising from the start of the plan.

PEP's have to be administered by a plan manager who must be registered with the Inland Revenue, and authorised to carry out investment business.

The above can only provide a brief resume of tax planning ideas. We will be happy to discuss with you these and any other points relevant to your particular circumstances.

8. TAX EFFICIENT INVESTMENTS

Friendly Societies
These are exempt from tax on their income and so amounts invested accumulate in a tax-free fund. On maturity you are not liable for any tax on the profit received.

The maximum investment is limited to £100 p.a. (£8.65 per month) for 10 years and is available to all men and women between the ages of 18 and 70. If the plan is encashed within the first 7½ years, the return is limited to the contributions paid. Each investor under 55 has life cover of either £750 or the value of the fund at the date of death. For people over 55, life cover is reduced.

Investment in a friendly socieety can also be linked to an insurance plan by paying a lump sum of up to £1,000. This purchases a series of temporary annuities to fund the annual contributions to the friendly society. The gross yield on such investments is very attractive especially to higher rate tax payers.

National Savings Accounts
Apart from the Investment account which pays interest gross, you can invest in an Ordinary account. The interest rate is currently 6% p.a. if you keep a minimum balance of £500. For balances below £500 the interest rate is 3% p.a. The first £70 interest for both husband and wife is tax-free so an investment of £1,167 will earn £70 tax-free interest — a gross yield for a 60% taxpayer of 15% p.a. It is necessary to give 28 days' notice to make a withdrawal from the Investment account, although it is possible to have a standing arrangement to make regular withdrawals. Investment accounts are particularly suitable for children or non-tax payers.

National Savings Certificates
The 32nd issue offers a gross return of 8.85% p.a. tax-free if held for five years. The maximum holding is £5,000 per person. Husband and wife are treated separately. Index-linked certificates also yield a tax-free return depending on how long the certificates are held and on the increase in the Retail Prices Index. A tax-free bonus is payable on certificates held for a qualifying period of one year. If the investment is held for five years the return is equivalent to 4.04% p.a. compound in addition to the inflation proofing. The index-linked return and guaranteed extra interest is capitalised each year and the total is index-linked in succeeding years. All returns are completely tax-free.

These investments are particularly attractive for higher rate tax payers.

Bank Deposit Interest
Basic rate tax is deemed to be deducted from interest paid by UK-resident banks, to individuals ordinarily resident in the UK (the composite rate tax scheme). Higher rate taxpayers will be assessed to higher rate tax on the gross interest. Non-taxpayers cannot reclaim the tax withheld and would therefore be better off by investing in a National Savings Investment account or in a Channel Islands bank account. For higher rate taxpayers there may be a cash flow advantage by investing in a National Savings Investment account or in the Channel Islands because of the deferral of the date on which the tax becomes payable.

Deposits with a UK bank in excess of £50,000, made for periods of 7 days or more, are outside the scope of the composite rate tax scheme, which also does not apply to deposits made by companies. If you are outside the scope of composite rate tax (e.g. non-UK residents, associations liable to corporation tax) ensure that the bank can identify who is beneficially entitled to the interest. Usually the name of the account-holder will be sufficient.

Holiday Homes
Rental income on certain furnished holiday homes is treated as earned income and can therefore be a method of utilising the wife's earned income allowance. There is also capital gains tax relief on sales of such property.

If your company is going to pay a dividend, the timing can be important. If the company's year end is 31 March, it will only be possible to offset the advance corporation tax (ACT) against the current year's corporation tax liability if the dividend is payable on or before 31 March. ACT is normally payable fourteen days from the end of the quarter in which the dividend is paid. Therefore if a dividend is paid in April, the ACT will be due on 14 July.

If the company defers paying the dividend until after 5 April 1987, any higher rate tax payable by the shareholders will not be due until 1 December 1988.

Paying a dividend, as an alternative to voting directors' bonuses can be a useful way of saving national insurance contributions, particularly now that the upper earnings limit for employers' contributions has been abolished. However there are a number of factors to consider and advice should be taken before using this route.

Capital Gains
Capital gains of companies are taxed at an effective rate of 30%. To achieve this, the gain is reduced by the following fractions:

Year ended 31 March 1986	1/4
Year ended 31 March 1987	1/7

It should be noted that for capital gains, the time of disposal is the date on which the contract is made, not the date of completion.

Capital losses cannot be carried back to a previous year but can only be set against any other gains made in the same year or future years. Capital losses of one company in a group cannot be set against gains made by other group companies.

If a company makes a capital gain on the sale of certain types of assets e.g., land and buildings, and invests in other suitable assets, within one year before and three years after, the sale of the first asset, the capital gain can be rolled over.

3. CAPITAL ALLOWANCES

Expenditure incurred on or after 1 April 1986 ranks for writing down allowances. For plant and machinery the rate of allowances is 25% p.a., whilst for industrial buildings it is 4% p.a.

Expenditure on buildings in enterprise zones still attract a 100% initial allowance.

Under an extra-statutory concession, fixed plant and machinery installed in buildings in enterprise zones can qualify for 100% industrial buildings allowance as opposed to the normal 25% writing down allowance available for plant and machinery.

Assets with an expected life of less than five years can be treated as 'short-life' assets and retained in a separate capital allowance pool. Scrapping or disposing of the asset within five years can give rise to additional capital allowances.

First year allowances, initial allowances and writing down allowances can be disclaimed (except writing down allowances on industrial buildings). Writing down allowances are given in the period in which expenditure is incurred even if the asset has not yet been brought into use.

If the asset is not used wholly for the purposes of the trade, then only the appropriate proportion of the normal capital allowance can be claimed.

The distinction between capital and revenue expenditure is of particular importance because revenue expenditure is fully allowable against profits in the year in which it is incurred. Capital expenditure attracts capital allowances but these will be spread over a number of years, thereby deferring the tax relief.

For industrial buildings, it is important to claim allowances on the plant which is part of the building e.g., lifts, central heating, certain electrical equipment and plumbing installations. This is because the rate of writing down allowance is higher for plant than for industrial buildings. Claiming allowances for expenditure as plant, accelerates the tax relief available for this expenditure.

Scientific research expenditure is eligible for an allowance of 100%. It can be claimed on buildings, plant and machinery and cars, but, from 1 April 1985, expenditure on land and dwellings used for scientific research does not qualify for the allowance. "Scientific research" means any activities in the fields of natural or applied science for the extension of knowledge. The scientific research must be related to the trade of the company in order to be eligible for tax relief.

get interest relief on money borrowed in order to invest in a BES-approved fund, because you will probably not own more than 5% of the shares in the companies which the fund invests in.

5. If you are not investing in a company that you know, it is advisable not to invest in issues unless they have been backed by a sponsor (a recognised member of the Accepting Houses Association). It is the responsibility of the sponsor to vet the company and carry out a full investigation prior to the issue. This gives the investor some protection, particularly as the sponsor will usually obtain indemnities and warranties from the directors about different aspects of the business.

The rules of the BES are very complicated and you should always take professional advice before making any investment under the scheme. It is especially important to consider the commercial attractions of such an investment and not invest for the sake of getting tax relief.

7. BUSINESS EXPANSION SCHEME

This scheme was originally introduced in 1981 as the Business Start-up Scheme. It was substantially modified in 1983 and renamed the Business Expansion Scheme. It was to be phased out in 1988 but it has been given an indefinite life as a result of changes announced in 1986.

Under the scheme an individual can subscribe for shares in unquoted trading companies and obtain tax relief on up to £40,000 in each tax year. For a 60% taxpayer the net cost of the £40,000 investment would be £16,000. Income tax relief previously given will be withdrawn if various conditions are not met. This particularly applies to a disposal of the shares within five years.

The limit of £40,000 applies to husband and wife jointly. If their combined investment exceeds £40,000 their share of relief will be scaled down rateably. If an election has been made for the wife's earnings to be taxed separately, any subscription made by the wife can only be set off against her earned income. If there is an excess of relief it cannot be set off against the husband's income notwithstanding the fact that the husband is assessed on the wife's investment income.

In the year of marriage each party will be entitled to the maximum amount of relief and they can jointly elect that any excess should be set against the other spouse's income. The wife can also claim the maximum relief against her own income in the year of her husband's death or in the year of permanent separation or divorce.

The following points are important to consider in relation to BES:

1. Investment can be made directly into a private trading company. The rules here are very complex and professional advice should always be sought before making such an investment to ensure that relief will be granted.

2. If you are investing in a new company which has not previously traded, the Inland Revenue will not give definite confirmation that the company will qualify under the rules of the BES until it has traded for at least four months. The company must commence trading within two years from the time the shares are issued.

   There is a possibility, therefore, that relief under the BES may not be granted if, on subsequent examination of the facts by the Inland Revenue, or due to some other event, the company is not carrying on a qualifying trade.

3. An alternative means of investing to obtain relief under the BES is through an approved investment fund. The minimum subscription to such a fund to qualify for relief is £500. The fund will invest in a number of companies and will hold shares in those companies. Investors are informed that a certain amount of their investment has been made in a particular company.

   If these companies have not previously traded, the same points as in (2) above will apply. It has happened in the past that the investment fund has not been able to invest all the monies subscribed before the end of the tax year. In that case, even if the money is subsequently invested, relief will not be granted in the earlier year. If you have invested in a fund you should therefore check with the fund to ensure that the total subscription will have been invested before 5 April. If not, you may be legally entitled to withdraw the uninvested part of your subscription as you may want to utilise this money is some other way, so as to obtain tax relief in 1986/87.

   When investing through a fund it is necessary to consider the charges made by the funds. These usually take the form of an initial fee, and an annual fee, both levied on the amount subscribed. There may also be retention of interest earned on the amount of the subscription prior to its investment by the fund. These charges do not qualify for BES relief.

4. If you borrow money to invest in a company using the BES, you can obtain tax relief on the interest provided that you own more than 5% of the shares in the company. It is unlikely that you could

4. CAPITAL GAINS TAX

General

The first £6,300 of capital gains for an individual are exempt from capital gains tax for 1986/87. The exempt limit applies to husband and wife jointly. Children are entitled to their own exemption.

You should review your chargeable gains position before 5 April 1987 in order to make maximum use of the exemption. The scope for using the exemption is greatest if you have a portfolio of securities whereby it is possible to realise some gains before 5 April and, if you wish, the securities can be repurchased the following day ("bed and breakfasted"). You must consider the brokerage costs which will be incurred but these may be relatively small in relation to the potential savings of capital gains tax by utilising the annual exemption that might otherwise be wasted (unused annual exemptions cannot be carried forward to future years). It also raises the base cost of the securities and increases the indexation allowance (see below) that can be claimed on later disposals of the securities.

If you are contemplating the disposal of an asset imminently, on which capital gains tax will be due, it would be advantageous to defer the disposal until after 5 April 1987 in order to delay the due date for payment of the capital gains tax. It is also likely that the annual exemption will be higher for 1987/88, so deferring the gain could reduce the capital gains tax payable.

Indexation Allowance

This is calculated as follows:

$$\frac{RD - RI}{RD} \times \text{acquisition cost}$$

Where: RD = Retail Prices Index for the month when the sale takes place;
RI = Retail Prices Index for the month in which the asset was acquired or March 1982, whichever is the later.

If the asset was held at March 1982, the indexation allowance can be calculated using the value of the asset in March 1982, instead of its original cost.

The allowance is deducted from the gain calculated in the usual way (Disposal proceeds minus costs of disposal minus original cost) and can also convert a gain into a loss or increase the amount of a loss.

Gilts and Qualifying Corporate Bonds

For disposals made on or after 2 July 1986, gilt-edged securities (Government and local authority stocks) and qualifying corporate bonds are exempt from capital gains tax. It is no longer necessary to hold these securities for twelve months before selling them free of capital gains tax.

Similarly, from 2 July 1986, capital losses on these securities are not allowable.

It is no longer possible to use 'gilts' and other loan stock to convert income into capital by selling these stocks cum-interest. As from 28 February 1986 anyone holding such securities is charged to tax on the interest accruing during the period of ownership. A person will not be taxed on the income accrued in the purchase price at the time the securities are bought but will be taxed on the income accrued in the sale price when the securities are subsequently sold.

Gilts may be purchased from a stockbroker in the same way as company stocks. However, if they are purchased on the National Savings Register, through the Post Office, the commission payable on purchases and sales is less than if purchased using a stockbroker. Interest payments on stocks purchased on the National Savings Register, are paid gross without deduction of basic rate tax at source. The income tax payable on the interest would be collected by assessment. This offers a cashflow advantage. There is also a cash flow advantage for individuals who are normally eligible for a tax repayment.

Retirement Relief

This is a relief which is available to individuals who dispose of a business or an interest in a partnership and also applies to full-time working directors who sell shares in a family company. The maximum relief is £100,000 and both husband and wife qualify for the maximum relief. Relief can be claimed if the individual has reached the age of 60 or if the individual is compelled to retire on grounds of ill-health. The rules are complicated and advice on maximising this relief must always be sought.

5. PENSIONS

Individuals

Retirement annuity premiums qualify for tax relief at your highest rate of tax up to 17½% of 'net relevant earnings'. The limit is increased if you were born before 1934. Premiums paid in the current tax year (1986/87) can be related back to 1985/86 to obtain tax relief in that year. Premiums can also be paid in respect of unused relief for the last six years and attract relief in a similar way. You should therefore review the position and consider paying additional premiums.

The same points regarding retirement annuity schemes apply to employees who are not in pensionable employment. Employees who are in pensionable employment can, in certain cases, make additional voluntary contributions (AVC's) up to 15% (including pension contributions) of their earnings. Review your contributions for 1986/87 to see whether you should pay AVC's before 5 April 1987.

Company Pension Schemes

Companies are only able to claim tax relief on pension scheme contributions actually paid in the year. However if a special contribution is made which is greater than the normal payment into the scheme, it may be spread over a number of periods. Legislation was introduced in the 1986 Finance Act to deal with pension fund surpluses. The pension fund must be regularly valued in accordance with the actuarial guidelines. If the valuation shows a surplus of assets over liabilities in excess of 5%, action must be taken to reduce the surplus. This would involve improving existing benefits or introducing new benefits, contributions holidays for both the employer and employees or refunding the contributions to the employer. In no circumstances can contributions be refunded to employees.

If a contribution is refunded to the employer it is taxed at a special rate of 40% and this liability is unaffected by any other circumstances e.g., the availability of losses, advance corporation tax or any other set off.

These rules apply equally to self-administered and insured schemes.

For the profitable family company, pension schemes can be a very tax-efficient means of providing pensions for the directors. They can also be very useful in the context of inheritance tax planning. Since the pension scheme is entirely separate from the company, and the contributions into the scheme are made out of the profits of the company, the scheme can be a useful way to reduce the value of the company at a time when the directors are contemplating passing on their shares to the next generation.

Self-administered pension schemes can be extremely useful for tax planning purposes in the family company. They offer the following advantages:

a. The scheme can invest in a wide range of assets.
b. It is possible for the scheme to lend money to the company.
c. The scheme can purchase buildings which the company can trade from and it can charge the company rent for occupying the building. If the company had purchased the same building it would not be able to get tax relief on this expenditure, whereas it can obtain full tax relief for the rent charged by the pension fund.
d. The pension fund is not liable to tax on its investment income and any capital gains it makes are also tax-free.

Pension schemes are a complex subject and professional advice should always be sought before taking any action.

6. INHERITANCE TAX

Capital transfer tax was abolished with effect from 18 March 1986 and was replaced by inheritance tax. Many of the features of capital transfer tax have been retained.

This tax is charged on property comprised in an individual's estate at death and at progressive rates on certain gifts made within seven years of death. Tax is charged on gifts into certain types of trusts. No tax is charged on other lifetime gifts, provided that the donor survives for seven years.

Two important new concepts of inheritance tax are:-

a) *Potentially exempt transfers.* Gifts to an individual, an accumulation and maintenance trust or a trust for the disabled are potentially exempt from tax provided the transferor survives for seven years after making the gift. If the transferor dies within the seven-year period, tax is charged at a percentage of the full rate depending on the length of time between the transfer and the transferor's death. There is no reduction in the tax if the transferor does not survive for three years. The tapering relief percentages are set out in Appendix 3 to this booklet. The tax liability on lifetime transfers is primarily the responsibility of the donee.
b) *Gifts with reservation of benefit.* These are gifts in which the donor retains some right to enjoy the property e.g., a gift of a house and the donor continues to live in the property. Such a gift is not effective until the reservation of benefit is released at which point it becomes a potentially exempt transfer and the transferor must survive for seven years from that time in order to ensure that no tax arises because of that transfer. If the transferor has not released the reservation, the property remains in his estate and would be liable to inheritance tax on his death.

Specific planning points to consider before the year end are:-

1) Using up the £3,000 annual exemption for this year, and also for the previous year if that has not already been used. If the annual exemption for 1985/86 is not used at 5th April 1987, it lapses, but it can only be used if the current year's exemption has been exceeded.
2) Gifts of up to, but not exceeding, £250 per tax year can be given to any number of persons tax-free.
3) Using up to £71,000 nil rate band.
4) Equalisation of estates between husband and wife. It should be noted that gifts between spouses are exempt regardless of the amount. There is one exception to this rule i.e., if the donor spouse is, but the donee spouse is not, UK-domiciled. The exemption in this case is restricted to £55,000.
5) Gifts to the parties to a marriage; £5,000 if the donor is a parent; £2,500 if the donor is a grandparent or other ancestor and £1,000 in other cases.

Inheritance tax planning is a complex subject and we shall be pleased to advise you on this matter.

PWP

Index

PAGES

Tax Planning - 5 April 1987 : A booklet is contained inside the back cover.

Main Features

Income Tax

Basic rate reduced from 29% to 27%.

Starting point for 40% rate increased in line with inflation, but starting point for 45% rate increased by only £200.

Personal allowances increased in line with inflation e.g. single allowance now £2425; married allowance now £3795.

New higher age allowance for those aged 80 or over.

Allowance for blind increased by 50%.

Business Taxation

Small companies rate of Corporation Tax (CT) and rate of Advance Corporation Tax (ACT) down from 29 per cent to 27 per cent. CT on companies' capital gains to be charged as income at normal CT rate (35 per cent or 27 per cent) without adjustment. ACT set-off will be allowed against CT on capital gains.

CT payment dates to be 9 months after end of accounting period for all companies and building societies: change to be phased in.

"Pay and File" package of proposals reforming and simplifying administration of CT: legislation in 1987 for implementation in early 1990s.

Measures to remove unintended and unjustified tax breaks; includes tighter rules on:

- tax credit relief for banks;

- companies resident in both the UK and abroad;

- members of Lloyds insurance market.

Inheritance Tax (IHT)

Thresholds up from £71,000 to £90,000: number of rates reduced from seven to four (from 17 March).

IHT abolished for lifetime gifts into "Interest in Possession" trusts.

Capital Gains Tax

Limit for retirement relief increased from gains of £100,000 to £125,000 (from 6 April). Annual exempt amount for individuals increased in line with inflation from £6,300 to £6,600.

Business Expansion Scheme (BES)

Where investments made in first half of tax year, investor will be able to claim part of relief against income of previous year. Change will reduce bunching of BES investment at end of tax year.

Some relaxation of rules for film companies.

Profit Related Pay (PRP)

New tax relief for eligible PRP; half of PRP to be exempt from tax up to lower of £3000 a year or 20 per cent of pay.

Pensions

New tax regime for personal pensions from 4 January 1988 on lines set out in consultative document "Improving the Pensions Choice" published in November 1986. Personal pensions to be given similar tax treatment to retirement annuities.

Simpler occupational pension scheme arrangements to be made available to employers.

Members of occupational pension schemes to be able to make additional voluntary contributions within exisitng tax relief limits to pension arrangements outside employer's scheme.

Tax-free lump sums limited to £150,000 for new schemes and new members of existing schemes.

Value Added Tax (VAT)

No change in 15 per cent rate.

Registration threshold (annual turnover below which traders are not obliged to register) up from £20,500 to £21,300.

Period during which businesses must apply to register extended from 10 to 30 days.

Business with turnover of up to £250,000 a year to have options of:

(i) accounting for VAT on basis of cash paid and received (from 1 October 1987) (subject to EEC agreement)

(ii) making one VAT return a year, instead of four (from Summer 1988)

Package of changes to special VAT scheme for retailers. In particular simpler schemes to be available to more small and medium sized businesses.

Package of measures to eliminate various forms of VAT avoidance as announced on 19 December 1986. Right to deduct input tax to be limited to that incurred in making taxable supplies.

Modest extension of reliefs for charities caring for the disabled and terminally ill or engaged in medical research, first aid and mountain rescue.

Excise Duties

No change in duties on tobacco, drinks (beer, cider, wines, spirits), leaded petrol, derv or other oils. 5p differential in favour of unleaded petrol (from 17 March).

No change in £100 a year Vehicle Excise Duty on cars and light vans, nor in most other VED.

On-course betting duty for horse and greyhound racing abolished.

Gaming machine licence duty increased.

Public Sector Borrowing Requirement (PSBR)

PSBR set at £4 billion in 1987-88, 1 per cent of GDP; 1986-87 out-turn expected to be £4 billion, 1 per cent of GDP. PSBR projected to remain at 1 per cent of GDP throughout the new Medium Term Financial Strategy period which runs to 1990-91.

Income Tax

Rate of Income Tax

The basic rate of income tax has been reduced from 29% to 27%. Higher rates of income tax remain unchanged.

Rates	Bands 1987/88	Bands 1986/87
	£	£
Basic rate	0 - 17,900	0 - 17,200
Higher rates		
40%	17,901 - 20,400	17,201 - 20,200
45%	20,401 - 25,400	20,201 - 25,400
50%	25,401 - 33,300	25,401 - 33,300
55%	33,301 - 41,200	33,301 - 41,200
60%	41,201 or more	41,201 or more

Wife's Earnings Election

Wife's Earnings Election may be advantageous if a married couple have a joint income exceeding £26,870, and a wife's earned income of at least £6,545. Any such elections for 1985/86 must be made by 5 April 1987 and for 1986/87 by 5 April 1988.

The table below provides a guide to when an election may be beneficial. If the combined income is the figure in column A, then the wife's earnings must normally be within the figure in column B to make an election worthwhile. The figures are shown before the deduction of any reliefs.

1987/88		1986/87	
A	**B**	A	B
Combined income	**Wife's earnings**	Combined income	Wife's earnings
£	£	£	£
26,870	6,545 - 20,325	26,521	6,986 - 19,535
30,000	5,851 - 24,149	30,000	6,048 - 23,952
35,000	5,404 - 29,596	35,000	5,478 - 29,522
40,000	5,299 - 34,701	40,000	5,309 - 34,691
45,000	5,117 - 39,883	45,000	5,128 - 39,872
over 48,541	4,916 and above	over 48,425	4,890 and above

Income Tax

Personal Allowances

The following reliefs are proposed for 1987/88 with comparatives shown for the previous year.

	1987/88	1986/87
	£	£
Single	2,425	2,335
Married	3,795	3,655
Wife's Earned Income	2,425	2,335
Age - Single	2,960	2,850
- Married	4,675	4,505
- Earnings Limit	9,800	9,400
Widow's Bereavement	1,370	1,320
Housekeeper	100	100
Single Parent Families	1,370	1,320
Services of daughter or son	55	55
Blind Persons	540	360
Dependant Relative - Single Woman	145	145
- Others	100	100

For P.A.Y.E. purposes, these changes will take effect from the first pay day after 17 May 1987.

Age allowance for those aged 80 and over

A new, higher level of age allowance is proposed for people aged 80 and over. The new allowance will be £3,070 for a single person aged 80 or over and £4,845 for a married couple where one of the partners is aged 80 or over. The allowance will be subject to the same income limit as the ordinary age allowance. Taxpayers will qualify for the new allowance for 1987-88 if they are already aged over 80 or if they will reach the age of 80 between 6 April 1987 and 5 April 1988.

Deduction of Income Tax from Annuities, Interest Etc.

Where there is a right or an obligation to deduct tax at the basic rate from the payment of annuities or other annual payments (including alimony), interest, royalties etc., the rate at which tax deductions should be made after 5 April 1987 will be the new rate. But, in the case of interest on securities of bodies corporate in the United Kingdom, including local authorities, deductions at the old rate of 29 per cent will be deemed to be legal deductions for a period of one month from the date of the passing of the appropriate Resolution, subject to adjustments later to give effect to the new rate for the year.

Where payments have been made on or after 6 April 1987 from which tax has been deducted at the rate of 29 per cent the over-deduction will be adjusted as follows:-

(a) **Interest on United Kingdom Government Securities and Foreign Dividends Paid in the United Kingdom**

H.M. Inspector of Taxes, on application by the recipient, will either repay the excess tax deducted or make an appropriate allowance against some subsequent tax assessment. Applicants for repayment will need to furnish evidence (normally counterfoils obtainable from the paying agents or bankers) showing that they have suffered deductions of the amounts claimed.

(b) **Annuities, Annual Payments (including alimony), Royalties etc., and Other Types of Yearly Interest (including those received from Companies or Local Authorities)**

It will be the payer's responsibility to repay or make good to the recipient the amount of any excessive deduction of tax made by reference to the earlier rate of 29 per cent. This will usually be done at the time of the next payment of a similar nature. Where a company or local authority security has been sold since an over-deduction of tax at 29 per cent the person entitled to the security at the time the over-deduction is made good will be entitled to the benefit of the adjusting payment.

The Inland Revenue will shortly be issuing a Circular setting out in more detail for payers and recipients the full implications in relation to each of the different types of payment which are subject to the deduction of income tax at source.

Effect on Deeds of Covenant

The reduction in basic rate will alter the amount of tax to be deducted at source from payments due, from 6 April 1987 onwards, under deeds of covenant. The precise result will depend on whether the covenant is expressed in "gross" or "net" terms.

"Gross" covenants

Under a "gross" covenant, the covenantor undertakes to pay (for example) £100 a year less tax. At present, with a 29 per cent basic rate of tax, he deducts £29 tax and pays the recipient £71. The recipient may be able to reclaim all or part of the £29 tax from the Inland Revenue, depending on his or her personal circumstances.

The reduction of basic rate for 1987/88 means that the payer should deduct tax at 27 per cent instead of 29 per cent from payments due on or after 6 April 1987. Thus in the example above, the payer should deduct £27 tax and pay the recipient £73. Because the covenant is a legally binding deed, he will have a legal obligation to increase the net payment to £73. If his payments are made by standing order, he will need to change his standing order accordingly.

If the covenant is in favour of a charity, the payer may be entitled to relief at the higher rates of tax for the gross amount (in the example, £100).

"Net" covenants

Under a "net covenant, the amount to be paid is fixed in net-of-tax terms. For example, the covenantor undertakes to pay each year such sum as will leave £71 after deducting tax at the basic rate for the year.

At present the £71 net represents £100 gross less £29 tax. The reduction in basic rate means that, for payments due on or after 6 April 1987, the £71 net will represent £97.26 gross less £26.26 tax (ie tax at 27 per cent on £97.26). The maximum tax available for repayment to the recipient is thus £26.26. Claims to repayment of tax should be based on a 27 per cent rate rather than 29 per cent.

If the covenant is in favour of a charity, any higher rate relief due to the payer will be given on £97.26.

Construction Industry Tax Deduction Scheme

The deduction rate, to be applied to payments to uncertificated sub-contractors, will be reduced in line with the basic rate to 27 per cent with effect from 2 November 1987. In the meantime, contractors should continue to make deductions at the existing rate of 29 per cent. Later in the year contractors who are known to be operating the deduction arrangements will be notified individually of the change in rate.

Additional Rate on Trusts

The income of discretionary and accumulation trusts is charged to income tax at basic rate plus an additional rate which is fixed as the difference between basic rate and the second of the higher rates. When the trustees distribute the income to beneficiaries, the beneficiary gets credit for the basic and additional rate tax paid by the trustees, and may claim repayment where appropriate.

At present the additional rate is 16 per cent and the overall rate on these trusts 45 per cent.

The basic rate for 1987-88 will be 27 per cent and the second higher rate remains at 45 per cent. The additional rate will therefore be 18 per cent, but the overall rate will remain at 45 per cent. Beneficiaries receiving income in 1987-88 will get credit for 45 per cent tax, whether the income was received by the trustees in 1987-88 or in an earlier year.

Mortgage Interest Relief Limit

The Chancellor proposes in his Budget to fix the mortgage interest relief limit for 1987/88 at £30,000 (the same as for 1986/87).

MIRAS

The Chancellor's proposal to reduce the basic rate of income tax from 29% to 27% for 1987/88 will affect the amount of the payments that borrowers make on loans within the MIRAS (mortgage interest relief at source) scheme.

Income tax should be deducted from interest payments within MIRAS in 1987/88 at the new basic rate of 27%. The effect will generally be a small increase in the interest payments to be made.

The basic rate change takes effect from the start of the 1987/88 tax year on 6 April 1987. Deduction of tax at the rate of 27% applies to MIRAS interest payable and paid on or after that date.

Motor Cars

Benefits assessable for 1987/88 are determined by the following scale charges:-

	Car Benefit		Car Fuel Benefit
	Age of car at 5 April 1988		
	Less than 4 years	4 years or more	
	£	£	£
(a)			
Cars with original market value up to £19,250 having a recognised cylinder capacity:			
1,400 cc or less	525	350	480
1,401 cc - 2,000 cc	700	470	600
2,001 cc - or more	1,100	725	900
(b)			
Cars with original market value up to £19,250 having no recognised cylinder capacity:			
£5,999 or less	525	350	480
£6,000 - £8,499	700	470	600
£8,500 - £19,250	1,100	725	900
(c)			
Cars with original market value greater than £19,250			
£19,250 - £29,000	1,450	900	900
£29,001 or more	2,300	1,530	900

Benefits assessable for 1988/89 are determined by the following scale charges:-

	Car Benefit		Car Fuel Benefit
	Age of car at 5 April 1989		
	Less than 4 years	4 years or more	
	£	£	£
(a)			
Cars with original market value up to £19,250 having a recognised cylinder capacity:			
1,400 cc or less	580	380	480
1,401 cc - 2,000 cc	770	520	600
2,001 cc - or more	1,210	800	900
(b)			
Cars with original market value up to £19,250 having no recognised cylinder capacity:			
£5,999 or less	580	380	480
£6,000 - £8,499	770	520	600
£8,500 - £19,250	1,210	800	900
(c)			
Cars with original market value greater than £19,250			
£19,250 - £29,000	1,595	1,070	900
£29,001 or more	2,530	1,685	900

The proposed changes will affect the liability to tax of directors and those employees earning at a rate of £8,500 a year or more (including the value of any benefits etc.), who by reason of their employment are provided with cars which are available for private use.

Both the car and car fuel scales are halved for the motorist who does 18,000 business miles or more in the tax year. The car scale (but not the fuel scale) is increased by 50 per cent if the car is a second company car or is driven for 2,500 business miles or less in the tax year.

The car scales are reduced pound for pound for contributions which the employee is required to make as a condition of the car being available for private use and for that use. The car fuel scale is reduced to Nil if the employee makes good all the fuel he uses for private journeys. Journeys between an individual's home and his place of work are regarded as private motoring.

From April 1987, the car fuel scale will also be used to assess VAT due on fuel provided out of business resources for private motoring by registered traders and their employees. This will simplify the previous arrangements for restricting the amount of input tax that can be offset against VAT where fuel is provided for private motoring.

Foreign Partnerships

The Chancellor is proposing legislation to ensure that a UK resident partner in a foreign partnership is fully chargeable to tax in the UK on his share of the profits of the partnership.

The legislation is intended to do no more than restore the general understanding of the law as it was before the decision in Padmore v CIR. It will apply so as to prevent claims to relief from tax for past years.

The legislation will not affect the decision of any court given before 17 March 1987.

Lloyd's - Taxation of Reinsurance to Close

In his Budget, the Chancellor proposes that the tax treatment of Lloyd's Reinsurance to Close will be made consistent with the treatment of provisions for outstanding liabilities made by insurance companies and comparable provisions made by other financial traders. There will be consultation with Lloyd's on the details of the legislation.

Improving the PAYE and Subcontractor Deduction Schemes

The Chancellor proposes in his Budget to take steps towards tightening up the collection of PAYE and improving the operation of the deduction scheme for sub-contractors in the construction industry.

These measures are in line with the recommendations of the Keith Committee and were identified for early consideration in the Consultative Document "The Inland Revenue and the Taxpayers", which was published on 12 December 1986 in response to the recommendations of that Committee.

PAYE

It is proposed to:

- Charge interest on tax paid late in circumstances where the Inspector has had formally to determine the amount due because PAYE has not been properly applied at the right time by the employer. The interest charge will commence 14 days after the end of the tax year to which the tax relates, and take effect from 20 April 1988.

- Clarify the meaning of "payment" for PAYE purposes - for example, where sums are credited to an employee's account or remuneration is voted.

Subcontractors

It is proposed that:

- There will be an interest charge, again from 20 April 1988, where formal assessments are made by the Inspector to recover money which a contractor should have deducted from payments to sub-contractors.

- Companies with a sub-contractor tax exemption certificate will be required to notify the Revenue of any change in company control; failure to comply could lead to withdrawal of the company's certificate.

- There will be a new right of appeal against the Revenue's cancellation of sub-contractor certificates.

- The Revenue will be empowered to require production of a contractor's records.

- There will be new safeguards for contractors in certain circumstances where they have incorrectly paid subcontractors without deduction.

New Income Tax Relief for Profit Related Pay (PRP)

In this Budget the Chancellor of the Exchequer proposed a new income tax relief for employees who receive profit related pay under registered schemes which link a part of their pay to profits.

What is PRP?

In a PRP scheme a part of pay moves up and down with profits so that employees' pay reflects the profit which has been earned by their work.

How much will the tax relief be worth?

Half of PRP will be free of income tax up to the point where PRP is 20 per cent of pay or £3,000 a year, whichever is lower.

Will PRP be subject like other earnings to National Insurance Contributions?

Yes. Unless it is part of total earnings below the lower earnings limit for employers' National Insurance Contributions, however, PRP which is exempt from employers' NIC (eg because it is paid through a trust) cannot also qualify for the income tax relief.

Who will be eligible?

The relief will be available to all private sector employees paying income tax through PAYE (with the exception of controlling directors). They will need to be included in a PRP scheme registered by their employer (in advance of its coming into operation) with the Inland Revenue. A scheme must relate to an employment unit which is either a whole incorporated or unincorporated business in the private sector, or a sub-unit of the business.

What are the necessary conditions for PRP schemes to qualify for registration?

Employers will be free to design their own schemes to meet their own needs provided they have certain basic features. Full details will appear in the Finance Bill, and guidance notes will be issued by the Inland Revenue when these proposals have become law. The main qualifying features envisaged are:-

(a) Schemes must establish a clear relationship between the PRP of the specified employment unit and the audited profits generated by it;

(b) New recruits and part-timers may be excluded, but at least 80 per cent of the other employees in the employment unit must be covered by the PRP scheme;

(c) At the outset of the scheme the prospect must be that if profits are unchanged total PRP produced by the formula at (a) will be at least 5 per cent of the total pay of participating employees;

(d) A scheme must last for at least one year.

What are the main choices in designing a scheme?

The two main choices are the employment unit and the formula linking profits and PRP (for which a definition of profit is needed). It must be possible to produce audited profit figures for the employment unit chosen. Subject to that, the employer will be able to choose whatever unit makes sense in the circumstances of the business. Employers will also have a choice between two ways of linking profits and PRP:

(a) Total PRP (or the "PRP pool") can be a simple proportion of profits;

(b) The PRP pool can be a sum of money which varies in line with year on year changes in profits.

In either case there will be scope for modifying the effect of large changes in profits, in order to avoid large fluctuations in PRP or to safeguard a minimum level of profit.

Which measure of profits?

The basis for calculating the size of a scheme's PRP pool will be the level of profits on the ordinary activities of the employment unit after taxation as defined in the Companies Act 1985. Schemes will, however, be able to provide for a number of adjustments in the production of these profit figures, such as for interest costs. The chosen definition of profit must be used consistently throughout a scheme's life.

How often must PRP be calculated?

PRP to be distributed to employees must be determined and paid at least once a year on the basis of audited profits. But it can be calculated on an interim basis as frequently as desired, and paid, for example, in monthly or weekly pay packets.

How will the tax relief be administered?

There will be, in effect, a "self-assessment" system. The employer will be responsible for :-

- Ensuring that the scheme complies with the statutory requirements.

- Calculating PRP profits and the amount of PRP payable to each employee

- Giving the tax relief due to each employee as part of the normal operation of PAYE.

The employer will need to certify the scheme, and the annual operation of it, to Inland Revenue, but otherwise Inland Revenue will not normally be involved in the day-to-day operation of PRP schemes.

How much do auditors have to be involved?

An independent auditor's report must accompany an employer's application for registration of his scheme (to confirm that it meets the statutory requirements) and his return at the end of each PRP period (to confirm that the scheme and the tax relief have been operated properly).

What happens when employees join or leave a unit during operation of a scheme, or if the employer changes, or if the employment unit is reorganised etc?

New recruits may be excluded from a scheme for up to 3 years and employers will be able to decide for themselves how to deal with employees who leave before PRP for a particular year can be calculated and paid. The rules will provide flexibility for employers to make special arrangements to deal with reorganisations etc.

How would the scheme be introduced?

This would be up to the employer. But it would be possible for PRP to be introduced (or increased in amount) in place of a conventional increase in pay, and this might be coupled with a conversion of some existing pay to PRP.

Can existing schemes qualify?

Yes, if they meet the criteria and are registered.

When can the employer register a scheme and what does it involve?

Schemes cannot be registered until after the Finance Bill is enacted, probably in July or early August. But before that the employer can :-

(a) Start working out a scheme that is likely to meet the conditions for tax relief, so that registration can be sought promptly after Royal Assent and before the profit year begins for which PRP is to be paid:-

(b) Get on the Inland Revenue's mailing list by writing to

Profit Related Pay Office
Inland Revenue
St. Mungo's Road
Cumbernauld
GLASGOW
G67 1YZ

Rates of Corporation Tax

The rates of Corporation Tax for the financial years (commencing 1 April) 1984 to 1987 are as follows:-

	1984	1985	1986	1987
Corporation Tax (Full rate)	45%	40%	35%	35%
Small Companies rate	30%	30%	29%	27%
Lower relevant amount	£100,000	£100,000	£100,000	£100,000
Higher relevant amount	£500,000	£500,000	£500,000	£500,000

Corporation Tax on the Capital Gains of Companies

Important changes were announced for the taxation of companies' capital gains. These changes, which will apply to disposals on or after 17 March 1987, are:-

i. - the abolition of the provision which reduces gains by a specified fraction so as to achieve an effective tax rate on gains in most cases of 30%;

ii. - the charging of gains in full at normal corporation tax rates. The small companies rate will, where appropriate, apply to gains, giving a reduction from 30% to 27% in the effective rate for the companies concerned.

iii. - allowing advance corporation tax (ACT) to be set-off against corporation tax on gains.

Corporation Tax Payment Dates

At present the date on which corporation tax is payable by companies varies from 9 to 21 months (depending upon if the company had been trading before 1 April 1965) after the end of the accounting period for which it is chargeable. It is proposed to standardise the payment interval at 9 months for all companies. The change to the new payment date will be phased in over a period of 3 years during which the payment interval will be reduced to 9 months in 3 equal steps. These transitional arrangements will begin with a company's first accounting period starting on or after 17 March 1987. The rules will be modified where a company has an accounting period of less than 12 months.

Example - A company has an accounting period ending 31 March and a payment interval of 21 months. The payment interval will be reduced as follows:-

Accounting Period	Payment Interval
1.4.86 to 31.3.87	21 months
1.4.87 to 31.3.88	17 months
1.4.88 to 31.3.89	13 months
1.4.89 to 31.3.90	9 months

ADVANCE CORPORATION TAX

Rate of ACT

For dividends paid on or before 5 April 1987 the rate of Advance Corporation Tax is at the rate of 29/71 of the dividend. For dividends paid on or after 6 April 1987 companies pay ACT at the rate of 27/73 of the dividend.

ACT set-off

At present, advance corporation tax paid by a company (and not repaid) in respect of a distribution made in an accounting period is set against its liability to mainstream corporation tax on its income charged to corporation tax for that accounting period. "Income" for this purpose excludes chargeable gains. Any unused ACT is described as "surplus ACT".

It is proposed that for disposals on or after 17 March 1987, ACT, including surplus ACT carried forward, will be available for set-off against corporation tax on chargeable gains.

Where the accounting period straddles 17 March 1987, the Finance Bill contains provisions to adapt these changes. These provisions will ensure that gains realised on or after 17 March 1987, and not therefore reduced, will be charged to tax at the full or small companies rates (as appropriate) with ACT set-off.

Losses

It is proposed that allowable capital losses brought forward from an earlier accounting period or accruing in part of an accounting period before 17 March 1987 will be allowed in priority against gains realised before 17 March 1987, with only any excess being allowable against later gains.

Pay and File

It is proposed to introduce a new scheme referred to as "Pay and File" which when implemented will streamline the administration of corporation tax.

The proposal consists of:-

The "Pay" element

- A company will be required to pay corporation tax on a fixed date (9 months after the end of its accounting period), whether or not an assessment has by then been made.

- Interest will run from the same payment date on any tax paid late by the company or tax repaid by the Revenue to the company.

The "File" element:-

- A company will be allowed 12 months, from the end of the period to which it makes up its tax accounts, in which to supply its return and those accounts.

- If it fails to send in the return and accounts within that time it will - unless it can show a reasonable excuse - incur an automatic flat rate penalty. (see below)

- If the return and accounts have not been supplied by 18 months after the end of the period in respect of which the return is due ("the return period"), the company will incur an additional penalty of 10 per cent of the tax due but unpaid at that time; this will increase to 20 per cent if the return is still outstanding 2 years after the end of the return period.

- These penalties will be chargeable by assessment, with the taxpayer having a right of appeal against the assessment.

These changes will take effect when the new Inland Revenue computer systems now being developed are operational. The new payment, interest and penalty arrangements will accordingly not come in before January 1992.

The "Penalty" Element

There will be a lump sum penalty of £100 if the return is made no more than 3 months late, increasing to £200 for a longer delay. A higher penalty would be charged for repeated failures.

The tax related penalty will come in 18 months after the end of the return period. It will initially be at a lower rate of 10 per cent of the tax then unpaid, but rise to 20 per cent if the return and accounts are still outstanding 2 years after the end of the return period.

- The due date for payment of tax chargeable under Section 286 ICTA 1970 (close companies: loans to participators etc) will be 14 days after the end of the accounting period, rather than on the first day after the financial year in which the loan was made. Interest on repayment under Section 286(5) will run from the date the loan is repaid.

- Special provision will be made for certain special cases where the normal Pay and File rules on interest for late payment would produce an inequitable result.

Controlled Foreign Companies

It was proposed to amend the legislation concerning Controlled Foreign Companies to prevent avoidance of UK tax by moving the residence of the overseas company to the UK before payment of a dividend.

The proposed amendments to the legislation will apply to dividends which are paid on or after 17 March 1987.

Interest Payments Between Companies

It was proposed to align the dates on which interest and certain other payments are treated as paid and received for tax purposes. The new rules will apply where the payment is between companies within a group or under common control and is made on or after 17 March 1987.

Payments which are "charges on income", for the purposes of corporation tax, such as yearly interest and annuities, and which are made on or after 17 March 1987 between companies within a group or under common control, will be treated for corporation tax purposes as received on the same day as they are paid. The new rule will apply only if the payments are assessable on the recipient under Case III of Schedule D. Companies which would be assessed on the interest as a trading receipt will be excluded from the change.

There will be a similar change in the provisions concerning the collection of income tax on company payments which are not distributions (Schedule 20 to Finance Act 1972), if the payment would under the new rules be treated for corporation tax purposes as received in an earlier accounting period.

Capital Allowances

There are no changes to the current rates of allowances available, which are set out below:-

Class of Expenditure	Allowance	Rate
Plant & Machinery	Writing down	25% *
Industrial Buildings	Writing down	4%
Agricultural Buildings	Writing down	4%
Hotels	Writing down	4%
Dwelling Houses let on assured tenancies	Writing down	4%
Patent Rights	Writing down	25% *
Know How	Writing down	25% *
Scientific Research	Initial	100%
Dredging	Writing down	4%
Buildings in Enterprise Zones	Initial	100%

* On Reducing Balance Basis

First Year Allowances and Initial Allowances on expenditure incurred after 1 April 1986 are no longer available, unless associated with expenditure incurred before 1 April 1987 on a contract entered into before 13 March 1984.

The Chancellor announced one major change, which relates to assured tenancies. He proposes to extend the existing system of capital allowances for expenditure on constructing or improving property for letting under the assured tenancy scheme. Allowances were originally introduced for a period of 5 years ending 31 March 1987. It is now proposed that relief, normally 4% per annum, should continue for capital expenditure incurred before 1 April 1992 by companies with 'approved body' status.

The rates of tax and exemption limits are as follows:-

		1987/88	1986/87
Tax rate		30%	30%
Annual exemption:	individuals (A)	£ 6,600	£ 6,300
	trusts	£ 3,300	£ 3,150
Retirement relief:	amount	£125,000	£100,000
	at age (B)	60 yrs	60 yrs

(A) The exemption limit for individuals applies to husbands and wives jointly.

(B) Retirement relief may be granted at any age if retirement is caused by ill health.

Disposals of government stocks are exempt from Capital Gains Tax regardless of how long they have been held. In addition, transactions in futures and options in gilts and qualifying corporate bonds are similarly exempt.

Relief for small part disposals of land applies to disposals of parcels of land representing no more than 20% of the total holding, where the proceeds do not exceed £20,000.

Transfer of assets to dual resident trusts do not qualify for hold-over relief, and hence gains attributable at the date of transfer are liable to tax immediately.

It is intended to bring all dealings in over the counter financial futures and options, other than those arising in the course of a trade, into the scope of capital gains tax, as is already the case for the tax treatment of traded options.

The rate bands for transfers on death will be as follows:

Tax Rate (%)	1987/88 Scale £'000	1986/87 Scale £'000
Nil	0 - 90	0 - 71
30	90 - 140	71 - 95
35		95 - 129
40	140 - 220	129 - 164
45		164 - 206
50	220 - 330	206 - 257
55		257 - 317
60	over 330	over 317

Transfers made within seven years of death are "potentially exempt transfers" subject to Inheritance Tax with tapering relief as follows:-

Years between gift and death	Percentage of full charge at death rates
0 - 3	100
3 - 4	80
4 - 5	60
5 - 6	40
6 - 7	20

Transfers into discrepancy trusts and transfers involving companies are liable to an immediate charge at half the full rates. However, transfers involving "interest in possession" trust will no longer attract immediate liability. Such trusts are those where the beneficial interest in possession in the gifted property is someone other than the donor.

There will be an increase from 30% to 50% in the rate of business relief on substantial minority shareholdings in unquoted companies. This new category of 50% relief will apply to shareholdings of more than 25% but not more than 50%, provided that the transferor has maintained a shareholding of over 25% throughout the two years preceding the transfer on which relief is due.

Properties going into a heritage maintenance fund from an existing trust within two years of the death of the person who has an interest in possession in the property will be exempt from inheritance tax.

The rules for the charges when property leaves a maintenance fund for non-heritage purposes will be based on the cumulated chargeable giving of the deceased. This alteration will also apply to former "interest in possession" property that entered the fund on the termination of that interest with the benefit of the existing maintenance fund exemption.

People who offer heritage property in lieu of inheritance tax on other property will be given the option of having the offset against tax calculated by reference to the value of the property at the date of the offer instead of its value at the date of acceptance. When this option is chosen, interest on the tax will cease to accrue from the date of the offer.

Rate of Value Added Tax

The standard rate of Value Added Tax remains unchanged at 15%.

Registration and Deregistration

	1987	1986
Registration Limits		
Effective date	**18 March**	19 March
Annual limit	**£21,300**	£20,500
Quarterly limit	**£ 7,250**	£ 7,000
Deregistration Limits		
Effective date	**1 June**	1 June
Future turnover	**£20,300**	£19,500
Past turnover	**£21,300**	£20,500
Minimum registration period	**2 years**	2 years

Motoring Expenses

As from 6 April 1987 the 1987/88 Inland Revenue Fuel benefit scale will be used to assess the V.A.T. due on petrol and other motor fuel which is used for private journeys by registered traders and their employees, where the petrol has been provided from business resources.

The scale charge will apply to a vehicle used for private journeys for which petrol was provided below cost. It will represent the tax inclusive value of the petrol so provided. The output tax payable against each category of vehicle will be calculated by using the appropriate V.A.T. fraction. With V.A.T. at 15% this fraction is 3/23. The amount of private mileage actually travelled will not affect the scale charge, and sole proprietors and partners as well as corporate bodies will be entitled to full input tax deduction on purchase of the petrol, subject of course to the normal rules of entitlement.

The scale and the V.A.T. equivalents (at 15% V.A.T.) will be as follows:

Cylinder Capacity

	Up to 1,400cc	1,401-2,000cc	2,001cc and over
Quarterly scale figure	£120	£150	£225
V.A.T.	£ 15.65	£ 19.56	£ 29.34
Monthly scale figure	£ 40	£ 50	£ 75
V.A.T.	£ 5.21	£ 6.52	£ 9.78

As with the Inland Revenue fuel benefit scale, an allowance will be made in respect of cars where the business mileage is high. Where it can be shown that the business mileage of a car covered by the scheme exceeds 4,500 in a three monthly period or 1,500 in a monthly period, the scale charge in respect of private use to be applied in respect of that car for the period will be half the scale as set out above.

Cash Accounting

This scheme will be introduced on 1 October 1987. It will be open to businesses with a turnover of less than £250,000.

VAT will be accounted for on the basis of cash paid and received thus providing automatic VAT relief for bad debts.

Businesses wanting to use the scheme will be required to make an application to their local VAT office and once approved, to remain in the scheme for two years. Businesses using the scheme must still issue tax invoices but will not have to account for VAT until they are paid by their customers and cannot reclaim VAT until they have paid their suppliers.

Annual Accounting

This scheme would be available to all businesses which regularly pay tax, have been registered for at least one year and have turnovers below £250,000. Businesses choosing to use the scheme would make only one VAT return a year instead of the present four. They would make 9 equal payments on account, by direct debit, starting four months after the beginning of the year, and a tenth balancing payment with their annual return.

This scheme will be introduced in the summer of 1988. Users will first have to be approved by Customs and Excise and agree an annual assessment of their expected VAT liability based on their previous year's VAT payments. Users will be allowed two months to prepare their annual return and make the balancing payment.

Registration and Deregisration Requirements

The changes to these are:

- time to notify liability to register extended to 30 days;
- eligibility to deregister to be based on future turnover only;
- turnover for deregistration to be tax inclusive;
- notification of cessation of trade increased to 30 days;
- once deregistered, businesses will not have to re-register on the basis of turnover prior to deregistration.

and these will take effect from Royal Assent to the 1987 Finance Act.

Partial Exemption

From 1 April 1987 a VAT registered business will be able to recover as input only tax that VAT attributable to:

- business taxable supplies;

- business supplies which are outside the scope of UK VAT because they take place outside the UK but which would have been either standard or zero-rated supplies if they had been made in the UK;

- business supplies of warehoused goods which are disregarded under section 35 of the VAT Act 1983.

VAT input tax on overheads, including research and development, is deductible in full provided such expenses are used to support the activites of the business as described above: only if such expenses were used to support other activities would a restriction on recovery of input tax apply.

One of the main effects of the changes will be to prevent the recovery of VAT input tax in relation to future exempt supplies: in the past some businesses have taken advantage of weaknesses in the current partial exemption rules and by carefully timing when exempt supplies are made have recovered input tax to which they are not, in principle, entitled. Many other businesses have not sought to take advantage of these weaknesses and as a result have been placed at a competitive disadvantage.

Section 15 of the VAT Act 1983 (as amended) permits Customs and Excise to make regulations to secure a fair and reasonable attribution of input tax to taxable supplies and to adjust input tax which has been wrongly attributed.

A revised edition of Notice 706 "Partial Exemption" gives full details of the new partial exemption "de minimis" rules and of a new standard method for apportioning input tax.

Customs will continue to allow alternatives to the "standard method" of apportioning input tax provided they are practical, accurate and fair (agreement has, for example, been reached with representatives of the brewing industry on a special method for calculating input tax in relation to tied properties).

Currently, the special valuation provisions in Schedule 4.1 of the VAT Act 1983 do not apply to exempt supplies. They will be amended so that the Commissioner may direct that exempt supplies made between connected persons shall be valued at the open market value. This change is necessary to prevent distortion of the partial exemption calculations through artificial valuation of supplies.

Registration of Traders Making Overseas Supplies

Schedule 1 to the VAT Act 1983 will be amended from Royal Assent to enable businesses which make no taxable supplies in the UK but make overseas business supplies which are outside the scope of UK VAT (but which would have been either standard or zero-rated supplies if they had been made in the UK), and businesses which make business supplies of warehoused goods which are disregarded under section 35 of the Act, to apply for VAT registration so as to recover the input tax attributable to such supplies.

Businesses affected by these changes must review their eligibility to remain VAT registered. Should they be eligible and wish their VAT registration to continue, they should make written application to their local VAT office: businesses no longer eligible must apply for deregistration.

Exemption of Services Related to Capital Issues

From 1 April 1987, the making of arrangements for and the underwriting of capital issues will be exempt from VAT.

Acquisition of a Business as a Going Concern by a Partly Exempt VAT Group

From 1 April 1987 a new provision will come into effect under which partly exempt companies VAT grouped under section 29 of the VAT Act 1983 may, in certain circumstances, be required to treat the acquisition of business assets on the transfer of a business or part of a business as a going concern, as both a supply by and to the representative member of the VAT group. The representative member will be required to account for VAT on a supply of any chargeable assets transferred and can recover input tax in accordance with its normal partial exemption method in the tax period in which the assets are acquired.

Extension of Certain VAT Reliefs for Charities and Eligible Bodies

From 1 April 1987 VAT relief will be extended to:

(i) the installation or adaptation of any bathroom, washroom or lavatory facilities for the handicapped in charity residential homes;

(ii) drugs and chemcials directly used by a charity in medical research;

(iii) certain vehicles for use by hospices for transporting the terminally ill; and

(iv) specialised location and identification equipment for use by charitable rescue and first aid services.

The relief for bathroom, washroom or lavatory facilities encompasses an existing extra-statutory concession for individual facilities in a charity residential home for the handicapped.

VAT Margin Scheme for Tour Operators

Provision is to be made in the 1987 Finance Bill for a special VAT margin scheme for tour operators. UK based tour operators who buy in services for their customers will have to pay VAT on the margin between their buying and selling prices if the services are to be used anywhere in the European Community, including the United Kingdom. Additionally, tour operators will not be able to recover any VAT which may be charged by their suppliers for such services.

The services affected are those bought and sold for the benefit of travellers, including accommodation, transport and holiday services (but it is expected that transport will be zero rated). Services which tour operators supply from their own resources will not be covered by the scheme and will continue to be taxed according to normal VAT rules.

Consultations have been taking place between Customs and Excise and the Association of British Travel Agents, and detailed guidance about the scheme which will start on 1 April 1988, will be published later this year.

Value Added Tax on Services Inported by Unregistered Businesses

The legislation will be changed to prevent the avoidance of VAT on imported services by exempt businesses.

At present, where for business purposes a registered trader buys in certain services from abraod, he has to treat them as if he had supplied them himself and to charge himself tax. Businesses which are not registered because they deal wholly or mainly in exempt supplies do not, under existing law, have to count the cost of imported services as taxable turnover for the purposes of the quarterly or annual registration limits, and can thus avoid the need to register and account for VAT on the services in question. The proposed change in the law will close this loophole. As a result exempt businesses will have to register where the value of their taxable supplies and the cost of the relevant imported services together exceed the turnover limits. They will then pay the tax due on imported services and on any taxable supplies of their own in the same way as existing registered business already do.

Because of the loophole, exempt businesses have been able to import certain services VAT free and avoid the tax that they would have had to pay on identical services bought from UK registered traders. The imported services in question include advertising, data processing and professional and consultancy services; there is evidence of avoidance particularly in relation to newspaper advertising ordered through agencies in the Channel Islands.

Retail Schemes

The changes to the special schemes for retailers are:

1. A new scheme, to be called <u>Scheme B1</u>, will be introduced as an alternative to Scheme B. This new scheme will not have a "50% rule", and no turnover restrictions will apply, but it will involve an annual stock adjustment.

2. Another adaptation to Scheme B, to be called <u>Scheme B2</u>, will be introduced to replace the existing "Adaptation 1". This new scheme will no longer have a fixed mark-up of 14% applying to <u>all</u> zero-rated goods received from resale; instead various increased but fixed mark-ups will be applied based on <u>types</u> of zero-rated goods. An annual turnover restriction of £500,000 per annum will apply, in line with the proposal in the consultation paper.

3. The annual turnover limit for Scheme C will be increased to £90,000, while some of the fixed mark-ups applied to the different trade classifications will be revised.

4. The annual turnover limit for Scheme D will be increased to £500,000.

5. The current "Adaptation 2" will be replaced by an adaptation to Scheme E, to be called Scheme E1. This new scheme will operate in the same way as the old adaptation except that only the calculation of expected selling prices of standard-rated goods received for resale will be required.

6. The lower annual turnover limit for Scheme G will be abolished, while the 1/8th uplift, will remain unchanged.

7. Use of retail schemes will be withdrawn from non-retailers. Persons affected should consider whether they can use the scheme of cash accounting to be introduced on 1 October 1987.

8. Use of retail schemes in respect of non-retail supplies will be withdrawn. Those persons making both retail and non-retail supplies will be able to use retail schemes for their retail supplies only. Clearer guidance on the rules for permitted mixtures of retail schemes will be give in Notice 727, VAT Retail Schemes.

9. It is planned that all the changes concerning retail schemes will have effect as from 1 October 1987. For "non-retailers" currently using retail schemes, a period of grace will be allowed to enable them to make the necessary adjustments to their accounting systems. Further information on the changes will be available from local VAT offices in May, and new retail scheme notices will be published before September.

There are no changes to the Revenue duties charged on beer, wines, spirits or tobacco products. The rate of vehicle excise duty on private motor cars is also staying the same at £100.

The rates of duty on leaded petrol, derv and other hydrocarbon oils remain unchanged. However, with effect from 6 p.m. on 17 March 1987 the duty on unleaded petrol is reduced by 5p a gallon (1.1p a litre) including VAT. Unleaded petrol previously bore excise duty at the same rate as leaded petrol.

General betting duty and gaming machine licence duty

The duty on on-course betting, currently 4 per cent, is abolished with effect from 29 March 1987. Off-course betting duty will remain at the rate of 8 per cent.

For gaming machines the rates of licence duty are increased with effect from 1 June 1987 as follows:

Amusement-with-prizes machines in public houses, arcades, etc

5p machines (now £120) will be £150 pa
10p machines (now £300) will be £375 pa

Jackpot machines in clubs etc

5p machines (now £300) will be £375 pa
10p machines (now £750) will be £960 pa

There will also be changes in the arrangements for the collection and repayment of gaming machine licence duty which will operate from 1 October 1987. All licences will be available from the first day of any month and quarter year special licences will be available for the first time. Refund terms on surrender of licences will be improved.

Pensions

The Finance Bill will contain legislation to establish a new tax regime for personal pensions for employees and the self-employed. The new regime will have the following main features:-

- no limit on total benefits
- tax free lump sum (subject to a limit)
- tax relief on contributions, provided they do not exceed annual limits (17.5 per cent of income up to age 50; up to 27.5 per cent for older people)
- benefits to be based on 'money purchase' (i.e. what the accumulated fund will buy).

There will be transitional arrangements to ensure that existing retirement annuity contracts continue to benefit from tax relief.

The following proposals that were to be incorporated in the new scheme have been dropped:

i. the suggestion that people should be limited to one personal pension at a time;

ii. the certification arrangements (to monitor compliance with the tax rules) will be simplified to ensure there is no substantial additional burden on employers; and

iii. there will be a new, simpler rule for calculating the proportion of benefit that can be taken as a tax-free lump sum (a straight 25 per cent of the fund).

Simplified Occupational Pension Schemes

New simplified occupational schemes involving a minimum of 'red tape' are to be introduced.

These schemes may either be subject to the usual final salary limits on benefits ('defined benefit') or be limited only by reference to contributions ('defined contribution').

Both types of scheme can be approved under the Inland Revenue's existing discretionary powers of approval. Detailed guidelines on how they will operate will be published shortly. The Inland Revenue will be preparing standard scheme documentation which will be available to any employer who wants a simplified, 'off the peg' scheme.

Administrative Improvements and Simplification

Tax approval of occupational pension schemes

Two detailed changes are proposed in the present legislation (Section 19 et seq, Finance Act 1970):

An amendment to Section 19(3), concerning the Board of Inland Revenue's power to withdraw a scheme's approval. Doubts have been expressed as to whether such a withdrawal can be back-dated to the time of the offending event or transaction (as had been thought). The amendment will establish beyond doubt that this can be done.

An amendment to Section 20, to clarify the scope and extent of the discretionary powers conferred on the Board by this provision. The amendment will make it clear that, notwithstanding these general discretionary powers, some of the fundamental conditions for approval are firm, and not subject to variation or waiver at the Board's discretion (for example, the maximum benefit limits). The amendment will also enable additional conditions to be prescribed in particular circumstances (eg for the approval of small self-administered schemes). The relevant conditions will be contained in Regulations made by Statutory Instrument.

Approval procedures

Amendments will be proposed to the legislation concerning the Board's powers to obtain information in connection with an application for approval (paragraph 6, Schedule 5, Finance Act 1970). These will enable the Board to prescribe:

- what information about the scheme is to be provided at the time of the application; and

- the form in which such information should be provided.

Over the coming months, the Inland Revenue hope to discuss with interested representative bodies possible ways in which present procedures could be further streamlined, for example by a greater reliance on standard documents.

Conditions for approval

The Inland Revenue also hope to have further discussions with the pensions industry on possible simplifications in the present conditions for approval. Two areas in particular need to be examined, with a view to achieving some relaxations in the present requirements i.e.

- the conditions which apply to industry-wide schemes; and

- the rules concerning pension benefits payable to people taking voluntary early retirement and the interaction of those rules with additional voluntary contributions.

Transferability of Pension Rights

Rules are to be introduced to help people who change their jobs in mid-career to take their pension rights with them. There will be complete freedom to make such transfers. Under the new regime up to 25 per cent of the transfer value may be paid out in the form of a tax-free lump sum to the surviving spouse or dependant.

Consultations will be undertaken to ensure that the systems of tax reliefs are not abused in order to circumvent the benefit limits applicable to occupational pension schemes.

Employees right to make additional pension provision outside their employers' schemes

Occupational pension scheme members are already able, if permitted by the rules of their scheme, to top up their pension expectations by payment of additional voluntary contributions (AVCs) - subject to the limit on total benefits and the 15 per cent ceiling on employee contributions. Under the Social Security Act 1986, all occupational schemes will in future be required to offer such a facility.

With effect from October 1987 occupational scheme members will be able to pay 'free-standing' AVCs to their own plan - i.e. completely separate from their employers' scheme - though they will still need to remain within the present limits on total contributions and benefits. From next month they will be free (if scheme rules permit) to vary the amount and timing of such payments as they think fit.

It will not be possible for any of the rights secured by AVCs to be commuted into a tax-free lump sum.

Restrictions on tax reliefs for very high earners

The definition of 'final remuneration' will be tightened up, to prevent artificial inflation of the figure on which benefits are based. In general, this will apply to all arrangements made on or after 17 March 1987.

A limit of £150,000 will be placed on the proportion of benefits which can be taken as a tax-free lump sum (without reducing total benefits). This will apply on or after 17 March 1987 to all new schemes and new members of existing schemes.

It will not be possible for maximum pension and (except in certain limited circumstances) lump sum benefits to accrue in as short a period as at present. This will apply on or after 17 March 1987 to all new schemes and new members of existing schemes.

For investments made after 5 April 1987 investors will be able to claim up to one-half of the BES relief against their income of the previous tax year subject to two conditions:-

1. the investment must be made in the first half of the tax year i.e., between 6 April and 5 October inclusive;

   and

2. the carry back will be subject to a maximum of £5,000 in respect of the total BES investment made in this period.

The option to carry back the relief must be claimed; the balance of the relief will continue to be allowed for the year in which the BES investment is actually made.

The overall limit on subscriptions eligible for relief under the BES stays the same for 1987/88 at £40,000.

Film Production Companies

For shares issued from 17 March 1987, a company will qualify under the BES if throughout the 3 year qualifying period it is engaged either in film production or in the distribution of films produced during the period. In practice this will help a company set up to produce a single film where the production is likely to take less than three years. The company will in future be eligible for relief if it spends the remainder of the period distributing the film.

National Insurance Contributions

A summary of National Insurance Contribution rates is set out below:-

		Weekly Earnings Limits From 6 April 1987 £	Current £
Class I (Employment) Standard Rate:			
Employees - contribution rates			
	Nil	0 - 38.99	0 - 37.99
	5%	39.00 - 64.99	38.00 - 59.99
	7%	65.00 - 99.99	60.00 - 94.99
	9%	100.00 -295.00	95.00 -285.00
Employers	Nil	0 - 38.99	0 - 37.99
	5%	39.00 - 64.99	38.00 - 59.99
	7%	65.00 - 99.99	60.00 - 94.99
	9%	100.00 -149.99	95.00 -139.99
	10.45%	150.00 or more	140.00 or more

Contracted Out Rate

Employees On first £39.00 (£38.00 pre 5.4.87)	On excess	From 6 April 1987 £	Current £
Nil	Nil	0 - 38.99	0 - 37.99
5%	2.85%	39.00 - 64.99	38.00 - 59.99
7%	4.85%	65.00 - 99.99	60.00 - 94.99
9%	6.85%	100.00 -295.00	95.00 -285.00

Employers

Nil	Nil	0 - 38.99	0 - 37.99
5%	0.90%	39.00 - 64.99	38.00 - 59.99
7%	2.90%	65.00 - 99.99	60.00 - 94.99
9%	4.90%	100.00 -149.99	95.00 -139.99
10.45%	6.35%	150.00 -295.00	140.00 -284.99
10.45%	10.45%	295.00 or more	285.00 or more

National Insurance Contributions

	From 6.4.87	Current
	£	£
Class 2 (Self-employed)		
Flat rate per week	£3.85	£3.75
Annual earnings exemption limit	£2125.00	£2075.00
Class 3 (Voluntary)		
Flat rate per week	£3.75	£3.65
Class 4 (Self-employed)		
Rates on profits	6.3%	6.3%
Lower annual limit	£4590.00	£4450.00
Upper annual limit	£15340.00	£14820.00
Maximum contribution	£677.25	£653.31

Statutory Sick Pay

The following limits and rates apply:

From 6.4.87		Current	
Average Weekly Earnings	Weekly Rate	Average Weekly Earnings	Weekly Rate
£	£	£	£
0 - 38.99	Nil	0 - 37.99	Nil
39.00 - 76.49	32.85	38.00 - 55.49	31.60
76.50 or more	47.20	55.50 - 74.49	39.20
		74.50 or more	46.75

National Insurance - benefits

The following table represents the increases in benefits effective from 6 April 1987.

	Weekly Rate From 6 April 1987	Current
Retirement Pension (single)	£39.50	£38.70
(married)	£63.25	£61.95
Widow's allowance (first 26 weeks)	£55.35	£54.20
Widow's pension	£39.50	£38.70
Invalidity benefit (single)	£39.50	£38.70
Spouse or adult dependent	£23.75	£23.25
Sickness benefit (single)	£30.05	£29.45
Wife or adult dependent	£18.60	£18.20
Maternity allowance	£30.05	£29.45
Child benefit	£ 7.25	£ 7.10
One parent benefit	£ 4.70	£ 4.60
Mobility allowance	£22.10	£21.65
Invalid care allowance	£23.75	£23.25
Severe disablement allowance	£23.75	£23.25
Wife or adult dependent	£14.20	£13.90
Industrial disablement pension (full)	£64.50	£63.20
Old persons pension	£23.75	£23.25

This revision of benefits was based on the movement in the retail price index from January 1986 to September 1986. From now on the revision will take place annually in April, based on the change in the retail price index from September to August each year.

Consequences of the Financial Services Act 1986

(a) Stock Exchanges

In his budget the Chancellor proposes to introduce an enabling power allowing securities traded on new stock exchanges established in the United Kingdom to be treated in the same way for tax purposes as securities traded on the existing Stock Exchange.

The Chancellor's proposals will ensure that securities traded on a new "recognised investment exchange" can, where appropriate, have the same status for tax purposes as if they were traded on the existing Stock Exchange (for example, availability of relief under the Business Expansion Scheme).

(b) Unit Trusts

The Chancellor proposes to modify the tax rules which apply to authorised and unauthorised unit trusts. The main purpose of the changes is to adjust the tax rules to fit the new regime for unit trusts introduced by the Financial Services Act 1986. The substance of the present tax treatment will not be altered.

The main modifications proposed are:

i) Tax definitions of authorised and other unit trusts will be altered to match the new Financial Services Act definitions.

ii) Authorised unit trusts - technical changes will be made to ensure that the income tax rules cater for trusts which take advantage of the freedom to invest in a wider range of securities (such as commodities financial futures and options) which may be permitted under the FSA regime.

iii) Other unit trusts - ie unit trusts which are not authorised, and "gilts" unit trusts (authorised unit trusts, investing only in fixed interest securities, which get the same income tax treatment as non-authorised unit trusts). To cater for developments which may occur in this sector under the new FSA regime:

1. A statutory income tax framework will be introduced - this will have substantially the same effect as the existing treatment, which is based on general income tax law and trust law (statutory rules are already in place for CGT and other taxes);

2. there will be enabling powers allowing the Treasury, by Regulation, to exclude trusts from the tax rules applying to unit trusts. This is to cater for the possibility that in future there will be some categories of trust for which the tax treatment is inappropriate, though they will fall within the FSA regime for unit trusts.

Friendly Societies

The Chancellor proposes in his Budget to change the limit on tax-exempt life or endowment assurance business carried on by friendly societies. For contracts made on or after 1 September 1987, the limit will be based on annual premiums of £100 instead of (as now) a gross sum assured of £750.

The change is designed to help older, traditional friendly societies who primarily issue long-term policies to provide retirement or death benefits. It is the equivalent of a very substantial increase in the old limit for such policies.

The details of the changes are as follows:-

a) The revised limit will apply to life or endowment contracts made on or after 1 September 1987 by a registered friendly society. Profits from such policies will be exempt from tax as long as the premiums on them do not exceed £100 a year.

b) Where premiums are payable more often than once a year, 10 per cent of the premium may be disregarded in applying the £100 limit. This will enable friendly societies to issue tax-exempt policies with premiums of, for example, £2 a week or £9 a month.

c) From 1 September 1987, an individual will be able to invest up to £100 a year in tax-exempt, "qualifying" life or endowment assurance with a friendly society. Qualifying policies do not normally attract a tax charge when they mature.

d) The Finance Bill will also rectify an omission in the 1985 Finance Act so that, as always intended, gains from any non-qualifying policies which may be issued by a friendly society attract a basic rate charge.

Approved Employee Share Schemes

Employees in a company which is taken over will be able to exchange their existing share options under an approved scheme for options over shares in the acquiring company.

The proposed facility will be available on the footing that scheme participants will be no worse off an no better off than if the take-over had not occurred, and they had simply continued with their existing options over shares in the target company. To qualify, therefore, the replacement options will have to continue to be governed by the rules of the target company's existing scheme (so ensuring, for example, that the employees do not lose any rights attaching to the options which they had hitherto enjoyed). A further condition will be that, at the time of the exchange, the value of the options being given up must be equal to the value of the options being acquired.

Certain other technical changes are being made to the "material interest" provisions that apply to employees and directors. This concerns some changes to the rules for deciding whether, where shares are held in a trust, an employee or director has a "material interest" in a close company and consequently whether he can participate in an approved employee share scheme and obtain interest relief on loans for purchasing the company's shares. These proposals were originally announced in an Inland Revenue Press Release issued 13 November 1986. For this purpose a person has a "material interest" in a company if he together with his associates is the beneficial owner of more than 5 per cent of the ordinary share capital of the company.

Some further small changes are also proposed, in addition to those already announced. These are :-

(a) Shares held by the trustees of a Finance Act 1978 approved profit sharing scheme pending appropriation to individual employees will not be reckonable for purposes of the "material interest" test when determining eligibility to participate in any employee share scheme, or for other matters including interest relief. (The legislation has always been operated on that footing, but this proposal will confirm the position.)

(b) In testing (for approved share option scheme purposes) whether an employee or director has a material interest in a close company, all options over shares in the company held by him will be reckonable as part of the test. This confirms existing published practice, and is for the avoidance of doubt.

Full details of all these proposals will be available in the Finance Bill.

Unapproved Employee Share Schemes

The Inland Revenue has issued a consultative document dealing with Section 79 Finance Act 1972. This section is highly complex and it is felt that it's provisions are too wide-ranging and penalise bonafide arrangements.

Section 79 is concerned with the situation where companies pass to their employees benefits - in the form of share or share related incentives - which in reality are part of the employee's remuneration, but which are dressed up as "capital" and so seek to avoid the charge to income tax on that remuneration. For this purpose it charges to income tax any growth in the value of shares (or an interest in shares) acquired by employees or directors by reason of their employment where the shares are subject to certain kinds of defined restriction, or are of a class that is not widely available other than to the employees. The Section also brings into tax certain other benefits which employee shareholders may receive from the company in respect of their shares, where those benefits are not otherwise chargeable to income tax. But it does not in general affect normal shares in which employees or directors invest on normal terms.

The consultative document puts forward some suggestions to improve the legislation. All interested parties have been requested to make their comments on the points in the document by 31 May 1987.

The Inland Revenue will be consulting with a small informal group of outside specialists in this area.

Goodman Jones

Goodman Jones was founded in 1934 and has not only managed to keep pace with the ever changing financial and business environment but takes pride in keeping one step ahead.

We have managed to achieve this by having Partners who reflect the enthusiasm and expertise necessary to offer the personal service required by today's businesses and who are supported by specialist departments staffed by highly trained individuals

Personal Service is the basis of our success and it is through this, and the very high standards of professionalism that we insist upon, that the firm has grown to its present size.

Our clients range from the very small to the very large and cover most of the commercial, industrial and professional sectors.

Services

We can offer the following comprehensive services:

* Audit and Accountancy
* General Financial and Management Consultancy
* Investigations and Reports on Acquisitions and Mergers
* The Raising of Venture Capital and Other Forms of Funding
* Corporation Tax Consultancy
* Personal Taxation Services including Capital Transfer Tax and Financial Planning
* Company Formation and Statutory Services
* Computer Consultancy
* Payroll Bureau Services
* Management Accounting Bureau Services
* Pensions and Insurance Consultancy

Offshore

We have associations with both accountants and lawyers in most of the significant business areas of the world who can provide Company Formation and Statutory Services to meet local requirements and Taxation Planning and Advice.