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PART A

SECRET

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PO -CH /NL/0039

PART A

1986 BUDGET OVERVIEW

DD's 25 years. 20/01/95 N. Aziz

PO -CH /NL/0039
PART A

STARTS:-14-01-85

FROM: MRS R LOMAX
DATE: 14 January 1985

cc: Mr Pratt
PS/IR
PS C&E

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR EVANS
MR MONGER
MR ODLING-SMEE
MR SCHOLAR
MR CROPPER
MR LORD
MR H DAVIES
SIR L AIREY - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

BUDGET OVERVIEW MEETINGS:
PROVISIONAL AGENDA FOR FIRST OVERVIEW ON MONDAY 20 JANUARY 1986

The Chancellor again intends to hold regular weekly overview meetings in the run up to this years Budget, to review progress and address central issues. These meetings will normally take place at 11 am on Mondays and will usually run through the lunch hour. I will aim to circulate a provisional agenda by Tuesday of the preceding week and a final agenda by Thursday evening. All papers for discussion at the overview meeting should be circulated on the previous Thursday evening.

2. The first overview meeting will be on Monday 20 January, but exceptionally it will begin at 9.30 am and finish before lunch.

3. The provisional agenda for the first overview meeting is as follows:-

(i) Budget scorecard.
To be circulated by Mr Scholar.

(ii) Pension fund surpluses.
Paper by Inland Revenue, to be circulated.

(iii) Higher rate tax packages.
Paper by Inland Revenue, to be circulated.

(iv) Employment measures.
Brief for Chief Secretary's meeting with Lord Young, by Mr Monck, to be circulated.

4. Attendance at overview meetings will normally be drawn from those to whom this minute is addressed. From time to time, additional officials may be invited according to the subjects selected for discussion.

RL.

RACHEL LOMAX

BUDGET CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 16 January 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
~~SIR G LITTLER~~
MR CASSELL
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MR SCHOLAR
MR PRATT
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MR H DAVIES
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MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc PS/IR
PS/C&E

+ Mr Corlett (items ii & iv)
Mr Mace (item iii)

* Petrol, Dhv, Cigs package

* One-off important gifts

FIRST BUDGET OVERVIEW MEETING:
MONDAY 20 JANUARY 1986 AT 9.30 AM

The agenda for the first Budget overview meeting on Monday is as follows:

(i) Budget scorecard.
To be circulated by Mr Scholar

(ii) <u>Pension fund surpluses</u>.
Paper by John Isaac, 16 January.

(iii) <u>Higher rate tax packages</u>.
Paper by John Isaac, 16 January.

(iv) <u>Stamp duty packages</u>.
Paper by John Isaac, 16 January.

(v) <u>Employment measures</u>.
Brief for Chief Secretary's meeting with Lord Young, by Mr Monck, 16 January.

[illegible]

pp RACHEL LOMAX

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BUDGET SECRET

SSR 4

RECORD OF THE FIRST BUDGET OVERVIEW MEETING:

9.30 AM ON 20 JANUARY 1986

Present

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Monger
Mr Odling Smee
Mr Scholar

Mr Pratt
Mr Cropper
Mr Lord
Mr H Davies

Sir L Airey - IR
Mr Battishill - IR
Mr Isaac - IR
Mr Corlett - IR - Items 2+4 only
Mr Mace - IR - Item 3 only

Sir Angus Fraser - C&E
Mr Knox - C&E

Papers

(i) Scorecard: Mr Scholar's minute of 16 January.

(ii) Pension fund surpluses: Mr Corlett's minute of 16 January.

(iii) Income tax: Options for the higher rate structure: Minute by Mr Mace of 16 January.

(iv) Stamp Duty (starters 103, 121, 137 and 138): Mr Corlett's minute of 16 January.

(v) Enterprise and Employment: Mr Monck's minute of 16 January

B.L.O.

Scorecard

The following conclusions were reached:-

(i) For working purposes, the scorecard should assume a reduction in the basic rate of 2½ per cent; Inland Revenue to provide a paper by 23 January on the implications both for the Revenue and employers of cutting the basic rate in ½p steps.

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(ii) The ½ per cent ceiling on the total RPI impact of the Budget (relative to the forecast) should be retained. Customs should explore the implications of two alternative indirect tax packages, which would keep the total RPI impact of the Budget (ie. including the effect of the 2½p cut in the basic rate) as close as possible to this limit:-

- VAT rate plus 1 per cent, and under indexation of some of the specific duties - probably drink.

- No change in VAT rate, and over indexation of tobacco, and oil duties.

Customs to provide a note for the next meeting.

(iii) Mr Odling Smee undertook to provide a note explaining the large differences between revenue and PSBR effects, especially for income tax.

(iv) Charitable giving: Relief for single gifts by companies (but not individuals) should now be regarded as a front runner - in contrast to the provisional decision reached at Chevening. (The Chancellor will be holding a meeting to discuss the charities package shortly.)

(v) Savings: The Financial Secretary will be holding a meeting to consider an Inland Revenue paper, due shortly.

(vi) Business Expansion Scheme: The cost of extending the existing scheme should not be scored as a Budget measure in the FSBR, even though technically it would need reenacting.

(vii) A number of changes to the minor starters table were noted. Boarding School and detached duty allowances (starter 108) would not score as a Budget measure; tax treatment of Enterprise Allowance (starter 125) should be costed as switching to case 6 treatment (not complete exemption, which has been ruled out); changes in the VAT treatment of motoring expenses (starter 7) might be subject to EC problems, on which the Minister of State will report back shortly; and further consideration should be given to the costings of starters 129, 153 and 410. Capital allowances for expensive cars (starter 148) should be omitted.

(viii) The Chancellor hoped to see early progress in the search for <u>compassionate lollipops</u>.

<u>Pension fund surpluses</u>

2. The scheme outlined in Mr Corlett's minute of 16 January was broadly accepted as the basis for future work, although it differed in certain important respects from that envisaged at Chevening. One significant modification was agreed: the method of reducing all excessive surpluses (ie. above 10 per cent) should be a matter for the trustees, at least in principle. The new requirements should be cast in terms of time limits within which surpluses would have to be reduced to specified levels: for example funds might have 12 months to reduce surpluses below the upper limit and perhaps 5 years to reduce surpluses below the lower limit. It was noted that in practice these time limits, combined with funds' existing rules, would constrain the choice of methods open to trustees.

3. Further work should focus on the following issues:-

(i) <u>The choice of upper and lower limits</u>: Although Mr Corlett's minute considered alternative upper limits (of 20 per cent and 30 per cent) an alternative lower limit, of say 5 per cent, had not been looked at; these limits would need considering in the light of further work on the sensitivity of surpluses to variations in the underlying actuarial assumptions.

(ii) <u>The range and nature of the actuarial assumptions provided by GAD</u>: There was a strong presumption in favour of using the assumptions already agreed for the

GAD's work on SERPS, and against allowing a margin. In principle the GAD's assumptions should represent his best view, rather than some average of the assumptions used by the actuarial profession.

(iii) The tax treatment of refunds: It was agreed that an exit charge was an essential component of the scheme, and that it would be politically very difficult to set this higher than 10 per cent in the first year (though it could be subject to later review). Refunds should also be ring fenced for CT purposes. (It was accepted that both tax changes were needed to prevent a more permissive approach to refunds increasing the incentive for "parking" though it was unlikely that an exit charge of only 10 per cent would solve the problem entirely.)

(iv) Other tax issues: The tax treatment of foreign owned and small companies would need further thought.

(v) Yield: The size of the first year yield would depend on whether tax was paid by the company or by the pension fund; current estimates assume that the whole charge (including corporation tax) would be deducted at source (ie. paid by the pension fund). The scorecard should note that the first year yield would be nil on the alternative assumption.

(vi) Phasing and policing: In practice Inland Revenue could not insist on annual valuation for all funds, nor on valuations for all funds in the first year. The Financial Secretary was asked to consider the implications (with Inland Revenue). This might also include the question of transitional relief, for which there might be pressure.

4. The Chancellor emphasised the need for careful work on presentation. There were two main - and related - themes: the need to prevent an obvious abuse of the existing tax relief on contributions; and the evident desire of many companies to take refunds from their pension schemes. In addition, there had been

disappointment in some quarters that it had not been possible to take action on pension funds last year; and there was a general case for raising some revenue in this area, if possible. Further work should also develop defensive lines against possible criticisms from the employers' organisations. No!

Higher rate tax packages

5. Mr Mace's note of 16 January outlined four packages designed to limit the cash gains accruing to those with large incomes as a result of changes in the basic rate and main personal allowances, bearing in mind that some simplification in the higher rate tax structure was also desirable.

6. It was provisionally agreed that:-

(i) The choice between different options should turn largely on the size of the cash gain at different levels of income, compared with 1985-86 (Annex A of Mr Mace's minute).

(ii) The size of the cash gain in option 5.5BX was probably too large - though a final decision would depend to some extent on the overall look of the Budget.

(iii) The two simplification options - packages G and H -were ruled out since they limited the cash gains at higher income levels too severely.

(iv) All the simplification options were likely to lead to very spiky patterns of gainers and losers. This would be hard to justify unless the package could be presented as a radical reform; it might be easier to stick with the status quo.

(v) Of the packages shown, option 5.4BX presented the least problems. But it offered higher rate tax payers a smaller cash gain than they could have expected from across the board indexation of allowances and higher rate thresholds with no change in the basic rate - arguably the "neutral" position.

7. Inland Revenue were asked to develop an option that would produce maximum gains for those on top incomes broadly equivalent to those that would have resulted from straight forward indexation of the main personal allowances and higher rate tax thresholds, with no change in the basic rate.

Stamp duty

8. It was agreed that there was a strong case for reducing stamp duty on equities by ½ per cent from the date of the Big Bang, but that it would be politically important to do so on a revenue neutral basis (at least in terms of the first year effect and if possible for the second year as well). Offsetting changes in the stamp duty base might be implemented from Budget day especially where delaying until the date of the Big Bang could lead to forestalling.

9. The following front runners for broadening the stamp duty base (identified in paragraph 3 of Mr Corlett's minute) were confirmed:-

(i) ADRs: There was a strong presumption in favour of setting the charge on ADRs in the range 2½ to 5 per cent. The Economic Secretary was asked to consider further.

(ii) Intra account dealing: There was a general feeling that the estimated yield was too low. (Inland Revenue to reconsider).

(iii) Takeovers: There were no problems about charging takeovers at ½ per cent. A 1 per cent rate - for which there was some case - would require further consideration; it raised both technical and presentational issues.

10. Despite the objections noted in Mr Corlett's note, the following other possible extensions should be kept in play (subject to further work):-

(i) Loan stock: Further work would be needed to draw a defensible borderline between tax-exempt and taxable stock. It was accepted that it would not be possible to collect revenue on Irish Government loan stock.

(ii) Mergers: The Chancellor was unhappy about appearing to discriminate against contested bids, and thought it should be possible to draw a boundary line between mergers and capital reconstructions (with the latter remaining exempt).

(iii) Renounceable documents: The Chancellor doubted whether this would, as had been suggested, have an inhibiting effect on privatisation issues.

(iv) Foreign shares: With stamp duty at ½ per cent, little weight should be attached to the risk of London losing business. The feasibility of taxing foreign bearer shares should be examined, together with possible EC inhibitions.

11. It was provisionally agreed that stamp duty should not be extended to traded options and futures, on the grounds that these were young markets.

Enterprise and employment

12. Mr Monck's brief for the Chief Secretary's meeting with Lord Young on Wednesday was noted. The Chancellor said he would have an early word with the Prime Minister.

Next Meeting

13. The second overview meeting will be at 11 am on Monday 27 January. All papers should be circulated on Thursday 23 January.

RL.

RACHEL LOMAX

Distribution

Those present PS/IR; PS/C+E

FROM: MRS R LOMAX
DATE: ~~21~~ 23 January 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
MR EVANS
MR MONGER
MR ODLING-SMEE
MR SCHOLAR
MR PRATT
MR CROPPER
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MR H DAVIES
SIR L AIREY - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/IR
PS/C&E
Mr Mace - IR (items iii, iv, v)

SECOND BUDGET OVERVIEW MEETING: ~~PROVISIONAL~~ AGENDA

The second Budget overview meeting will be held on Monday 27 January at 11 am. The ~~provisional~~ agenda is as follows:-

(i) Budget scorecard.
Minute by Mr Scholar, ~~to be circulated~~ 23 January.

(ii) Indirect tax options.
Paper by Mr Knox, ~~to be circulated~~ 23 January

(iii) Higher rate packages. ✓ on its ~~way~~

Paper by Mr Mace, ~~to be circulated~~ 23 January

(iv) Income tax: ~~½ point cuts in the~~ fractional basic rate. ~~Late tonight~~

Paper by ~~Mr Mace~~ Mr Pinder, ~~to be circulated.~~ 23 January x ~~6546~~

(v) Reduced rate band. ✓ on its way

Paper by Mr ~~Mace~~ Isaac, to ~~be circulated~~. 23 January

(vi) Employment measures.

Progress report - to be raised orally.

~~2. Papers for the overview meeting, together with the revised agenda, will be circulated on 23 January.~~

RL

RACHEL LOMAX

RECORD OF THE SECOND BUDGET OVERVIEW MEETING:

11AM ON 27 JANUARY 1986

Present	Chancellor	Mr Odling Smee
	Chief Secretary	Mr Scholar
	Financial Secretary	Mr Pratt
	Economic Secretary	Mr Cropper
	Minister of State	Mr Lord
	Sir P Middleton	Mr H Davies
	Sir T Burns	Sir L Airey - IR
	Mr F E R Butler	Mr Battishill - IR
	Sir G Littler	Mr Isaac - IR
	Mr Cassell	Mr Mace - IR - Items 3&4 only
	Mr Monck	Mr Pinder - IR - Items 3&4 only
	Mr A Wilson	Sir Angus Fraser - C&E
	Mr Monger	Mr Knox - C&E

Papers

(i) Scorecard: Mr Scholar's minute of 23 January.

(ii) Indirect tax options: Paper by Mr Knox, 23 January.

(iii) Higher rate packages: Paper by Mr Mace, 23 January.

(iv) Reduced rate band: Mr Isaac's minute of 23 January.

(i) Scorecard

The main points arising from discussion of the scorecard were:-

(i) Basic rate: For working purposes, the scorecard should assume a reduction in the basic rate of 2 per cent, rather than 2½ per cent (though it had now been established that 2½ per cent was a practical option). This decision was obviously subject to review in the light of developments in the oil market.

(ii) Unincorporated businesses: Inland Revenue were asked for a note on the effect of reductions in the basic rate on unincorporated businesses. This could have important presentational implications.

(iii) Business Expansion Scheme: The scorecard should assume negligible rather than nil yield from the proposed changes. The underlying assumption (that money for asset based activities would be switched to qualifying BES investment) would need reexamination at a later stage.

(iv) Pension fund surpluses: The tax charge on refunds should be regarded as a liability of the company, but deducted at source. Inland Revenue were asked for a progress report on the proposed scheme which should include a fuller explanation of the existing rules and practice; discussion of the implementation of the new arrangements in 1986-87; and a report of the GAD's response to the idea of providing standardised actuarial assumptions. In the presentation of the scheme a robust defence would be required against criticisms from employees, actuaries and others.

(v) Stamp duty: There was some concern about the political acceptability of the present package, which involved a net revenue cost in 1987-88. Further effort should be made to identify a revenue neutral option. Failing that, an across the board cut in stamp duty (including houses) might offer a more politically acceptable package, though it would be relatively expensive.

(vi) Lollipops: FP were asked to comb through the Budget representations for further ideas.

(vii) Minimum Tax: IR agreed to provide a further note for the next overview.

(ii) Indirect tax options

2. The main conclusions of the discussion were as follows:

(i) Packages involving changes in the VAT rate were ruled out. Given the large fall in oil prices, a change in the VAT rate would be difficult to justify.

(ii) Customs and Excise were asked to do further work on packages on the lines of option IIB in Mr Knox's paper, treating the 0.5 per cent RPI increase as a ceiling and not a target. Careful consideration should be given to the maximum tolerable increase in the duty on tobacco (provisionally thought to be at least 10p, but probably less than 15p); and the upper limit on the oil duties (preserving the relativity between petrol and derv), bearing in mind the probable movement in pump prices between now and the Budget. The Chancellor ruled out increases in petrol duty that would push pump prices above £2 a gallon; for presentational reasons, he would like to go for an increase in duty that would still leave petrol prices lower than they were a year ago in money terms.

(iii) Sir Terence Burns was asked to look at the RPI effect of changing oil prices, taking account of the lags between changes in crude oil prices and pump prices, and setting this in the context of the forecast monthly profile for the RPI.

(iv) The candidates for less than full revalorisation were: pipe tobacco and cigars, spirits, and VED on lorries. The Chancellor ruled out a reduction (though not a stand still) in VED for lorries. The presumption was that other excise duties would be revalorised in line with prices.

(iii) <u>Higher rate packages</u>

3. On the assumption that there would be a 2p cut in the basic rate, it was provisionally agreed that:-

- Higher rates tax thresholds should be adjusted to limit the cash gains for those on top incomes to something close to what would have resulted from straightforward indexation.

- Further work should be done on a variant of option L1 to make it satisfy this criterion (given a 2p cut in the basic rate).

- A choice would then have to be taken between this variant and option 5.4CX in Mr Mace's paper of 23 January.

(iv) Reduced rate band

4. It was accepted that a reduced rate band was not an option for the 1986 Budget, and that advance warning would be needed if it was to be introduced in 1987. Introduction of a reduced rate band in 1987 was feasible, but the expense and disruption to the Inland Revenue's programme of work (eg. postponing the introduction of transferable allowances to 1991) was judged unacceptable.

5. The Chancellor said that a robust briefing line would need developing, bringing out the administrative problems both for Inland Revenue and for employers (especially small businessmen).

(v) Employment measures

6. The Chief Secretary reported that his initial meeting with Lord Young had made some progress. There had been discussion of a programme which would cost (gross) in the range of £50 million in 1986-87 and £100 million in 1987-88, but it was still far from clear at what level Department of Employment Ministers would be prepared to settle; they seemed to accept that a range of measures could still be attractive presentationally; and there were signs that they were prepared to drop plans for a large expansion in the community programme. Lord Young's enthusiasm for enlarging the interview LTU and Jobstart schemes was undiminished, but further work would explore scaled down versions of his original proposals, as well as looking for offsetting savings within the Department of Employment programme.

7. In discussion it was noted that:-

- Work on the inner cities - where Lord Young would be the lead Minister - was also envisaging a switch of resources; this might limit the savings from the department's programmes which could be used to finance additional employment measures.

- While for negotiating purposes it was clearly right for the Treasury to focus on gross costs, the real objective should be to limit additional net spending to £50 million and £100 million in 1986-87 and 1987-88 respectively.

- Extending pilot projects would have heavy staff costs, especially at DHSS; and indeed, given the difficulties at DHSS, the staffing implications could make Lord Young's ambition for a nationwide scheme impractical.

Next steps

8. The next overview meeting will be at 11 a.m. on Monday 3 February. As usual, all papers should be circulated on the previous Thursday.

RL

RACHEL LOMAX
27 January 1986

Distribution
Those present
PS/Inland Revenue
PS/Customs and Excise

RR3/ 7/7

BUDGET CONFIDENTIAL

pnf

FROM: MRS R LOMAX
DATE: ~~23~~ 28 January 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
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MR MONGER
MR ODLING-SMEE
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MR H DAVIES
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MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/IR
PS/C&E
~~Mr Mace - IR (items iii, iv, v)~~
+ ~~Mr Pinder - IR (items iv & v)~~
Mr Beighton IR (item
Mr Corlett - IR (item
Mr Houghton - IR (item
Mr Lewis - IR (item

~~SECOND~~ THIRD BUDGET OVERVIEW MEETING: PROVISIONAL AGENDA

The second Budget overview meeting will be held on Monday 27 January at 11 am. The agenda is as follows:-

(i) Budget scorecard.
Minute by Mr Scholar, 23 January.

Also relevant: Odling Smee on PSBR + revenue effects (below).

(ii) Indirect tax options.
Paper by Mr Knox, 23 January.

(iii) **Higher rate packages.**
Paper by Mr Mace, 23 January.

(iv) **Income tax: fractional basic rate.**
Paper by Mr Pinder, 23 January.

(v) **Reduced rate band.**
Paper by Mr Isaac, 23 January.

(vi) **Employment measures.**
Progress report - to be raised orally.
See minutes of CST's meeting with Lord Young below.

RL.

RACHEL LOMAX

RR7.77

BUDGET CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 23 January 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
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MR ODLING-SMEE
MR SCHOLAR
MR PRATT
MR CROPPER
MR LORD
MR H DAVIES
SIR L AIREY - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/IR
PS/C&E
Mr Mace - IR (items iii, iv, v)

SECOND BUDGET OVERVIEW MEETING: AGENDA

The second Budget overview meeting will be held on Monday 27 January at 11 am. The agenda is as follows:-

(i) <u>Budget scorecard.</u>
Minute by Mr Scholar, 23 January.

(ii) <u>Indirect tax options</u>.
Paper by Mr Knox, 23 January.

(iii) <u>Higher rate packages</u>.
Paper by Mr Mace, 23 January.

(iv) <u>Income tax: fractional basic rate</u>.
Paper by Mr Pinder, 23 January.

(v) <u>Reduced rate band</u>.
Paper by Mr Isaac, 23 January.

(vi) <u>Employment measures</u>.
Progress report - to be raised orally.

RL.

RACHEL LOMAX

FROM: MRS R LOMAX

DATE: 28 January 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
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MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/IR
PS/C&E
Mr Beighton - IR (item v)
Mr Corlett - IR (item iii & iv)
Mr Houghton - IR (item vi)
Mr Lewis - IR (item v)

THIRD BUDGET OVERVIEW MEETING: PROVISIONAL AGENDA

The third Budget Overview meeting will be held on Monday 3 February at 11am. The provisional agenda is as follows:-

(i) Budget scorecard
Minute by Mr Scholar, to be circulated.

(ii) Further indirect tax options
Paper by Mr Knox, to be circulated.

(iii) Pension fund surpluses

Paper by Mr Corlett, to be circulated.

(iv) Stamp duty package

Paper by Mr Corlett, to be circulated.

(v) Income tax

- Higher rate packages: paper by Mr Lewis, to be circulated.
- Effect of a cut in the basic rate on unincorporated businesses: paper by Mr Beighton, to be circulated.

(vi) CTT: distributional effects of ending the lifetime charge

Paper by Mr Houghton, to be circulated.

(vii) A minimum tax

Paper by Mr Isaac, to be circulated.

(viii) Lollipops

Paper by Mr Monger, to be circulated.

2. All papers for the next overview meeting should be circulated on Thursday 30 January.

RL.

RACHEL LOMAX

RR7.77 pp

BUDGET CONFIDENTIAL

bf. 30/1

FROM: MRS R LOMAX
DATE: ~~28~~ 30 January 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
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MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/IR
PS/C&E
Mr Beighton - IR (item v)
Mr Corlett - IR (item iii & iv)
Mr Houghton - IR (item vi)
Mr Lewis - IR (item v)
? GAD - Pension funds
? Bank - Stamp duty

Ch.

This is a first stab, after talking to Michael + the Rev Depts, bearing in mind what you said on Monday. I need to settle a final agenda on Thursday. Any views?

RL
28/1

This seems a rather heavy agenda. But let us see if we can get through it. N

THIRD BUDGET OVERVIEW MEETING: ~~PROVISIONAL~~ AGENDA

The third Budget Overview meeting will be held on Monday 3 February at 11am. The ~~provisional~~ agenda is as follows:-

(i) Budget scorecard
Minute by Mr Scholar, ~~to be circulated~~ 30 January.

(ii) Further indirect tax options
Paper by Mr Knox, ~~to be circulated.~~ 30 January
[also relevant: Oil and petrol prices, ~~paper~~ note by Sir T Burns, 30 January]

(iii) <u>Pension fund surpluses</u>

Paper by Mr Corlett, ~~to be circulated~~. 30 January

(iv) <u>Stamp duty package</u>

Paper by Mr Corlett, ~~to be circulated~~. 30 January

(v) <u>Income tax</u>

- Higher rate packages: paper by Mr Lewis, ~~to be circulated~~. 30 January

- Effect of a cut in the basic rate on unincorporated businesses: paper by Mr Beighton, ~~to be circulated~~. 30 January

(vi) <u>CTT: distributional effects of ending the lifetime charge</u>

Paper by Mr Houghton, ~~to be circulated~~. 30 January

(vii) <u>A minimum tax</u>

Paper by Mr Isaac, ~~to be circulated~~. 30 January

(viii) <u>Lollipops</u>

Paper by Mr Monger, ~~to be circulated~~. 30 January

2. ~~All papers for the next overview meeting should be circulated on Thursday 30 January.~~

RL.

RACHEL LOMAX

2654/056

BUDGET CONFIDENTIAL

FROM: G W MONGER
DATE: 30 JANUARY 1986

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Sir T Burns
Mr F E R Butler
Sir G Littler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Evans
Mr Odling-Smee
Miss Sinclair
Mr Pratt
Mr Romanski
Mr Murray
Mr Cropper
Mr Lord
Mr H Davies

Sir L Airey (IR)
Mr Isaac (IR)
Mr Battishill (IR)
PS/IR
Sir A Fraser (C&E)
Mr Knox (C&E)
PS/C&E

BUDGET LOLLIPOPS

1. You asked FP to prepare a paper on Budget lollipops for discussion at the third Budget Overview meeting. A list of potential lollipops we have identified is annexed.

2. Much of this is ground which has been well-trodden in similar exercises for previous Budgets. We have put forward some ideas which have been considered and rejected in the past, not necessarily because we would advocate their adoption now, but because we considered that Ministers would want to look at them again.

3. The list of potential lollipops does not include anything from the direct tax and charities area, to be discussed at your meeting on Friday 31 January. More detailed information about the VAT and charities items (nos 4 to 10) is contained in Mr Jefferson Smith's submission of 24 January to be circulated under cover of a note from the Minister of State with his recommendations.

4. With the exception of No 4, VAT relief for welfare services provided by charities, all the VAT and car tax lollipops could be introduced by statutory instrument. The Inland Revenue lollipops all require Finance Bill legislation.

5. Except, possibly, for 18, extension of student covenants to 17 year olds, none of the lollipops would have any significant staffing effects.

G W MONGER

BUDGET LOLLIPOPS

A. Proposals currently in the Starters List

1. Budget Starter 22. VAT Relief for installation of distress alarms and lifts for handicapped

Ministers have decided to extend the existing relief for building alterations to the residence of a handicapped person or for a charity caring for the handicapped to cover also the installation of distress alarms and lifts. Follows considerable pressure from the handicapped and organisations concerned with their welfare. Cost £3 million.

2. Budget Starter 115: Extension of relief under S.22(2)FA 74 for pensions paid to Nazi victims

Ministers have already agreed the inclusion of this starter in the Finance Bill. The provision would allow 100%, instead of the present 50%, of pensions paid to certain victims of Nazi persecution to be deducted before calculating liability to income tax. This follows representations from Sir William Clark. The first and full year cost is £1 million.

3. Budget Starter 141: CGT and Maintenance Funds

Currently regarded as a serious Finance Bill candidate. Proposal is that on the death of a person who has set up a maintenance fund to support heritage property, the value of assets in the fund should be uplifted to their value at the time of death, to reduce CGT liability on disposal of the assets. Proposed by heritage lobby, and debated in Committee last year with some opposition support. Cost perhaps £1-2 million.

B. Other proposals not currently in the Starters List

4. VAT relief for welfare services provided by charities

Charities VAT Reform Group (CVRG) are seeking a relief from VAT on all purchases by charities in order to perform a social welfare function eg residential care, training for employment, on the grounds that in these activities, the charities substitute for, or at least complement, State provision of similar services. Estimated cost is £10 to £15 million per year; primary legislation would be required. Customs advise that the difficulties with this proposal are that it would involve Government making a value judgement that certain charitable activities are more 'worthy' than others; there would be pressure from the charities whose activities are excluded for similar treatment (Committee stage debate would provide an occasion for such pressure); and there would be a danger that the Commission would object as the relief would be equivalent to a new zero-rating.

no

5. VAT relief for buildings alterations and extensions for charities

VAT was introduced on building alterations and extensions in the 1984 Budget. CVRG are seeking a reintroduction of the zero-rating for building alterations and extensions carried out on buildings owned by charities. Cost would be up to £20 million if all charities were allowed to benefit (£6 to £10 million if restricted to social welfare charities, but that would be a difficult borderline to defend). Customs advise that the difficulties with such a relief would include the reintroduction of the old borderline between alterations and repair which was difficult to operate, and that it would be contrary to EC Sixth Directive on VAT and infraction proceedings would be likely.

no

6. VAT relief on newspaper advertising by charities

VAT was introduced on newspaper advertising in 1985 Budget. This was seen by charities as particularly unwelcome because it affects their fund-raising and their efforts to inform the public about their objectives and activities. CVRG are seeking a reintroduction of the relief for advertisements of this nature placed by charities. Relief would cost £1 to £2 million. Customs have suggested this relief be granted.

7. VAT relief for medicines and drugs supplied to charities

[illegible]

CVRG are seeking this relief, which would benefit medical research charities; social welfare charities providing hospitals, hospices and homes for elderly etc; and animal charities such as PDSA. Cost would be up to £5 million. Customs advise that this would mean discriminating between charitable hospitals and medical research institutes and those which were non-profit-making but not charitable which would not benefit, but that the distinction would be defensible. EC complications would need to be borne in mind but should not be decisive. One possibility would be to relieve medicines but not drugs, which could perhaps be reserved for a later year.

8. Extension of VAT relief for donated medical equipment

CVRG are seeking extension of relief to rerigerators used in medical research; Customs suggest that this be accepted and have also proposed a relief for video equipment used in diagnostic systems and monitoring of patients. Such relief would cost £3-4 million. CVRG also suggest a relief for laundry equipment used in hospitals, but Customs advise against this as it has a less direct medical application and to concede that would lead to further claims for a wider relief.

[illegible]

9. VAT relief for recording equipment for a blind charity

CVRG are seeking a VAT relief for general purpose recording equipment used in preparing 'talking newspapers', etc for the blind. Relief at present limited to specialised equipment. Extension would cost £1 million. Customs have suggested that this relief be granted.

10. VAT relief for welfare vehicles

Customs have proposed a VAT relief for welfare vehicles with between 6 and 50 seats for use by charities caring for the blind, deaf or mentally handicapped, to give such charities parity of treatment with charities caring for the disabled which already get relief for specially adapted vehicles. Cost £0.5 million.

11. VAT relief for installation of safety handrails and raising floors to improve access of ease mobility for disabled people

This CVRG suggestion would be an extension of the existing relief for certain works to improve access to buildings for the disabled, and would complement the proposals already agreed (see 1 above) to extend relief to the installation of distress alarms and lifts).

12. VAT relief for mountain rescue organisations

The Patterdale Mountain Rescue Association has lobbied for a general VAT relief for all expenditure involved in equipping and running mountain rescue teams. (At present there is only a limited relief for specialized equipment eg ambulances). Relief would cost about £50,000 pa. Customs advise that there are many charities which perform functions which the State would otherwise have to perform, or which would regard themselves as equally worthy causes and equally deserving of relief, and a relief for mountain rescue associations alone would be bound to lead to renewed pressure for a wider VAT relief from such bodies.

No

13. VAT relief for supplies of petrol and lubricating oil to Royal National Lifeboat Institution

This was considered in 1984 when VAT relief for the RNLI was extended to lifeboat carriage and launching equipment. The argument against extending relief to petrol and oil was the potentional repercussive effects since many other organisation, particularly other charities with high fuel costs, would press hard for similar reliefs. This argument still holds good.

No

14. Extension of VAT relief for sales of donated goods by charities

At present relief is restricted to charities which are primarily concerned with the relief of human distress or animal welfare. Could be extended to other specified worthy charities or to charities generally. Cost not known. But Customs advise that a general relief would include some charities of dubious value and increase the risks of abuse, whereas a limited extension would be bound to increase pressure for further extensions.

No

15. VAT and car tax relief for recipients of Mobility Allowance or War Pensioners' Mobility Supplement who use their allowances to buy normal production cars on hire purchase

This has been rejected in the past on the grounds of cost (estimated in 1984 at £2½ million for vehicles currently supplied through Motability, but up to £10 million if Motability supplied vehicles to its capacity and more if the concession had to be extended to other traders) and also the danger of abuse as it would be too easy for the disabled to buy ordinary cars for transfer to friends or relatives or for sale.

16. Car tax relief on cars supplied to Motability for leasing

1987?

Open to same risk of abuse, but to lesser extent. However, Motability received very generous concessions in 1984 - deliberately overcompensating them for CT changes - which, since they took the form of zero rating for leasing charges, gave considerable extra help to those choosing to lease not buy from Motability. As far as we are aware, further concessions are not being sought this year and, if given would increase Motability's privileges compared to those available to the disabled generally. Chancellor decided not to make this further limited concession in 1984 but said then that he would not rule it out for the future. Revenue cost would be about £4m, at present volume of leasing (car tax only as VAT relief already applies).

17. Blind allowance

The blind allowance is currently £360, and has not been increased since 1981. Some 30,000 people benefit (only a quarter of all those registered blind) at a cost of £3m a year. Increasing it in line with the growth in main personal allowances since 1981 - to about £600 - would cost about £2m. But - as Mr Hudson's note of 28 January points out - there has been very little pressure for such an increase, which would make eventual abolition of what is already an anomalous allowance more costly.

18. Student covenants - extension to 17 year olds

At present under-18s cannot benefit from tax relief for payments under covenant. The Scottish Secretary has pressed, as in previous years, for relief for to be extended to 17 year old students (who are far more common in Scotland than England and Wales). Cost would be £1-1½ million, with a small staff cost. However the proposal has so far always been rejected because of the difficulties of tampering with the general rules on age of majority, and the risk that it might not be possible to ring-fence the concession to students alone.

19. CTT 'douceur' concession

The proposal would extend the present CTT concession applying to sales of heritage assets to specified, generally public, bodies to non-public nature conservancy bodies (such as Royal Society for Nature Conservation, Royal Society for the Protection of Birds, Woodland Trust, and Scottish Wildlife Trust). In the form proposed by Mr Baker, eligible bodies would be specified by the Nature Conservancy Council with the agreement of the Treasury. Cost unquantifiable but could be significant. Previously rejected - difficult to restrict extension to just these bodies.

20. CGT and divorce

Assets transferred between divorcing spouses as part of settlement - eg in exchange for agreement not to pay maintenance - attract CGT. Exemption would be too generous, but alternative of roll-over relief raises problems of election which could only be settled by the Courts. Legislation would be complicated, and so this has been rejected in previous years. Revenue effects negligible, however.

1987??

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BUDGET CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 30 January 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
MR EVANS
MR MONGER
MR ODLING-SMEE
MR SCHOLAR
MR PRATT
MR CROPPER
MR LORD
MR H DAVIES
SIR L AIREY - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/IR
PS/C&E
Mr Beighton - IR (item v)
Mr Corlett - IR (item iii & iv)
Mr Houghton - IR (item vi)
Mr ~~Lewis~~ Mace - IR (item v)

THIRD BUDGET OVERVIEW MEETING: REVISED AGENDA

The third Budget Overview meeting will be held on Monday 3 February at 11am. The agenda is as follows:-

(i) Budget scorecard
Minute by Mr Scholar, 30 January.

(ii) Further indirect tax options

Paper by Mr Knox, 30 January [also relevant: Oil and petrol prices, note by Sir T Burns, 30 January].

(iii) Pension fund surpluses

Paper by Mr Corlett, 30 January.

(iv) Stamp duty package

Paper by Mr Corlett, 30 January.

(v) Income tax

- Higher rate packages: paper by Mr Mace, 30 January.

- Effect of a cut in the basic rate on unincorporated businesses: paper by Mr Beighton, 30 January

(vi) CTT

- lifetime charge: potential gainers: paper by Mr Battersby, 28 January.

- rates and thresholds: paper by Mr Houghton, 29 January.

(vii) A minimum tax

Paper by Mr Isaac, 30 January.

(viii) Lollipops

Paper by Mr Monger, 30 January.

pp RACHEL LOMAX

RR7.77

BUDGET CONFIDENTIAL

1SA/THING

Pls Type and hand to T.K.

FROM: MRS R LOMAX

DATE: ~~30~~ 31 January 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
MR EVANS
MR MONGER
MR ODLING-SMEE
MR SCHOLAR
MR PRATT
MR CROPPER
MR LORD
MR H DAVIES
SIR L AIREY - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/IR
PS/C&E
Mr Beighton - IR (item v)
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Mr Houghton - IR (item vi)
Mr Lewis - IR (item v)

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(ii) Excise Duty ~~Further indirect tax~~ options

Paper by Mr Knox, 30 January [also relevant: Outlook for petrol prices in 1986 ~~Oil and petrol prices~~, note by Sir T Burns, 30 January].

(iii) Pensions ~~fund surpluses~~: Refund of Surpluses ~~(starter 136)~~

Paper by Mr Corlett, 30 January.

(iv) Stamp duty ~~package (starters 103, 103A, 103B, 103C, 121, 137 and 138)~~

Paper by Mr Corlett, 30 January.

(v) Income tax

- Higher rate packages: paper by Mr Mace ~~Lewis~~, 30 January.

- Effect of a cut in the basic rate on unincorporated businesses: paper by Mr Beighton, 30 January

(vi) CTT: Lifetime Charge ~~(starter 101)~~: Potential Gainers ~~distributional effects of ending the lifetime charge~~

Paper by Mr Battersby ~~Houghton~~, 28 ~~30~~ January

(vii) A minimum tax

Paper by Mr Isaac, 30 January.

(viii) Lollipops

Paper by Mr Monger, 30 January.

RL

RACHEL LOMAX

RECORD OF THIRD BUDGET OVERVIEW MEETING

RR3.24

BUDGET SECRET
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BUDGET SECRET

RECORD OF THE THIRD BUDGET OVERVIEW MEETING:

11AM ON 3 FEBRUARY 1986

REF NO JJ10
COPY NO 2 OF 31

Present

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Monger
Mr Odling Smee
Mr Scholar
Mr Pratt
Mr Cropper
Mr Lord
Mr H Davies

Sir L Airey - IR
Mr Battishill - IR
Mr Isaac - IR
Mr Beighton - IR (Item 5 only)
Mr Corlett - IR (Items 3&4 only)
Mr Houghton - IR (Item 6 only)
Mr Mace - IR (Item 5 only)

Sir Angus Fraser - C&E
Mr Knox - C&E

Government Actuary (Item 3 only)

Mr Farrow - B/E (Item 4 only)

Pwp.

Papers

(i) Scorecard: Mr Scholar's minute of 30 January.

(ii) Excise Duty options: Mr Knox's minute of 30 January; minute by Sir T Burns, 30 January.

(iii) Pensions: Refund of surpluses (starter 136): Paper by Mr Corlett, 30 January.

(iv) Stamp Duty: Paper by Mr Corlett. (Also relevant: tax on money turnover, note by PS/Economic Secretary, 31 January.)

(v) Higher rate packages: Paper by Mr Mace, 30 January.

(vi) CTT: Potential gainers - paper by Mr Battersby, 28 January; CTT rates and thresholds - paper by Mr Battersby, 29 January.

(vii) A minimum tax: Minute by Mr Isaac, 30 January.

(viii) Budget lollipops: Minute by Mr Monger, 30 January.

B.L.O. SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

(i) Scorecard

The main points arising from discussion of the scorecard were:-

(i) A package of the order of £1½ billion was still a reasonable working assumption at the present time. But it was clearly subject to review, in the light of circumstances.

(ii) Charities: Revenue to look further at the estimated yield of this package, distinguishing between the gross cost and the potential yield of anti avoidance measures.

(iii) Life Assurance Premium Relief: It was provisionally agreed to reduce the rate of LAPR from 15 per cent to 14 per cent with effect from April 1987, thus giving the insurance industry 12 months notice, as in 1980.

(iv) Employment measures: The presentation of the employment measures would need considerable further thought; they should be made to appear significant, even if they were financed entirely out of the reserve and at no cost to the fiscal adjustment.

(ii) Excise duty options

2. It was provisionally agreed that:-

(i) Duty on cigarettes should be increased by 10p a packet.

(ii) On petrol, the main option, for scorecard purposes, should be an increase of 15p a gallon. (The Chancellor ruled out a larger rise.)

(iii) There should be no increase in the duty of unleaded petrol. While this could be announced on Budget day, it would probably have to be introduced at a late stage in the Finance Bill, to allow time for consultation with the industry.

(iv) The case for less than full indexation of the duties on cigars, pipe tobacco and spirits was for consideration at a later stage.

(v) There might be a case for a standstill on lorry VED, as a gesture to the industry, thought there were political difficulties in extending this treatment to heavy lorries - or in appearing to single them out by treating them differently from other lorries. [Mr Monck to provide a note on the benefit to industry from falling fuel prices generally.] The Chancellor would make it clear to Mr Ridley that, for the most part, vehicle excise duty would be uprated in line with prices, though it might be possible to make some exceptions at modest cost. Full indexation should probably mean an increase in car VED to £105, rather than £106 (especially if there were concessions for lorries).

(iii) <u>Pension fund surpluses</u>

3. It was agreed that the scheme outlined in Mr Corlett's paper was clearly on the right lines. The Financial Secretary was asked to consider it in more detail, and to make recommendations, prior to a possible meeting chaired by the Chancellor.

4. The Government Actuary's provisional view was that the scheme was workable, at least in principle, on the basis that the guide lines for evaluating surpluses would specify the Projected Unit Credit method of funding (the most secure). This might be consistent with setting the lower limit at around 3 to 5 per cent and the upper limit at perhaps 15 per cent.

5. The Chancellor was content to proceed on this basis. It was agreed that the assumptions provided by the GAD for tax purposes should be identical with those used for NI fund and SERPS purposes (which are regularly revised every 5 years).

6. Presentation would need careful thought. The new regime was intended both to counter tax abuse, and to provide pension funds

and companies with an option which is not now available and for which there is some pressure. Both the scheme and its presentation should be checked for consistency with the Chancellor's pledge in the 1985 Budget. (Mr Isaac to lead.)

7. The estimated yield in 1986-87 shown in the scorecard should reflect the provisional decision to make the tax entirely voluntary in the first year. The Revenue stressed that all yield estimates were highly uncertain.

(iv) Stamp duty

8. The Chancellor stressed the desirability of making the package revenue neutral in 1986-87 for political reasons; there was a case for including doubtful extensions to the tax base at the outset, with a view to withdrawing them later in Committee if need be, in response to pressure.

9. On the stamp duty base, it was provisionally agreed that:-

(i) The ADR charge should be set at 3 per cent (with a rounded yield of £10 million).

(ii) The estimated yield from including intra account dealings was still implausibly low.

(iii) Relief should be withdrawn from takeovers and mergers. The Economic Secretary and Inland Revenue to do further work on the definition of reconstructions with substantially unchanged ownership: if a satisfactory borderline could not be established, then reconstructions should also be liable to stamp duty.

(iv) The exemption for UK company and local authority loan stock should be withdrawn (at least in the scheme outlined in the Budget speech. But the exemption for short dated company loans (under 5 years including commercial paper) should continue.

(v) Foreign shares should also be subject to stamp duty (though this might also be dropped in Committee).

(vi) Renounceable documents should be brought within the scope of stamp duty.

(vii) The Economic Secretary should consider the choice between ending the jobbers exemption and extending it to new market makers after the Big Bang (including the implications for yield, and for market liquidity).

(viii) The exemption for the purchase by a company of its own shares should be ended.

10. The proposal to impose an infinitesimal tax on money turnover should not be pursued further. It was likely to be politically contentious, and was not obviously consistent with the Chancellor's commitments on taxing banks. There could also be EC complications (though the preliminary view of Customs and Excise lawyers was that such a tax would not be inconsistent with Community obligations).

(v) Income tax

11. It was agreed that a 2p cut in the basic rate should be accompanied by a higher rate package, which would claw back the benefit to those on higher incomes. Either option 5.4CX or option L1A in Mr Mace's minute of 30 January were acceptable. On balance there was a preference for option L1A, which was easy to present (ie. full revalorisation of the 40 per cent band, partial revalorisation of the 45 per cent band, and no change in the other higher rate bands).

12. The Chancellor asked Revenue to compare the effect on unincorporated businesses of the present income tax package (2p off the basic rate plus higher rate option L1A) and an equal cost across the board increase in personal allowances and higher rate thresholds.

(vi) CTT

13. On the CTT threshold, there was some support for going beyond indexation for political and administrative reasons. The Chancellor ruled this out on cost grounds for 1986, but agreed that it was a high priority for next year.

14. On the taper to be applied to transfers within 7 years of death, the Chancellor agreed with the Financial Secretary that the charge should be set at 100 per cent of the death rate in the three years before death. The key question was whether 80 per cent (as compared with 50 per cent now) was acceptable in the fourth year before death. If it was, then an even smoother taper than proposed by Revenue would be possible. It was agreed that a taper of 80 per cent/60 per cent/40 per cent/20 per cent should be proposed in the Budget; if necessary this could be amended in the light of representations.

15. The presentation of the abolition of the lifetime charge would need particularly careful thought. There was a severe lack of information; and it was debatable whether the ending of the lifetime charge would lead to any increase in the number of businesses passed on during lifetime - indeed, it could become more tax efficient to hang on to a business.

/ I think it, & anyway not really the pt.

(vii) A minimum tax

16. The Chancellor said he was attracted to the concept of a minimum tax, but foresaw great practical and political difficulties. Both the US and Canadian schemes had been introduced in response to public concern; but there was no similar pressure in the UK. Whatever was done, a minimum tax approach should not be applied to salaries of under £50,000 a year - and maybe higher. A workable minimum tax on US or Canadian lines would clearly need a great deal of further work. Issuing a consultative document might simply stir up trouble.

17. The most promising - and simplest - approach was a limit on certain tax preferences, which might be introduced without

consultation. But this was not a strong starter. Providing the Inland Revenue could spare resources from other more serious Budget work, the Chancellor said he would be interested to see further work on a modest package, which would limit the total tax shelter provided by certain reliefs; most promising candidates for this treatment were the ceiling on interest deductions, farming and forestry losses under schedule D, other case 1 schedule D losses, and Lloyds special reserve.

(viii) Budget lollipops

18. During the course of a brief discussion, it was provisionally agreed that the following lollipops, not currently in the starters list, were promising candidates for this year:-

- VAT relief on newspaper advertising by charities.
- VAT relief for medicines and drugs supplied to charities.
- Extension of VAT relief for donated medical equipment.
- VAT relief for recording equipment for a blind charity.
- VAT relief for welfare vehicles.

19. The following lollipops were not for this year, but should be reconsidered for the 1987 Budget:-

- Car tax relief on cars supplied to Motability for leasing.
- Blind allowance (very promising).
- CGT and divorce.

20. The following were ruled out:-

- VAT relief for installation of safety hand rails etc.

- VAT relief for mountain rescue organisations.

- VAT relief for supplies of petrol etc. to RNLI.

- Extension of VAT relief for sales of donated goods by charities.

- VAT and car tax relief for recipients of mobility allowance (who buy normal production cars on HP).

- Student covenants - extension to 17 year olds.

- CTT "douceur" concession.

Next meeting

21. The fourth overview meeting will be at 11 am on Monday 10 February. All papers should be circulated on Thursday 6 February.

Rh.

RACHEL LOMAX
3 February 1986

Distribution
Those present
Sir G Littler
PS/IR
PS/C&E

RECORD OF THE THIRD BUDGET OVERVIEW MEETING:
11AM ON 3 FEBRUARY 1986

REF NO: JJ9
COPY NO 1 OF 6

Present

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Monger
Mr Odling Smee
Mr Scholar
Mr Pratt
Mr Cropper
Mr Lord
Mr H Davies

Sir L Airey - IR
Mr Battishill - IR
Mr Isaac - IR
Mr Beighton - IR (Item 5 only)
Mr Corlett - IR (Items 3&4 only)
Mr Houghton - IR (Item 6 only)
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4. The Government Actuary's provisional view was that the scheme was workable, at least in principle, on the basis that the guide lines for evaluating surpluses would specify the Projected Unit Credit method of funding (the most secure). This might be consistent with setting the lower limit at around 3 to 5 per cent and the upper limit at perhaps 15 per cent.

5. The Chancellor was content to proceed on this basis. It was agreed that the assumptions provided by the GAD for tax purposes should be identical with those used for NI fund and SERPS purposes (which are regularly revised every 5 years).

6. Presentation would need careful thought. The new regime was intended both to counter tax abuse, and to provide pension funds and companies with an option which is not now available and for which there is some pressure. Both the scheme and its presentation

should be checked for consistency with the Chancellor's pledge in the 1985 Budget.

7. The estimated yield in 1986-87 shown in the scorecard should reflect the provisional decision to make the tax entirely voluntary in the first year. The Revenue stressed that all yield estimates were highly uncertain.

(iv) **Stamp duty**

8. The Chancellor stressed the desirability of making the package revenue neutral in 1986-87 for political reasons; there was a case for including doubtful extensions to the tax base at the outset, with a view to withdrawing them later in Committee if need be, in response to pressure.

9. On the stamp duty base, it was provisionally agreed that:-

(i) The ADR charge should be set at 3 per cent (with a rounded yield of £10 million).

(ii) The estimated yield from including intra account dealings was still implausibly low.

(iii) Relief should be withdrawn from takeovers, mergers and capital reconstructions where old and new companies remain in substantially the same ownership. The Economic Secretary and Inland Revenue to do further work on the precise borderline.

(iv) The exemption for UK company and local authority loan stock should be withdrawn (at least in the scheme outlined in the Budget speech. But the exemption for short dated company loans (under 5 years including commercial paper) should continue.

(v) Foreign shares should also be subject to stamp duty (though this might also be dropped in Committee).

(vi) Renounceable documents should be brought within the scope of stamp duty.

(vii) The Economic Secretary should consider the choice between ending the jobbers exemption and extending it to new market makers after the Big Bang (including the yield implications).

(viii) The exemption for the purchase by a company of its own shares should be ended.

10. The proposal to impose an infinitesimal tax on money turnover should not be pursued further. It was likely to be politically contentious, and was not obviously consistent with the Chancellor's commitments on taxing banks. There could also be EC complications (though the preliminary view of Customs and Excise lawyers was that such a tax would not be inconsistent with Community obligations).

(v) Income tax

11. It was agreed that a 2p cut in the basic rate should be accompanied by a higher rate package, which would claw back the benefit to those on higher incomes. Either option 5.4CX or option L1A in Mr Mace's minute of 30 January were acceptable. On balance there was a preference for option L1A, which was easy to present (ie. full revalorisation of the 40 per cent band, partial revalorisation of the 45 per cent band, and no change in the other higher rate bands).

12. The Chancellor asked Revenue to compare the effect on unincorporated businesses of the present income tax package (2p off the basic rate plus higher rate option L1A) and an equal cost across the board increase in personal allowances and higher rate thresholds.

(vi) CTT

13. On the CTT threshold, there was some support for going beyond indexation for political and administrative reasons. The

Chancellor ruled this out on cost grounds for 1986, but agreed that it was a high priority for next year.

14. On the taper to be applied to transfers within 7 years of death, the Chancellor agreed with the Financial Secretary that the charge should be set at 100 per cent of the death rate. The key question was whether 80 per cent (as compared with 50 per cent now) was acceptable in the fourth year before death. If it was, then an even smoother taper than proposed by Revenue would be possible. It was agreed that a taper of 80 per cent/60 per cent/40 per cent/20 per cent should be proposed in the Budget; if necessary this could be amended in the light of representations.

15. The presentation of the abolition of the lifetime charge would need particularly careful thought. There was a severe lack of information; and it was debatable whether the ending of the lifetime charge would lead to any increase in the number of businesses passed on during lifetime - indeed, it could become more tax efficient to hang on to a business.

(vii) A minimum tax

16. The Chancellor said he was attracted to the concept of a minimum tax, but foresaw great practical and political difficulties. Both the US and Canadian schemes had been introduced in response to public concern; but there was no similar pressure in the UK. Whatever was done, a minimum tax approach should not be applied to salaries of under £50,000 a year - and maybe higher. A workable minimum tax on US or Canadian lines would clearly need a great deal of further work. Issuing a consultative document might simply stir up trouble.

17. The most promising - and simplest - approach was a limit on certain tax preferences, which might be introduced without consultation. But this was not a strong starter. Providing the Inland Revenue could spare resources from other more serious Budget work, the Chancellor said he would be interested to see further work on a modest package, which would limit the total tax shelter provided by certain reliefs; most promising candidates for this

treatment were the ceiling on interest deductions, farming and forestry losses under schedule D, other case 1 schedule D losses, and Lloyds special reserve.

(viii) Budget lollipops

18. During the course of a brief discussion, it was provisionally agreed that the following lollipops, not currently in the starters list, were promising candidates for this year:-

- VAT relief on newspaper advertising by charities.
- VAT relief for medicines and drugs supplied to charities.
- Extension of VAT relief for donated medical equipment.
- VAT relief for recording equipment for a blind charity.
- VAT relief for welfare vehicles.

19. Following lollipops were not for this year, but should be reconsidered for the 1987 Budget:-

- Car tax relief on cars supplied to Motability for leasing.
- Blind allowance (very promising).
- CGT and divorce.

20. The following were ruled out:-

- VAT relief for installation of safety hand rails etc.
- VAT relief for mountain rescue organisations.
- VAT relief for supplies of petrol etc. to RNLI.

- Extension of VAT relief for sales of donated goods by charities.

- VAT and car tax relief for recipients of mobility allowance (who buy normal production cars on HP).

- Student covenants - extension to 17 year olds.

- CTT "douceur" concession.

Next meeting

21. The fourth overview meeting will be at 11 am on Monday 10 February. All papers should be circulated on Thursday 6 February.

RACHEL LOMAX
3 February 1986

Distribution

Those present
Sir G Littler
PS/IR
PS/C&E

RR7.77 BUDGET CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 5 February 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
MR EVANS
MR MONGER
MR ODLING-SMEE
MR SCHOLAR
MR PRATT
MR CROPPER
MR LORD
MR H DAVIES
SIR L AIREY - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/IR
PS/C&E

FOURTH BUDGET OVERVIEW MEETING: AGENDA

The fourth Budget Overview meeting will be held on Monday 10 February at 11am. The agenda is as follows:-

(i) Budget scorecard
Minute by Mr Scholar, 6 February.

(ii) Employment measures
Progress report by Mr Monck.

(iii) Presentation of the Budget
Note by Sir P Middleton, 6 February.

RL.

RACHEL LOMAX

RR3.33

BUDGET CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 6 February 1986

MR WILMOTT

cc Minister of State
Sir P Middleton
Mr Monger
Mr Scholar
Mr Pratt
Mr Knox - C&E
PS/C&E

ALTERNATIVE EXCISE DUTY PACKAGE

The Chancellor was grateful for your minute of 5 February. Could you please give it a wider circulation for Monday's overview meeting? The Chancellor would also like to know what 9p on cigarettes represents in terms of the percentage increase in the duty.

RL.

RACHEL LOMAX

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

Ch/

Some dispute about what was actually agreed about the Stamp Duty package (see minutes from EST & FST). My note was checked with Michael, Richard Pratt & Tony - & I had a brief word with you on the phone. But it wasn't very clear at all at the meeting what was agreed & none of us are confident.

Perhaps you should spend a moment on this before setting out to the main session? RL 7/2

RR7.77 BUDGET CONFIDENTIAL

NB NO LUNCH TODAY

FROM: MRS R LOMAX
DATE: 7 February 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
MR ~~EVANS~~ SEDGWICK
~~MR MONGER~~
MR ODLING-SMEE
MR SCHOLAR
~~MR PRATT~~ MISS EVANS
MR CROPPER
MR ~~LORD~~ TYRIE
MR ~~H DAVIES~~ ROSS GOOBEY
Battishill ~~SIR L AIREY~~ - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/IR
PS/C&E

FOURTH BUDGET OVERVIEW MEETING: REVISED AGENDA

The fourth Budget Overview meeting will be held on Monday 10 February at 11am. The agenda is as follows:-

(i) Budget scorecard

Minute by Mr Scholar, 6 February.

(Also relevant: Alternative Excise Duty Package and the petrol/derv differential: minute by Mr Knox, 4 February, and subsequent papers.)

(ii) <u>Employment measures</u>

Progress report by Mr Monck. (Oval)

(iii) <u>Presentation of the Budget</u>

Note by Sir P Middleton, 6 February.

pp RACHEL LOMAX

RECORD OF THE FOURTH BUDGET OVERVIEW MEETING:

11AM ON 10 FEBRUARY 1986

REF NO: JJ11
COPY NO 1 OF 6

Present	Chancellor	Mr Monger
	Chief Secretary	Mr Odling-Smee
	Financial Secretary	Mr Scholar
	Economic Secretary	Mr Pratt
	Minister of State	Mr Cropper
	Sir P Middleton	Mr Lord
	Sir T Burns	Mr H Davies
	Mr F E R Butler	Sir L Airey - IR
	Sir G Littler	Mr Battishill - IR
	Mr Cassell	Mr Isaac - IR
	Mr Monck	Sir Angus Fraser - C&E
	Mr Evans	Mr Knox - C&E

Papers

(i) Scorecard: Mr Scholar's minute of 6 February.

(ii) Presentational issues and the Budget: Sir Peter Middleton's minute of 6 February.

(i) Scorecard

The Chancellor said that, prompted by David Howell's recent speech, he had looked again at John Kay's article in Fiscal Studies (February 1984) on the effect of increasing tax thresholds. This had noted that "a cut in the basic rate of income tax would probably have more beneficial effects on labour supply than increases in personal allowances". The changes proposed in the Social Security White Paper reinforced the case for reducing rates rather than increasing allowances. Further thought was needed on how these arguments could be most effectively deployed - without of course demolishing the case for increasing thresholds advanced in the Green Paper on Personal Taxation.

2. The Chancellor asked about the interpretation of the analysis in Mr Beighton's minute of 7 February (Effect of a cut in the basic rate on unincorporated businesses). Mr Battishill underlined two points:-

(i) If the question was how unincorporated businesses had fared relative to companies as a result of the changes in

capital allowances, it was correct to look at the change in average rates of tax. On this basis, there was very little to choose between equal cost increases in tax thresholds and changes in the basic rate.

(ii) The distributional analysis suggested that smaller businesses benefitted most from increases in thresholds; but they had least grounds for complaint, relative to the tax treatment of small companies. (Higher income unincorporated businesses faced a relatively high marginal rate and were more likely to leave profits in their business).

The Chancellor accepted that these effects were pretty marginal, though they might be of some presentational value.

3. Life Assurance Premium Relief: At the previous overview meeting it had been provisionally agreed to reduce the rate of LAPR from 15 per cent to 14 per cent. The Financial Secretary remained concerned, for political reasons, arguing that a decision to reduce the LAPR rate could well be deferred for a year. No final decision was taken, but it was agreed that, for scorecard purposes, the LAPR rate should be left unchanged.

4. Alternative Budget (plan B): Following Friday's discussion of the forecast and the outlook for oil prices, the Chancellor said he saw a strong case for working up a much more modest package, while keeping the existing package in play. (Both should be shown in the scorecard). It was provisionally agreed that the main features of the plan B Budget should be:-

(i) Prices only revalorisation for income tax thresholds and allowances (ie. as in the forecast).

(ii) A higher profile for the employment and enterprise package.

(iii) A restructured excise duty package, with the same overall revenue and RPI effect as across the board revalorisation.

(iv) Possibly some reconsideration of the other elements in the main Budget package - particularly the CTT package and lollipops (though no specific suggestions were made).

5. Alternative excise duty package: It was agreed that Mr Wilmott's scorecard neutral package (package C) should be included in the alternative Budget, for scorecard purposes. The Chancellor noted that the balance between increases in tobacco and oil duties could be varied - though probably only by increasing the duty on oil, relative to tobacco. Consideration should be given to the distributional effects of this package - the presumption was that it would be better for pensioners and lower income families than across the board revalorisation.

6. CTT: The Chancellor said he would like to change the name to "inheritance tax". It was suggested that this could be a source of confusion, since inheritance taxes tend to be donee rather than donor based. (Central Unit to circulate an extract from the OED.)

7. Stamp Duty: The Economic Secretary said he would be holding a further meeting shortly. He saw a strong case for excluding foreign shares; and thought the ADR charge should take effect as from Budget day, instead of 1 April. The Chancellor hoped it would be possible to end the jobbers exemption. He was content to drop foreign shares (though it might be useful to hold this in reserve with the Bank, as a quid pro quo for not extending the jobbers exemption to market makers). Inland Revenue were asked to examine a number of options for changing stamp duty on houses: these should include keeping the rate at 1 per cent and turning the exemption into a threshold, possibly lowering it at the same time; and reducing the rate to ½ per cent and abolishing the exemption.

8. Lollipops: Ministers and advisers were asked to consider which lollipops should be mentioned in the Budget speech.

(ii) Employment package

9. The Chancellor saw a strong case for raising the profile of the employment package in the context of the plan B Budget, by

making it a charge on the fiscal adjustment, rather than financing from the reserve. He recognised the arguments against raising the planning total, and the risk of establishing a presumption that additional public expenditure would be a regular feature of the Budget. Against that, he thought it important to achieve the maximum presentational gain from the package; to tilt the balance of the package towards employment, under plan B; and to stress that the Budget figuring was based on prudent assumptions about public expenditure.

10. It was agreed that this question should not be opened up with Lord Young at all at this stage. At his next meeting with Lord Young on Thursday, the Chief Secretary should avoid discussing the overall scale of the package, and focus on the framework and nature of the component measures. Mr Monck reported that DE officials were not pressing to include the community programme, though it was likely that Lord Young would raise it again at a later stage. Excluding the community programme, the net public expenditure cost of Lord Young's proposals was £75 million in 1986-87 and £125 million in 1987-88. Officials were also discussing scaled down versions of all the measures (excluding the community programme) which would amount to £30-£60 million in 1986-87 and £75-£90 million in 1987-88 (net).

11. Mr Butler said that his recent visit to the Ealing pilot interview LTU scheme had confirmed Mr Monck's view that the effects of extending the scheme nationwide were highly uncertain; the administrative problems could also be formidable. The Chancellor commented that there was a case for making progress with experimental measures now; the community programme - which was well tried and tested- could easily be increased at a later stage if need be. Further clarification of the manpower implications of extending interview LTU nationwide was needed.

12. Central Unit were asked to co-ordinate a note on the treatment of employment measures in the Budget Red Book, the scope for accommodating a package of the order of £75-£100 million (net) within the reserve, given the assumptions in the forecast, and the general presentation of the employment package.

13. It was agreed that while the case for a higher profile, and probably larger, employment package was greater for Budget B than for Budget A, for practical purposes it should be assumed that the package would be the same in both Budgets; and the Chief Secretary should negotiate with Lord Young on that basis.

(iii) Presentational issues and the Budget

14. The Chancellor identified a number of issues that required further thought:-

(i) The treatment of unemployment.

(ii) Theme of the Budget.

(iii) What - if anything - should be said about the future.

(iv) The best way of ensuring a good market reception.

15. On the Budget theme, it was provisionally agreed that the most promising - certainly for a plan B Budget - was "good economy, sound and prudent Budget". Particularly for plan B, further thought should be given to identifying a unifying theme or themes for the minor measures. On unemployment, the Chancellor thought there ought to be more emphasis on overall economic performance as the key to increasing the number of job opportunities. There was a good story to tell, and some of the Budget measures would be directly relevant.

Next meeting

16. The fifth overview meeting will be at 11 am on Monday 17 February. All papers should be circulated on Thursday 13 February.

Distribution

RACHEL LOMAX
10 February 1986

Those present
Mr A Wilson
PS/IR
PS/C&E

FROM: MRS R LOMAX
DATE: 7 February 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
MR EVANS
MR MONGER
MR ODLING-SMEE
MR SCHOLAR
MR PRATT
MR CROPPER
MR LORD
MR H DAVIES
SIR L AIREY - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/IR
PS/C&E

FOURTH BUDGET OVERVIEW MEETING: REVISED AGENDA

The fourth Budget Overview meeting will be held on Monday 10 February at 11am. The agenda is as follows:-

(i) <u>Budget scorecard</u>
Minute by Mr Scholar, 6 February.
(Also relevant: Alternative Excise Duty Package and the petrol/derv differential: minute by Mr Knox, 4 February, and subsequent papers.)

CHANCELLOR OF THE EXCHEQUER

(ii) <u>Employment measures</u>

Progress report by Mr Monck.

(iii) <u>Presentation of the Budget</u>

Note by Sir P Middleton, 6 February.

pp RACHEL LOMAX

RECORD OF THE FOURTH BUDGET OVERVIEW MEETING:

11AM ON 10 FEBRUARY 1986

REF NO: JJ11
COPY NO 2 OF 6

Present	Chancellor	Mr Monger
	Chief Secretary	Mr Odling-Smee
	Financial Secretary	Mr Scholar
	Economic Secretary	Mr Pratt
	Minister of State	Mr Cropper
	Sir P Middleton	Mr Lord
	Sir T Burns	Mr H Davies
	Mr F E R Butler	Sir L Airey - IR
	Sir G Littler	Mr Battishill - IR
	Mr Cassell	Mr Isaac - IR
	Mr Monck	Sir Angus Fraser - C&E
	Mr Evans	Mr Knox - C&E

Papers

(i) Scorecard: Mr Scholar's minute of 6 February.

(ii) Presentational issues and the Budget: Sir Peter Middleton's minute of 6 February.

(i) Scorecard

The Chancellor said that, prompted by David Howell's recent speech, he had looked again at John Kay's article in Fiscal Studies (February 1984) on the effect of increasing tax thresholds. This had noted that "a cut in the basic rate of income tax would probably have more beneficial effects on labour supply than increases in personal allowances". The changes proposed in the Social Security White Paper reinforced the case for reducing rates rather than increasing allowances. Further thought was needed on how these arguments could be most effectively deployed - without of course demolishing the case for increasing thresholds advanced in the Green Paper on Personal Taxation.

2. The Chancellor asked about the interpretation of the analysis in Mr Beighton's minute of 7 February (Effect of a cut in the basic rate on unincorporated businesses). Mr Battishill underlined two points:-

(i) If the question was how unincorporated businesses had fared relative to companies as a result of the changes in

capital allowances, it was correct to look at the change in average rates of tax. On this basis, there was very little to choose between equal cost increases in tax thresholds and changes in the basic rate.

(ii) The distributional analysis suggested that smaller businesses benefitted most from increases in thresholds; but they had least grounds for complaint, relative to the tax treatment of small companies. (Higher income unincorporated businesses faced a relatively high marginal rate and were more likely to leave profits in their business).

The Chancellor accepted that these effects were pretty marginal, though they might be of some presentational value.

3. Life Assurance Premium Relief: At the previous overview meeting it had been provisionally agreed to reduce the rate of LAPR from 15 per cent to 14 per cent. The Financial Secretary remained concerned, for political reasons, arguing that a decision to reduce the LAPR rate could well be deferred for a year. No final decision was taken, but it was agreed that, for scorecard purposes, the LAPR rate should be left unchanged.

4. Alternative Budget (plan B): Following Friday's discussion of the forecast and the outlook for oil prices, the Chancellor said he saw a strong case for working up a much more modest package, while keeping the existing package in play. (Both should be shown in the scorecard). It was provisionally agreed that the main features of the plan B Budget should be:-

(i) Prices only revalorisation for income tax thresholds and allowances (ie. as in the forecast).

(ii) A higher profile for the employment and enterprise package.

(iii) A restructured excise duty package, with the same overall revenue and RPI effect as across the board revalorisation.

(iv) Possibly some reconsideration of the other elements in the main Budget package - particularly the CTT package and lollipops (though no specific suggestions were made).

5. Alternative excise duty package: It was agreed that Mr Wilmott's scorecard neutral package (package C) should be included in the alternative Budget, for scorecard purposes. The Chancellor noted that the balance between increases in tobacco and oil duties could be varied - though probably only by increasing the duty on oil, relative to tobacco. Consideration should be given to the distributional effects of this package - the presumption was that it would be better for pensioners and lower income families than across the board revalorisation.

6. CTT: The Chancellor said he would like to change the name to "inheritance tax". It was suggested that this could be a source of confusion, since inheritance taxes tend to be donee rather than donor based. (Central Unit to circulate an extract from the OED.)

7. Stamp Duty: The Economic Secretary said he would be holding a further meeting shortly. He saw a strong case for excluding foreign shares; and thought the ADR charge should take effect as from Budget day, instead of 1 April. The Chancellor hoped it would be possible to end the jobbers exemption. He was content to drop foreign shares (though it might be useful to hold this in reserve with the Bank, as a quid pro quo for not extending the jobbers exemption to market makers). Inland Revenue were asked to examine a number of options for changing stamp duty on houses: these should include keeping the rate at 1 per cent and turning the existing £30,000 exemption into a threshold, possibly lowering it at the same time; ~~and~~ reducing the rate to ½ per cent and abolishing the exemption; and making the change from 27 October, to keep the 1986-87 cost down.

8. Lollipops: Ministers and advisers were asked to consider which lollipops should be mentioned in the Budget speech.

(ii) Employment package

9. The Chancellor saw a strong case for raising the profile of the employment package in the context of the plan B Budget, by

making it a charge on the fiscal adjustment, rather than financing it from the reserve. He recognised the arguments against raising the planning total, and the risk of establishing a presumption that additional public expenditure would be a regular feature of the Budget. Against that, he thought it important to achieve the maximum presentational gain from the package; to tilt the balance of the package towards employment, under plan B; and to stress that the Budget figuring was based on prudent assumptions about public expenditure. In discussion, it was noted that, in past years, expenditure measures had been neutralised in the PSBR, even where they had been charged to the Reserve.

10. It was agreed that this question should not be opened up with Lord Young at all at this stage. At his next meeting with Lord Young on Thursday, the Chief Secretary should avoid discussing the overall scale of the package, and focus on the framework and nature of the component measures. Mr Monck reported that DE officials were not pressing to include the community programme, though it was likely that Lord Young would raise it again at a later stage. Excluding the community programme, the net public expenditure cost of Lord Young's proposals was £75 million in 1986-87 and £125 million in 1987-88. Officials were also discussing scaled down versions of all the measures (excluding the community programme) which would amount to £30-£60 million in 1986-87 and £75-£90 million in 1987-88 (net).

11. Mr Butler said that his recent visit to the Ealing pilot interview LTU scheme had confirmed Mr Monck's view that the effects of extending the scheme nationwide were highly uncertain; the administrative problems could also be formidable. The Chancellor commented that there was a case for making progress with experimental measures now; the community programme - which was well tried and tested- could easily be increased at a later stage if need be. Further clarification of the manpower implications of extending interview LTU nationwide was needed.

12. Central Unit were asked to co-ordinate a note on the presentation of treatment of employment measures in the Budget Red Book, and the scope for accommodating a package of the order of £75-£100 million (net) within the reserve, given the assumptions in the forecast. ~~and the general presentation of the employment package~~.

(not yet
- I didn't think whatever we asked to do went quite as wide as this)

13. It was agreed that while the case for a higher profile, and probably larger, employment package was greater for Budget B than for Budget A, for practical purposes it should be assumed that the package would be the same in both Budgets; and the Chief Secretary should negotiate with Lord Young on that basis.

(iii) Presentational issues and the Budget

14. The Chancellor identified a number of issues that required further thought:-

(i) The treatment of unemployment.

(ii) Theme of the Budget.

(iii) What - if anything - should be said about the future.

(iv) The best way of ensuring a good market reception.

15. On the Budget theme, it was provisionally agreed that the most promising - certainly for a plan B Budget - was "good economy, sound and prudent Budget". Particularly for plan B, further thought should be given to identifying a unifying theme or themes for the minor measures. On unemployment, the Chancellor thought there ought to be more emphasis on overall economic performance as the key to increasing the number of job opportunities. There was a good story to tell, and some of the Budget measures would be directly relevant.

Next meeting

16. The fifth overview meeting will be at 11 am on Monday 17 February. All papers should be circulated on Thursday 13 February.

RACHEL LOMAX
10 February 1986

Distribution

Those present
Mr A Wilson
PS/IR
PS/C&E

BUDGET SECRET

B.L.O.

BUDGET SECRET

SECRET

FROM: MRS R LOMAX
DATE: 11 February 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
MR EVANS
MR MONGER
MR ODLING-SMEE
MR SCHOLAR
MR PRATT
MR CROPPER
MR LORD
MR H DAVIES
SIR L AIREY - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc Mr Corlett (Items (iii), (iv), (v) only)
Mr Mace (Item (vi) only)
PS/IR
PS/C&E

FIFTH BUDGET OVERVIEW MEETING: PROVISIONAL AGENDA

The fifth Budget Overview meeting will be held on Monday, 17 February at 11am. The provisional agenda is as follows:-

(i) <u>Budget scorecard</u>
Minute by Mr Scolar, 13 February
(Also relevant: Budget Speech synopsis, to be circulated by Mr Scholar).

(ii) **<u>Presentation of employment measures</u>**

Note by Central Unit (to be circulated);

(iii) **<u>Stamp duty package</u>**

Minute by Mr Corlett (to be circulated);

(iv) **<u>Charities package</u>**

Minute by Mr Corlett (to be circulated);

(v) **<u>Savings plan</u>**

Minute by Mr Corlett (to be circulated);

(vi) **<u>In-year changes in income tax</u>**

Minute by Mr Mace (to be circulated).

2. All papers for next week's Overview should be circulated on Thursday, 13 February. A revised agenda will be circulated later in the week.

RL.

RACHEL LOMAX

CHANCELLOR OF THE EXCHEQUER

FROM: MRS R LOMAX
DATE: 11 February 1986

cc Mr Corlett (Items (iii), (iv), (v) only)
Mr Mace (Item (vi) only)
PS/IR
PS/C&E

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
MR EVANS
MR MONGER
MR ODLING-SMEE
MR SCHOLAR
MR PRATT
MR CROPPER
MR LORD
MR H DAVIES
SIR L AIREY - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

FIFTH BUDGET OVERVIEW MEETING: PROVISIONAL AGENDA

The fifth Budget Overview meeting will be held on Monday, 17 February at 11am. The provisional agenda is as follows:-

(i) **Budget scorecard**
Minute by Mr Scolar, 13 February
(Also relevant: Budget Speech synopsis, to be circulated by Mr Scholar).

(ii) **Presentation of employment measures**

Note by Central Unit (to be circulated);

(iii) **Stamp duty package**

Minute by Mr Corlett (to be circulated);

(iv) **Charities package**

Minute by Mr Corlett (to be circulated);

(v) **Savings plan**

Minute by Mr Corlett (to be circulated);

(vi) **In-year changes in income tax**

Minute by Mr Mace (to be circulated).

2. All papers for next week's Overview should be circulated on Thursday, 13 February. A revised agenda will be circulated later in the week.

RL.

RACHEL LOMAX

BUDGET CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 13 February 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
MR EVANS
MR MONGER
MR ODLING-SMEE
MR SCHOLAR
MR PRATT
MR CROPPER
MR LORD
MR H DAVIES
SIR L AIREY - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc Mr Corlett (IR)
(items (iv), (v), (vi)
Mr Walker (B/E)
(item (iv) only)
PS/IR
PS/C&E

FIFTH BUDGET OVERVIEW MEETING: REVISED AGENDA

The fifth Budget Overview meeting will be held on Monday 17 February at 11am. The revised agenda is as follows:-

(i) **Budget scorecard**
Minute by Mr Scholar, 13 February
(Also relevant: Budget Speech synopsis, to be circulated by Mr Scholar).
In-year changes in income tax, note by Mr Mace, 13 February).

(ii) **Indirect taxes**

Vehicle Excise Duty: note by Mr Romanski, 13 February.
Unleaded petrol: possible tax differential - note by Mr Knox, 12 February.
Vermouth and fortified wine: note by Mr Knox, 11 February.
Excise Duty: presentation of rounded price increases for drinks - note by Mr Knox, 12 February.

(iii) **Employment package**

Oral report by Chief Secretary and Mr Monck.

(iv) **Stamp duty package**

Minute by Mr Corlett, 13 February.

(v) **Pension surpluses**

Minute by Mr Corlett, 13 February.

(vi) **Share purchase scheme (starter 162)**

Minute by Mr Corlett, 13 February.

2. Lunch will be provided this week.

RL.

RACHEL LOMAX

RR7.77

BUDGET CONFIDENTIAL

Background papers in separate folders below

(pmf)

FROM: MRS R LOMAX
DATE: 13 February 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
~~MR EVANS~~
MR MONGER
MR ODLING-SMEE
MR SCHOLAR
MR PRATT
MR CROPPER
MR LORD
MR H DAVIES
SIR L AIREY - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc Mr Corlett (IR)
(items (iv), (v), (vi)
Mr Walker (B/E)
(item (iv) only)
+ Mr Johnstone (GAD) (item (v) only)
PS/IR
PS/C&E

Ch/
Despite the agenda, you might like to take employment measures straight after the scorecard, since the Robin Butler/Central Unit paper on presentation in the FSBR forms a natural link between the two
AJK

FIFTH BUDGET OVERVIEW MEETING: REVISED AGENDA

The fifth Budget Overview meeting will be held on Monday 17 February at 11am. The revised agenda is as follows:-

(i) **Budget scorecard**

Minute by Mr Scholar, 13 February

(Also relevant: Budget Speech synopsis, to be circulated by Mr Scholar).

In-year changes in income tax, note by Mr Mace, 13 February).

NB/ Scorecard includes note on presentation of employment package

~~(ii)~~ (iii) **<u>Indirect taxes</u>**

Vehicle Excise Duty: note by Mr Romanski, 13 February.

Unleaded petrol: possible tax differential - note by Mr Knox, 12 February.

Vermouth and fortified wine: note by Mr Knox, 11 February.

Excise Duty: presentation of rounded price increases for drinks - note by Mr Knox, 12 February.

(ii) ~~(iii)~~ **<u>Employment package</u>**

Oral report by Chief Secretary and Mr Monck.

(iv) **<u>Stamp duty package</u>** + David Walker

Minute by Mr Corlett, 13 February.

(v) **<u>Pension surpluses</u>** + G.A.D (Mr Johnston)

Minute by Mr Corlett, 13 February.

(vi) **<u>Share purchase scheme</u> (starter 162)**

Minute by Mr Corlett, 13 February.

2. Lunch <u>will</u> be provided this week.

RL.

RACHEL LOMAX

BUDGET SECRET

FROM: R A L LORD

DATE: 14 February 1986

CHANCELLOR

* FOR OVERVIEW. (see also *) (IFS proposal?)

AN ALTERNATIVE PLAN B

I think it was agreed at your last overview meeting that to be seen to be doing something about unemployment was more important in the circumstances of an austerity Budget than if you were in a position to "give something away".

2. Given the small scale of the planned employment measures it does not seem to me that the present Plan B package satisfies this requirement. It is a Budget without a middle. And because it has not got a middle the measures around the periphery do not hang together in the way they would otherwise. To the extent that they do hang together they could be caricatured as a Budget for the City.

3. Last year we concluded that the best way of stimulating employment was to reduce the cost of employing the low paid and increase the incentive to find work. Virtually no-one argued that the NIC package was wrong in principle, only that it was too small. If you were able this year to reduce NICs by a further instalment you could argue that the combined effect was much more powerful.

Employees' or employers' or sm?

4. Now that we have abolished the UEL on employers' contributions the only way in which you could make any significant reduction in NICs would be by re-couping a substantial amount of lost revenue from petrol duty. People are clearly expecting some move on petrol duty and I am not sure you will get a lot of credit for resisting the temptation (nor for not increasing the duty on beer). So long as you can demonstrate that the combined effect of the fall in oil prices and the increase in petrol duty has been to bring pump prices down - with the likelihood of further falls during the following few months - then I shoulld have thought there

BUDGET SECRET

would be grudging acceptance in most parts of the country.

5. I do not pretend that putting up petrol duty in order to reduce NICs is remotely as attractive politically as Plan A. But it does seem to me preferable to the present Plan B.

R A L LORD

BR/033.PH

DRAFT.

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COPY NO:- 2 OF 6
REF:- JJ13

BUDGET SECRET

RECORD OF THE FIFTH BUDGET OVERVIEW MEETING: 11AM ON 17 FEBRUARY 1986

Present

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Monger
Mr Odling-Smee

Mr Scholar
Mr Pratt
Mr Cropper
Mr H Davies
Sir L Airey - IR
Mr Battishill - IR
Mr Isaac - IR
Mr Corlett - IR (items 4,5 and 6 only)
Sir Angus Fraser - C&E
Mr Knox - C&E
Mr D Walker - Bank of England (item 4 only)
Government Actuary (item 5 only)

Papers

(i) Scorecard: Mr Scholar's minute of 13 February.

(ii) Income tax: In year changes: Mr Mace's minute 13 February.

(iii) Employment and enterprise measures: Presentation in the FSBR: minute by Mr Butler 13 February; and note by Central Unit, 13 February.

(iv) Vehicle Excise Duty: minute by Mr Romanski 13 February;

(v) Lorry VED: minute by Mr Monger, 13 February.

(vi) Unleaded petrol: possible tax differential: minute by Mr Knox, 12 February (and note by PS/Minister of State, 13 February).

(vii) Vermouth and Fortified Wine: Recent market developments: minute by Mr Knox, 13 February (and note by PS/Minister of State, 14 February;

(viii) Excise duties: Presentation of rounded price increases for drinks: minute by Mr Knox, 12 February.

(ix) Stamp Duty package: minute by Mr Corlett, 13 February (and note by PS/Economic Secretary, 13 February);

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(x) Pension surpluses (Starter 136): minute by Mr Corlett, 13 February (and note by Mr Cropper (14 February);

(xi) Share purchase scheme (Starter 162): minute by Mr Corlett, 13 February.

(i) Scorecard

The main points arising from discussion of the scorecard were:

(i) Following a suggestion from Mr Lord, the Chancellor asked Mr Monck to look urgently at options for improving last year's NICs package at modest cost, including suggestions made by the IFS in their Green Budget.

(ii) CTT: The Chancellor noted that Inland Revenue would be submitting a note on the implications for CGT of abolishing the CTT lifetime charge. The full year cost of the CTT package - and other very speculative measures - should not be shown in the FSBR, though some qualitative recognition of the difference between full year and second year costs might be needed.

maximum

the maximum

(iii) Car and car fuel benefit scales: The Financial Secretary and Minister of State were considering the case for bringing the income tax treatment of cars and fuel into line with Customs treatment. Other things being equal, that would mean increasing the income tax charge on cars, and decreasing the income tax charge on fuel. The Chancellor said he was not prepared to go beyond the 10 per cent increase on cars already agreed.

(iv) Charities: it was agreed that the Revenue implications for the charities package should be scored as negligible in the FSBR. The Chancellor expressed interest in the Revenue's latest proposal for restricting tax relief for single gifts by companies to a maximum of 2 per cent of the amount of dividends paid by the company in that year. This was a possible alternative to the payroll giving proposal, which had the disadvantage of excluding the self-employed - a particular problem in the current Budget, given the exclusion of the self-employed from the Weitzman proposal. The Financial Secretary agreed to consider the Inland Revenue's latest note, ahead of next week's Overview.

(v) BES: Mr Battishill explained that it was difficult to take decisions about the presentation of the BES in the FSBR until further work had been done on the figures. A note would be coming forward shortly.

(vi) Future scorecards should include a separate table for package B, detailing the most important minor starters and ~~the components of the employment package.~~ listing the enterprise and employment measures separately There should be a footnote referring to the Weitzman proposal.

2. Referring to Mr Mace's minute of 13 February, the Chancellor concluded that in year changes in income tax could be made while the Finance Bill was going through Parliament, but not later - or not without great complication. The important presentational issue - for future consideration - was whether to signal the possibility of in-year changes in income tax in the Budget Speech.

3. There was a brief discussion of the tax treatment of the July 1986 social security uprating. The Chancellor said he would be reluctant to exempt it from tax altogether, as originally proposed by the Inland Revenue, and saw some merit in the clawback route. It was agreed that the issue should be looked at again.

(ii) Employment Measures

4. The Chancellor said that Mr Butler's minute had convinced him that it was possible to give the employment package a higher profile presentation, while financing it entirely out of the

gross and net public

reserve. It was agreed that ~~the net~~ expenditure figures should be shown in the FSBR; the gross expenditure figures should also be put into orbit, though this might be done in the Budget Speech. Mr Monck agreed to look at past practice on both points [and It was provisionally agreed not to provide information about the effect of employment measures on the unemployment register. ~~Mr Monck agreed~~ to check that the only official figures quoted last year related to additional places on the YTS and community programme].

×

5. The scale of the employment package also needed further consideration. The Chancellor thought that the net expenditure cost should be at least £100 million in 1986/87. The Treasury would probably need to concede some small expansion in the community programme on top of Lord Young's other proposals. Mr Monck agreed to look at a number of community programme options; the aim should be to minimise the impact on expenditure in 1987-88.

6. On the presentational issues raised by the Central Unit note, it was agreed that:

(i) The employment package should be financed out of the reserve, but separately itemised in the summary table in Part 1 of the FSBR. It was for consideration whether off-setting social security savings should be displayed.

(ii) Offsetting savings within the Department of Employment programme should not be scored in the Budget; they should be saved for the survey.

(iii) ~~As in previous years~~ The effect of tax changes should be compared with ~~both~~ an indexed and a non-indexed base in four columns rather than two i.e. on the lines of last years FSBR rather than in the way now suggested. ~~The costs of indexation should not appear as separate rows in the table.~~

(iv) Changes in stamp duty and CTT should be itemised separately, not aggregated.

(iii) Indirect Taxes

7. The Chancellor anticipated some political criticism on the scale of the fuel duty increases in package B. A possible

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solution was to increase the oil duties by just enough to pay for a standstill on VED; and to finance the standstill on alcohol duties by raising tobacco duty. (According to Customs & Excise this can be achieved by a package consisting of 7.5p increase in petrol, 6.3p increase in derv and 11p increase in cigarettes with no other changes). In discussion, there was some support for this approach; the Chief Secretary and Economic Secretary suggested that the political difficulty could also be met by straightforward revalorisation, though the critical point was to limit the scale of the increase in oil duties. X

8. VED. The Chancellor confirmed that he would be content for Department of Transport to plan on the basis of the following options:

(i) Car VED: a £5 increase and no change.

(ii) Lorry VED: no change.

(iii) Minor VED rates: as proposed by Department of Transport.

9. Vermouth: it was decided to make no change in the duty structure immediately, but to look for opportunities to set a statutory minimum strength for vermouth, similar to the domestic Italian law. (Since this would require primary legislation, this was a matter of adding an appropriate clause to a suitable Consumer Bill as soon as possible).

10. Unleaded petrol: the option of introducing a differential effective from Budget Day was ruled out. An announcement should be made in the Budget Speech; but it was for further consideration whether the necessary legislation should be included in the 1986 Finance Bill (after consultation with the industry) or postponed until the 1987 Finance Bill.

11. It was agreed that further work on indirect tax options should concentrate on straightforward revalorisation and package B, amended in the light of the discussion. Package A should be dropped.

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(iv) Stamp Duty

12. It was agreed that options for changing stamp duty on house transfers should not be pursued.

13. Taxing market-maker transactions: discussion focussed on two packages, thought to have broadly the same revenue implications:

(i) Exemption for market-makers, combined with a general rate of stamp duty on equities of 0.6 per cent (as recommended by the EC Commission).

(ii) A general stamp duty rate of ½ per cent, combined a special reduced rate of 0.1 per cent for market-makers.

14. Mr Walker argued that option (ii) would have damaging effects on liquidity, which would raise the cost of capital to industry. A decision to tax market-makers might be better deferred until after the "big bang". In discussion, it was suggested that failure to tax market-makers from the outset would establish a strong presumption in favour of a continuing exemption. The Minister of State suggested a possible compromise: taxing market-makers at a rate of only 0.5 per cent - sufficient to establish the principle that they were not exempt but not enough to do significant damage.

15. It was agreed that further work should be done on the Revenue costings; in particular it was not clear that full account had been taken of the effect of the "big bang" both on the level of transactions and on the behavioural responses. The Economic Secretary, in consultation with the Bank and Inland Revenue, was asked to reconsider the issue, in the light of the discussion.

16. On other issues, it was agreed:

(i) To extend the proposed 3 per cent tax to new issues made in ADR form, invoking the special provision in the EC Directive governing capital duty if necessary.

(iii) To increase the present duty on UK bearer shares to 3 per cent, in line with the new duty on ADRs.

(iv) To maintain the current rate of capital duty at 1 per cent for a further year.

17. The Chancellor confirmed that he was content with the other decisions taken at the Economic Secretary's meeting, eg on loan stock and takeovers.

(v) Pension Surpluses (Starter 136)

18. It was agreed that Mr Cropper's proposal to omit the upper (20 per cent) trigger and the associated requirement to rectify overfunding within a 12 month period had some attractions. But the period over which funds were required to reduce surpluses to the lower trigger point might need to be shortened, perhaps to 3 years, to reduce the incentive for "parking". Inland Revenue were asked to consider whether a scheme without upper trigger limit would be workable.

19. Small companies rate: The Chancellor said that Inland Revenue's proposal, while ingenious, was extremely complicated; a better approach might be to impose a flat exit charge, not related to corporation tax. Inland Revenue were asked to consider this proposal - and think of an appropriate name for the charge. It was important not to give the impression that a tax on refunds was a tax on pension funds themselves.

20. Inland Revenue also agreed to consider whether it would be possible to restrict the requirement on funds below the lower trigger point to provision of an actuarial certificate, rather than a full actuarial return. Mr Corlett noted that arrangements for spot audits might be required.

21. The Chancellor confirmed that he was content with the proposals for implementing the new regime described in paragraphs 22-to 29 of Mr Corlett's minute.

(vi) Share Purchase Scheme

22. The Chancellor said that Inland Revenue had devised an

extremely attractive scheme, though it should be possible to improve on the name. They would need to publish an explanatory pamphlet very quickly after the Budget.

23. The list of those who would be permitted to act as plan managers would require further thought; but there should be no consultation, even with DTI, until after the Budget. It was agreed that, in addition the exclusions noted in paragraphs 6 of Mr Munro's minute, the scheme should not include "put options" on shares.

Next Meeting

24. The sixth overview meeting will be at 11 am on Monday 24 February. All papers should be circulated on Thursday 20 February.

RL

RACHEL LOMAX

Distribution
Those present
Mr Evans
PS/Inland Revenue
PS/Customs & Excise

RECORD OF FIFTH BUDGET OVERVIEW MEETING

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RECORD OF THE FIFTH BUDGET OVERVIEW MEETING: 11AM ON 17 FEBRUARY 1986

Present

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Monger
Mr Odling-Smee

Mr Scholar
Mr Pratt
Mr Cropper
Mr H Davies
Sir L Airey - IR
Mr Battishill - IR
Mr Isaac - IR
Mr Corlett - IR (items 4,5 and 6 only)
Sir Angus Fraser - C&E
Mr Knox - C&E
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4. The Chancellor said that Mr Butler's minute had convinced him that it was possible to give the employment package a higher profile presentation, while financing it entirely out of the reserve. It was agreed that gross and net public expenditure

figures should be shown in the FSBR; the gross expenditure figures should also be put into orbit, though this might be done in the Budget Speech. It was provisionally agreed not to provide information about the effect of employment measures on the unemployment register. Mr Monck agreed to look at past practice on both points [and to check that the only official figures quoted last year related to additional places on the YTS and community programme].

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16. On other issues, it was agreed:

(i) To extend the proposed 3 per cent tax to new issues made in ADR form, invoking the special provision in the EC Directive governing capital duty if necessary.

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(iv) To maintain the current rate of capital duty at 1 per cent for a further year.

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20. Inland Revenue also agreed to consider whether it would be possible to restrict the requirement on funds below the lower trigger point to provision of an actuarial certificate, rather than a full actuarial return. Mr Corlett noted that arrangements for spot audits might be required.

21. The Chancellor confirmed that he was content with the proposals for implementing the new regime described in paragraphs 22-to 29 of Mr Corlett's minute.

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22. The Chancellor said that Inland Revenue had devised an extremely attractive scheme, though it should be possible to improve on the name. They would need to publish an explanatory pamphlet very quickly after the Budget.

23. The list of those who would be permitted to act as plan managers would require further thought; but there should be no consultation, even with DTI, until after the Budget. It was agreed that, in addition the exclusions noted in paragraphs 6 of Mr Munro's minute, the scheme should not include "put options" on shares.

Next Meeting

24. The sixth overview meeting will be at 11 am on Monday 24 February. All papers should be circulated on Thursday 20 February.

RL.

RACHEL LOMAX

Distribution
Those present
Mr Evans
PS/Inland Revenue
PS/Customs & Excise

RECORD OF FOURTH BUDGET OVERVIEW MEETING

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RECORD OF THE FOURTH BUDGET OVERVIEW MEETING:

11AM ON 10 FEBRUARY 1986

REF NO JJ12

COPY NO: 2 OF 33

Present	Chancellor	Mr Monger
	Chief Secretary	Mr Odling-Smee
	Financial Secretary	Mr Scholar
	Economic Secretary	Mr Pratt
	Minister of State	Mr Cropper
	Sir P Middleton	Mr Lord
	Sir T Burns	Mr H Davies
	Mr F E R Butler	Sir L Airey - IR
	Sir G Littler	Mr Battishill - IR
	Mr Cassell	Mr Isaac - IR
	Mr Monck	Sir Angus Fraser - C&E
	Mr Evans	Mr Knox - C&E

Papers

(i) Scorecard: Mr Scholar's minute of 6 February.

(ii) Presentational issues and the Budget: Sir Peter Middleton's minute of 6 February.

(i) Scorecard

The Chancellor said that, prompted by David Howell's recent speech, he had looked again at John Kay's article in Fiscal Studies (February 1984) on the effect of increasing tax thresholds. This had noted that "a cut in the basic rate of income tax would probably have more beneficial effects on labour supply than increases in personal allowances". The changes proposed in the Social Security White Paper reinforced the case for reducing rates rather than increasing allowances. Further thought was needed on how these arguments could be most effectively deployed - without of course demolishing the case for increasing thresholds advanced in the Green Paper on Personal Taxation.

2. The Chancellor asked about the interpretation of the analysis in Mr Beighton's minute of 7 February (Effect of a cut in the basic rate on unincorporated businesses). Mr Battishill underlined two points:-

(i) If the question was how unincorporated businesses had fared relative to companies as a result of the changes in

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capital allowances, it was correct to look at the change in average rates of tax. On this basis, there was very little to choose between equal cost increases in tax thresholds and changes in the basic rate.

(ii) The distributional analysis suggested that smaller businesses benefitted most from increases in thresholds; but they had least grounds for complaint, relative to the tax treatment of small companies. (Higher income unincorporated businesses faced a relatively high marginal rate and were more likely to leave profits in their business).

The Chancellor accepted that these effects were pretty marginal, though they might be of some presentational value.

3. Life Assurance Premium Relief: At the previous overview meeting it had been provisionally agreed to reduce the rate of LAPR from 15 per cent to 14 per cent. The Financial Secretary remained concerned, for political reasons, arguing that a decision to reduce the LAPR rate could well be deferred for a year. No final decision was taken, but it was agreed that, for scorecard purposes, the LAPR rate should be left unchanged.

4. Alternative Budget (plan B): Following Friday's discussion of the forecast and the outlook for oil prices, the Chancellor said he saw a strong case for working up a much more modest package, while keeping the existing package in play. (Both should be shown in the scorecard). It was provisionally agreed that the main features of the plan B Budget should be:-

(i) Prices only revalorisation for income tax thresholds and allowances (ie. as in the forecast).

(ii) A higher profile for the employment and enterprise package.

(iii) A restructured excise duty package, with the same overall revenue and RPI effect as across the board revalorisation.

(iv) Possibly some reconsideration of the other elements in the main Budget package - particularly the CTT package and lollipops (though no specific suggestions were made).

5. Alternative excise duty package: It was agreed that Mr Wilmott's scorecard neutral package (package C) should be included in the alternative Budget, for scorecard purposes. The Chancellor noted that the balance between increases in tobacco and oil duties could be varied - though probably only by increasing the duty on oil, relative to tobacco. Consideration should be given to the distributional effects of this package - the presumption was that it would be better for pensioners and lower income families than across the board revalorisation.

6. CTT: The Chancellor said he would like to change the name to "inheritance tax". It was suggested that this could be a source of confusion, since inheritance taxes tend to be donee rather than donor based. (Central Unit to circulate an extract from the OED.)

7. Stamp Duty: The Economic Secretary said he would be holding a further meeting shortly. He saw a strong case for excluding foreign shares; and thought the ADR charge should take effect as from Budget day, instead of 1 April. The Chancellor hoped it would be possible to end the jobbers exemption. He was content to drop foreign shares (though it might be useful to hold this in reserve with the Bank, as a quid pro quo for not extending the jobbers exemption to market makers). Inland Revenue were asked to examine a number of options for changing stamp duty on houses: these should include keeping the rate at 1 per cent and turning the existing £30,000 exemption into a threshold, possibly lowering it at the same time; reducing the rate to ½ per cent and abolishing the exemption; and making the change from 27 October, to keep the 1986-87 cost down.

8. Lollipops: Ministers and advisers were asked to consider which lollipops should be mentioned in the Budget speech.

(ii) Employment package

9. The Chancellor saw a strong case for raising the profile of

the employment package in the context of the plan B Budget, by making it a charge on the fiscal adjustment, rather than financing it from the reserve. He recognised the arguments against raising the planning total, and the risk of establishing a presumption that additional public expenditure would be a regular feature of the Budget. Against that, he thought it important to achieve the maximum presentational gain from the package; to tilt the balance of the package towards employment, under plan B; and to stress that the Budget figuring was based on prudent assumptions about public expenditure. In discussion, it was noted that, in past years, expenditure measures had been mentioned in the FSBR, even where they had been charged to the Reserve.

10. It was agreed that this question should not be opened up with Lord Young at all at this stage. At his next meeting with Lord Young on Thursday, the Chief Secretary should avoid discussing the overall scale of the package, and focuss on the framework and nature of the component measures. Mr Monck reported that DE officials were not pressing to include the community programme, though it was likely that Lord Young would raise it again at a later stage. Excluding the community programme, the net public expenditure cost of Lord Young's proposals was £75 million in 1986-87 and £125 million in 1987-88. Officials were also discussing scaled down versions of all the measures (excluding the community programme) which would amount to £30-£60 million in 1986-87 and £75-£90 million in 1987-88 (net).

11. Mr Butler said that his recent visit to the Ealing pilot interview LTU scheme had confirmed Mr Monck's view that the effects of extending the scheme nationwide were highly uncertain; the administrative problems could also be formidable. The Chancellor commented that there was a case for making progress with experimental measures now; the community programme - which was well tried and tested - could easily be increased at a later stage if need be. Further clarification of the manpower implications of extending interview LTU nationwide was needed.

12. Central Unit were asked to co-ordinate a note on the presentation of employment measures in the Budget Red Book, and the scope for accommodating a package of the order of £75-£100 million (net) within the reserve, given the assumptions in the forecast.

13. It was agreed that while the case for a higher profile, and probably larger, employment package was greater for Budget B than for Budget A, for practical purposes it should be assumed that the package would be the same in both Budgets; and the Chief Secretary should negotiate with Lord Young on that basis.

(iii) Presentational issues and the Budget

14. The Chancellor identified a number of issues that required further thought:-

(i) The treatment of unemployment.

(ii) Theme of the Budget.

(iii) What - if anything - should be said about the future.

(iv) The best way of ensuring a good market reception.

15. On the Budget theme, it was provisionally agreed that the most promising - certainly for a plan B Budget - was "good economy, sound and prudent Budget". Particularly for plan B, further thought should be given to identifying a unifying theme or themes for the minor measures. On unemployment, the Chancellor thought there ought to be more emphasis on overall economic performance as the key to increasing the number of job opportunities. There was a good story to tell, and some of the Budget measures would be directly relevant.

Next meeting

16. The fifth overview meeting will be at 11 am on Monday 17 February. All papers should be circulated on Thursday 13 February.

RL

RACHEL LOMAX
10 February 1986

Distribution
Those present
Mr A Wilson
PS/IR
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BUDGET CONFIDENTIAL

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MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

FROM: MRS R LOMAX
DATE: 18 February 1986

cc Miss Noble (item (iii) only)
Mr Corlett (I/R) (Items (v), (vi), (vii) only)
Mr Walker (B/E) (item (vii) only)
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SIXTH BUDGET OVERVIEW MEETING: PROVISIONAL AGENDA

The sixth Budget Overview meeting will be held on Monday, 24 February at 11am. The provisional agenda is as follows:-

(i) <u>Budget scorecard</u>

Minute by Mr Scholar, 20 February

(ii) <u>Indirect taxes</u>

To be raised orally.

CHANCELLOR OF THE EXCHEQUER

(iii) **National insurance contributions: reduced rates**

Minute by Mr Monck, to be circulated.

(iv) **Employment package: Community Programme options**

Minute by Mr Monck, to be circulated.

(v) **Charities package**

Minute by Mr Corlett, to be circulated.

(vi) **Pension surpluses**

Minute by Mr Corlett, to be circulated.

(vii) **Stamp duty: market makers**

Minute by Mr Cassell, to be circulated.

(viii) **BES: presentation in FSBR**

Minute by Mr Battishill, to be circulated.

2. All papers for the next Overview should be circulated on Thursday, 20 February. A revised agenda will be circulated later this week.

RL.

RACHEL LOMAX

BR/18

pvp

BUDGET CONFIDENTIAL

CHIEF SECRETARY
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MR MONCK
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MR EVANS
MR MONGER
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MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

FROM: MRS R LOMAX
DATE: 18 February 1986

cc Miss Noble (item (iii) only)
Mr Corlett (I/R) (Items (v), (vi), (vii) only)
Mr Walker (B/E) (item (vii) only)
PS/IR
PS/C&E

SIXTH BUDGET OVERVIEW MEETING: PROVISIONAL AGENDA

The sixth Budget Overview meeting will be held on Monday, 24 February at 11am. The provisional agenda is as follows:-

(i) **Budget scorecard**

Minute by Mr Scholar, 20 February

(ii) **Indirect taxes**

To be raised orally.

Minor Oil Duties, Minute by Mr Jefferson-Smith, 20 Feb
Duties on Matches + Mechanical Lighters, Minute by Mr Jefferson-Smith, 20 Feb

(iii) National insurance contributions: reduced rates

Minute by Mr Monck, to be circulated.

(iv) Employment package: Community Programme options

Minute by Mr Monck, to be circulated.

(v) Charities package

Minute by Mr Corlett, to be circulated.

(vi) Pension surpluses

Minute by Mr Corlett, to be circulated.

(vii) Stamp duty: market makers

Minute by Mr Cassell, to be circulated.

(viii) BES: presentation in FSBR

Minute by Mr Battishill, to be circulated.

2. All papers for the next Overview should be circulated on Thursday, 20 February. A revised agenda will be circulated later this week.

RL.

RACHEL LOMAX

LR2.54 BUDGET CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 19 February 1986

MR MONCK cc Miss Noble

NIC OPTIONS

The Chancellor has asked you to look at a range of NIC options. He hopes this will include the following option, which he thinks could be promising:-

Weekly Earnings	% NIC Rate	
£	Employees	Employers
38-59.99	3	5
60-94.99	5	7
95-139.99	7	9
140-285	9	10.45
Above 285	[9 on 285]	10.45

2. If possible, the Chancellor would like to have a preliminary discussion with you and Miss Noble before Cabinet tomorrow - say around 9.30am - to narrow down the options that might be discussed at next week's Overview meeting.

RL.

RACHEL LOMAX

BR/18

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MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

FROM: MRS R LOMAX
DATE: 20 February 1986

cc Mr Byatt (item (iii) only)
Miss Noble (item (iii) only)
Mr Corlett (I/R) (Items (v), (vi), (vii) only)
Mr Walker (B/E) (item (vii) only)
PS/IR
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SIXTH BUDGET OVERVIEW MEETING: REVISED AGENDA

The sixth Budget Overview meeting will be held on Monday, 24 February at 11am. The agenda is as follows:-

(i) Budget scorecard

Minute by Mr Scholar, 20 February.

(ii) **Indirect taxes**

To be raised orally.

(Also relevant: Minor oil duties; minute by Mr Jefferson Smith 20 February. Matches and mechanical lighters: minute by Mr Jefferson Smith, 20 February.)

(iii) **National insurance contributions**

Minute by Miss Noble, 20 February.

(iv) **Employment package: Community Programme options**

Submission to Chief Secretary from Mr Monck, 20 February.

(v) **Charities package**

Minute by Mr Corlett, 17 February; note from PS/Financial Secretary, 19 February.

(vi) **Pension surpluses**

Minute by Mr Corlett, 19 February.
(Also relevant: Pension fund surpluses: actuarial assumptions, minute by Government Actuary, 20 February.)

(vii) **Stamp duty**

Minute by Mr Cassell, 20 February.

(viii) **BES: costings**

Minute by Mr Battishill, 20 February.

2. The meeting will continue over lunch.

RL

RACHEL LOMAX

BR/18

BUDGET CONFIDENTIAL

CHIEF SECRETARY
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MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

FROM: MRS R LOMAX
DATE: ~~18~~ 20 February 1986

cc Mr Byatt (item (iii) only)
Miss Noble (item (iii) only)
Mr Corlett (I/R) (Items (v), (vi), (vii) only)
Mr Walker (B/E) (item (vii) only)
PS/IR
PS/C&E

SIXTH BUDGET OVERVIEW MEETING: ~~PROVISIONAL~~ REVISED AGENDA

The sixth Budget Overview meeting will be held on Monday, 24 February at 11am. The ~~provisional~~ agenda is as follows:-

(i) <u>Budget scorecard</u>

Minute by Mr Scholar, 20 February

(ii) <u>Indirect taxes</u> (decisions if possible)

To be raised orally.

(Also relevant: minor oil duties; minute by Mr Jefferson Smith 20/2. Matches and mechanical lighters by Mr Jefferson Smith 20/2 ...)

(iii) **National insurance contributions: ~~reduced rates~~**

Minute by Miss Noble ~~Mr Monck~~, ~~to be circulated~~ 20 February.

(iv) **Employment package: Community Programme options**

Submission to Chief Secretary from ~~Minute by~~ Mr Monck, ~~to be circulated~~ 20 February

(v) **Charities package**

Minute by Mr Corlett, ~~to be circulated~~ 17 February; note from PS/Financial Secretary 19 February.

(vi) **Pension surpluses**

Minute by Mr Corlett, ~~to be circulated~~ 19 February

(Also relevant: Pension fund surpluses: actuarial assumptions, minute by Government Actuary)

(vii) **Stamp duty: ~~market makers~~**

Minute by Mr Cassell, ~~to be circulated~~ 20 February

(viii) **BES: costings ~~presentation in FSBR~~** (costings)

Minute by Mr Battishill, ~~to be circulated~~ 20 February.

~~2. All papers for the next Overview should be circulated on Thursday, 20 February. A revised agenda will be circulated later this week.~~

2. The meeting will continue over lunch.

RL.

RACHEL LOMAX

BUDGET CONFIDENTIAL

CHIEF SECRETARY	FROM:	MRS R LOMAX
FINANCIAL SECRETARY	DATE:	20 February 1986
ECONOMIC SECRETARY	cc	Mr Byatt (item (iii) only)
MINISTER OF STATE		Miss Noble (item (iii) only
SIR P MIDDLETON		Mr Corlett (I/R) (Items (v) (vi), (vii) only)
SIR T BURNS		Mr Walker (B/E) (item (vii) only)
MR F E R BUTLER		PS/IR
SIR G LITTLER		PS/C&E
MR CASSELL		
MR MONCK		
MR A WILSON		
MR EVANS		
MR MONGER		
MR ODLING-SMEE		
MR SCHOLAR		
MR PRATT		
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MR LORD		
MR H DAVIES		
SIR L AIREY - INLAND REVENUE		
MR ISAAC - INLAND REVENUE		
MR BATTISHILL - INLAND REVENUE		
SIR ANGUS FRASER - CUSTOMS & EXCISE		
MR KNOX - CUSTOMS & EXCISE		

SIXTH BUDGET OVERVIEW MEETING: REVISED AGENDA

The sixth Budget Overview meeting will be held on Monday, 24 February at 11am. The agenda is as follows:-

(i) <u>Budget scorecard</u>

Minute by Mr Scholar, 20 February.

(Also relevant: Houghton Abolition of CTT lifetime charge, implications for CGT, 20 February)

8 (ii) **Indirect taxes**

To be raised orally.

(Also relevant: Minor oil duties; minute by Mr Jefferson Smith 20 February. Matches and mechanical lighters: minute by Mr Jefferson Smith, 20 February.)

~~(iii)~~ 2 **National insurance contributions**

Minute by Miss Noble, 20 February.

~~(iv)~~ 3 **Employment package: Community Programme options**

Submission to Chief Secretary from Mr Monck, 20 February.

(v) 6 **Charities package**

Minute by Mr Corlett, 17 February; note from PS/Financial Secretary, 19 February.

~~(vi)~~ 4 **Pension surpluses**

Minute by Mr Corlett, 19 February.
(Also relevant: Pension fund surpluses: actuarial assumptions, minute by Government Actuary, 20 February.)

~~(vii)~~ 5 **Stamp duty**

Minute by Mr Cassell, 20 February.

~~(viii)~~ 7 **BES: costings**

Minute by Mr Battishill, 20 February.

2. The meeting will continue over lunch.

RL

RACHEL LOMAX

RR7.77

BUDGET CONFIDENTIAL

FROM: A W KUCZYS

DATE: 21 February 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
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SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
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MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc Mr Houghton - IR
Mr Painter - IR

SIXTH BUDGET OVERVIEW MEETING

Mrs Lomax has already circulated the agenda for Monday's meeting. Please note that Mr Houghton's minute of 20 February ("Abolition of CTT Lifetime Charge: implications for CGT") (mentioned in footnote 8 to Table 2 of the Scorecard) may also be relevant to item (i) (Budget scorecard).

AWK

BUDGET CONFIDENTIAL

CHIEF SECRETARY
FINANCIAL SECRETARY
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MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
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MR EVANS
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MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

FROM: MRS R LOMAX
DATE: 20 February 1986

cc Mr Byatt (item (iii) only)
Miss Noble (item (iii) only)
Mr Corlett (I/R) (Items (v), (vi), (vii) only)
Mr Walker (B/E) (item (vii) only)
PS/IR
PS/C&E

1. Tony
2. Pmd?
3. [illegible]

SIXTH BUDGET OVERVIEW MEETING: REVISED AGENDA

The sixth Budget Overview meeting will be held on Monday, 24 February at 11am. The agenda is as follows:-

(i) **Budget scorecard**

Minute by Mr Scholar, 20 February.

(ii) **Indirect taxes**

To be raised orally.

(Also relevant: Minor oil duties; minute by Mr Jefferson Smith 20 February. Matches and mechanical lighters: minute by Mr Jefferson Smith, 20 February.)

(iii) **National insurance contributions**

Minute by Miss Noble, 20 February.

(iv) **Employment package: Community Programme options**

Submission to Chief Secretary from Mr Monck, 20 February.

(v) **Charities package**

Minute by Mr Corlett, 17 February; note from PS/Financial Secretary, 19 February.

(vi) **Pension surpluses**

Minute by Mr Corlett, 19 February.
(Also relevant: Pension fund surpluses: actuarial assumptions, minute by Government Actuary, 20 February.)

(vii) **Stamp duty**

Minute by Mr Cassell, 20 February.

(viii) **BES: costings**

Minute by Mr Battishill, 20 February.

2. The meeting will continue over lunch.

RL

RACHEL LOMAX

RR7.77 BUDGET CONFIDENTIAL

1. Philip
2. Rachel

FROM: A W KUCZYS
DATE: 21 February 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
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SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
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MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc Mr Houghton - IR
Mr Painter - IR

SIXTH BUDGET OVERVIEW MEETING

Mrs Lomax has already circulated the agenda for Monday's meeting. Please note that Mr Houghton's minute of 20 February ("Abolition of CTT Lifetime Charge: implications for CGT") (mentioned in footnote 8 to Table 2 of the Scorecard) may also be relevant to item (i) (Budget scorecard).

AWK

A W KUCZYS

(ix) Duties on matches and mechanical lighters: Minute Mr Jefferson Smith, 20 February.

(i) Scorecard

The main points arising from discussion of the scorecard were:

(i) The main presentation in the scorecard should show the expenditure measures separately, as well as some of the minor starters eg. mineral and oil well allowances. Tax and National Insurance contributions should be totalled (but not spending measures and tax or National Insurance contributions).

(ii) The Chancellor noted that the scorecard figures for CGT assumed that holdover relief was retained, with the abolition of the CTT lifetime charge. He confirmed that he was content with this proposal (described in detail in Mr Houghton's minute of 20 February: Abolition of CTT lifetime charge: implications for CGT).

(iii) The proposal to issue a consultative document on profit sharing should appear in a footnote to the scorecard not in the table itself.

(iv) The Financial Secretary was asked to organise a further sift through the original starters list to see if there were any further minor measures that might be included in the Budget.

(v) The Minister of State was asked to look again at the VAT lollipops for charities. The Chancellor wondered whether some should be held over for next year; there was a risk that they would be dwarfed by the larger measures in this Budget. On the other hand, the CPRG, who had pressed for these minor concessions, would not be major beneficiaries from other changes; and it might be tactically useful to meet some of the lobby's modest and specific requests.

RECORD OF SIXTH BUDGET OVERVIEW MEETING

RR3.65

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RECORD OF THE SIXTH BUDGET OVERVIEW MEETING:

11AM ON 24 FEBRUARY 1986

Present:
Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Byatt (item 2 only)
Mr Cassell
Mr Monck
Mr Wilson
Mr Monger
Mr Odling-Smee
Mr Scholar
Miss Noble (item 2 only)
Mr Culpin
Mr Pratt
Mr Cropper
Mr Lord
Mr H Davies
Sir L Airey - IR
Mr Battishill - IR
Mr Isaac - IR
Mr Beighton - IR (items 6&7 only)
Mr Corlett - IR (items 4,5&6 only)
Sir A Fraser - C&E
Mr Knox - C&E
Mr Walker - B/E (item 5 only)

Papers

(i) Scorecard: Mr Scholar's minute of 20 February.

(ii) 1986 Budget: National Insurance Contributions, minute by Miss Noble, 20 February.

(iii) Employment and enterprise: Expenditure measures, brief by Mr Monck for Chief Secretary, 20 February.

(iv) Pension Fund Surpluses: Minute by Mr Corlett, 19 February.

(v) Stamp duty: Minute by Mr Cassell, 20 February.

(vi) Charitable giving (starters 110, 120 and 167): Minute by Mr Corlett, 17 February; note by APS/Financial Secretary, 19 February.

(vii) Business Expansion Scheme: Presentation in FSBR: minute by Mr Battishill, 20 February.

(viii) Minor oil duties: minute by Mr Jefferson Smith, 20 February 1986.

(vi) Tax relief on housing repairs was a possible late starter. This was for discussion at a separate meeting later in the day.

(ii) National Insurance Contributions

2. Miss Noble's note identified two options for changing employee National Insurance contributions:-

Option 1: Insert an additional reduced rate band of 8 per cent for employees, parallel to the employers £95 to £140 band.

Option 2: Insert an additional reduced rate band of 8 per cent for employees parallel to the employers £95 to £140 band and reduce the lower rates in existing bands by 1 per cent.

The Chancellor suggested the additional option of abolishing class 2 flat rate contributions for the self-employed.

3. Miss Noble noted that DHSS had already floated the idea of abolishing the class 2 contribution and making an offsetting increase in class 4. Abolition of class 2 on its own would take a lot of self-employed out of National Insurance contributions altogether, depriving them of their right to a retirement pension. In discussion, it was suggested that it might be worth considering abolishing class 2 and recouping half the loss of revenue by increasing class 4.

4. It was agreed that option 2 was significantly better than option 1 on presentational grounds. It would achieve a 1 per cent cut in marginal rates for all those earning less than £140 a week as well as extending the reduced rate band for employees to above half average male earnings; it would also significantly improve the Government's record on the combined burden of NICs and income tax on the lower paid. By contrast, option 1 did little more than tidy up last year's scheme, and targetted a reduction on contributions only on those earning between £95 and £140 a week. While there was a case for focussing on this group, those with families would be helped by the introduction of family credit. But it would be

unwise to count on a major presentational gain from either NIC options; last year's changes had been successful in Parliamentary terms, but the wider response had been disappointing.

5. The Chancellor concluded that he had a slight preference for including changes in NICs in the Budget and, within that, for implementing option 2. Miss Noble was asked for urgent advice on whether abolition of class 2, with a partially offsetting increase in class 4 contributions was a runner for this year.

(iii) Employment measures

6. It was agreed that the Treasury should be prepared to concede up to 20,000 additional Community Programme places net ie. an extra 20,000 places without offsetting savings in DE programmes, or up to 40,000 Community Programme places with the further 20,000 financed by offsetting savings. The net expenditure cost of all the measures should be around £100 million in 1986-87 and £200 million in 1987-88. Within this overall constraint, the choice between additional CP places and offsetting savings was for Lord Young. Any offsetting savings agreed should be scored in the FSBR.

7. The next meeting with Lord Young should be chaired by the Chancellor who would stress the need for tight Budget security. The meeting would have before it Lord Young's further work on offsetting savings, and the analysis of existing pilot schemes for the long-term unemployed. The Chancellor would have a preliminary word with the Prime Minister.

(iv) Pension fund surpluses

8. Following the Chancellor's meeting on Friday afternoon, the Government Actuary and the Inland Revenue had considered the case for reducing the lower trigger to 5 per cent. Mr Corlett reported that in 99 per cent of cases the projected unit credit method of valuation and strong actuarial assumptions would generate a higher margin than the bonus implicit in DHSS's contracting-out arrangements for SERPS. And, in the 1 per cent of cases where

there might be a practical problem, it was open to the Inland Revenue to waive the requirement to reduce surpluses below 5 per cent. Nor were the Occupational Pension Board's standards likely to prove a difficulty except in the most obscure cases.

9. It was agreed that the trigger should be 5 per cent. The question of how Inland Revenue should react to the very small minority of cases where this would prove inconsistent with the arrangements for contracting-out was for further consideration. Inland Revenue should report further at next week's overview meeting.

10. The proposal to omit the 20 per cent upper trigger point was also accepted.

11. The Chancellor asked how a flat exit charge as high as 45 per cent could be justified. Mr Battishill replied that the exit charge would fulfil two functions:-

(i) claw back tax relief already given on past contributions, typically at CT and income tax rates well above present levels;

(ii) deter future "parking" (for which the <u>current</u> rate on corporation tax was relevant).

12. The Chancellor commented that this justification had a retrospective flavour, which could be difficult presentationally. The main priority was to get the new scheme established; the tax rate on refunds could be adjusted later, in the light of experience.

13. In discussion, it was argued that while a 40 per cent exit charge would be a reasonable disincentive to short-term parking in most cases, there was a particular problem for partnerships and unincorporated businesses, where contributions were relieved at higher rates of income tax, ie. well above 40 per cent. On the other hand, 45 per cent was high relative to the small companies rate. The Financial Secretary argued that the new scheme would be difficult enough to present with an exit charge of 35 per cent.

14. It was agreed that initially the exit charge should be set at 40 per cent; it might be necessary to raise it in later years if there was evidence of abuse.

15. The Chancellor confirmed that the new scheme was intended to cover all funded pension schemes, including those run by Nationalised Industries. He would consult Mr Fowler about this proposal soon (probably early next week).

(v) Stamp duty

16. The Chancellor noted that the latest estimates suggested that, in the context of the Big Bang, a reduction in stamp duty could have a geared up effect that would substantially reduce its revenue cost. It now looked as though a ½ per cent cut, coupled with measures already agreed to broaden the base, would be broadly revenue neutral not only in 1986-87 but in 1987-88. The Bank's latest view was that the revenue yield would probably be reduced rather than increased by extending stamp duty to market makers.

17. Mr Walker commented that the Bank's view had always been that most of the reduction in commissions and the narrowing of spreads that might be expected to result from the Big Bang would come about only in the context of the increased turnover that would be stimulated by a cut in stamp duty and accompanying action on ADRs. In the absence of fiscal change, the Big Bang would lead to only a modest reduction in commissions, and very little increase in taxable turnover. However a ½ per cent cut in stamp duty could lead to a reduction in transactions costs of around 1 per cent.

18. The Chancellor commented that the position suggested by the Bank was highly unstable, and raised the question of whether the proposed charge on ADRs was high enough, at 3 per cent. In discussion, it was suggested that previous estimates had not allowed adequately for the extra stamp duty yield consequent on imposing a charge on ADRs. The figuring was clearly highly uncertain; but, in the final analysis, the Bank's market judgement had to be accepted. On the face of it, there was a strong case for setting a higher ADR charge to protect the London market, and in particular the position of British firms.

19. The Chancellor confirmed that he was content with the broad outlines of the stamp duty package. The idea of taxing market makers should be dropped. The appropriate level of the ADR charge was for further consideration.

(vi) Charities

20. The measures proposed by Inland Revenue to combine abolition of the limit on higher rate relief for covenanted donations and measures against abuse were confirmed.

21. The proposed relief for single gifts by companies, subject to a limit related to dividends, was also agreed in principle. It was for further consideration whether the limit should be set at 2 or 3 per cent of dividends. Inland Revenue were asked for a note with examples of what this would mean for individual companies. It was noted that Nationalised Industries were, by definition, excluded from this proposal. The Chancellor said that he would need to quote the amount of additional giving expected to result from these changes. (Mr Beighton suggested that a limit of 2 per cent in dividends might in time lead to additional giving of £100 million.)

22. The payroll giving scheme was also broadly agreed. The Chancellor accepted that it would be easier for Inland Revenue to monitor and control the scheme if it was operated through a clearing house or agency charity; this arrangement was acceptable given that it was confirmed that it would impose no restriction on the charities that could benefit from payroll giving (including local charities). It was agreed that in principle the new scheme could apply to any organisation with a payroll, including Nationalised Industries and the public service.

23. The Chancellor stressed that the charities package should be very carefully presented. In addition to the usual Budget Day press notice, Inland Revenue should publish a pamphlet immediately after Royal Assent setting out: the Budget measures; other measures introduced since 1979; and all reliefs currently available for charitable giving.

24. In response to a suggestion from Mr Cropper, the Chancellor agreed that it might be worth looking at the scope for simplifying administrative arrangements for covenanting, after the Budget.

(vii) Business Expansion Scheme

25. It was agreed to show the net effect of continuing the BES beyond April 1987 and changes in coverage in a single line in the FSBR, on the lines of option (c) in Mr Battishill's minute of 20 February. The full year cost of the scheme at current levels of investment would be given in the footnote.

26. The Financial Secretary was asked to consider the few outstanding points on the scheme, in the light of a further submission from Inland Revenue. The Chancellor confirmed that CGT exemption should not be extended to existing BES shares.

(viii) Indirect Taxes

27. The Chancellor said that changes in excise duties should be grouped into three self financing packages (even though this would mean unrounded price increases):-

(i) The change in petrol duty should precisely offset the effect of not revalorising car VED. The standstill on lorry VED should be financed by an increase in derv duty.

(ii) Changes in tobacco duty should finance the standstill on alcohol duties.

(iii) The minor oil duties should be restructured, with an increase in gas oil sufficient to finance abolition of all the other duties, with the exception of heavy fuel oil duty (which should be left unchanged).

28. The Chancellor saw no case for increasing the duty on matches and mechanical lighters. The duty had only been retained for somewhat disreputable industrial reasons. The case for abolition should be reconsidered next year.

29. The Chancellor accepted that there was a good case in principle for reducing the duty on on-course betting. But this was not the year to reduce betting duties. Some restructuring in betting and gaming duties should be considered for next year. Customs and Excise's recommendation that these duties should remain unchanged this year was accepted.

30. Customs and Excise were asked for an urgent note confirming the details of this package.

31. The Chancellor confirmed that he would give a firm pledge to introduce a duty differential in favour of unleaded petrol in this year's Budget speech. Legislative action on this proposal was for the 1987 Finance Bill.

RL.

RACHEL LOMAX
24 February 1986

Distribution

Those present
Sir G Littler
Mr Evans
PS/IR
PS/C&E

RR3.65

BLO REF NO JJ16
COPY NO 1 OF 36

RECORD OF THE SIXTH BUDGET OVERVIEW MEETING:
11AM ON 24 FEBRUARY 1986

Present: Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Byatt (item 2 only)
Mr Cassell
Mr Monck
Mr Wilson
Mr Monger
Mr Odling-Smee

Mr Scholar
Miss Noble (item 2 only)
Mr Culpin
Mr Pratt
Mr Cropper
Mr Lord
Mr H Davies

Sir L Airey - IR
Mr Battishill - IR
Mr Isaac - IR
Mr Beighton - IR (items 6&7 only)
Mr Corlett - IR (items 4,5&6 only)

Sir A Fraser - C&E
Mr Knox - C&E

Mr Walker - B/E (item 5 only)

Papers

(i) Scorecard: Mr Scholar's minute of 20 February.

(ii) 1986 Budget: National Insurance Contributions, minute by Miss Noble, 20 February.

(iii) Employment and enterprise: Expenditure measures, brief by Mr Monck for Chief Secretary, 20 February.

(iv) Pension Fund Surpluses: Minute by Mr Corlett, 19 February.

(v) Stamp duty: Minute by Mr Cassell, 20 February.

(vi) Charitable giving (starters 110, 120 and 167): Minute by Mr Corlett, 17 February; note by APS/Financial Secretary, 19 February.

(vii) Business Expansion Scheme: Presentation in FSBR: minute by Mr Battishill, 20 February.

(viii) Minor oil duties: minute by Mr Jefferson Smith, 20 February 1986.

(ix) Duties on matches and mechanical lighters: Minute by Mr Jefferson Smith, 20 February.

(i) Scorecard

The main points arising from discussion of the scorecard were:

(i) The main presentation in the scorecard should show the expenditure measures separately, as well as some of the minor starters eg. mineral and oil well allowances. Tax and National Insurance contributions should be totalled (but not spending measures and tax or National Insurance contributions).

(ii) The Chancellor noted that the scorecard figures for CGT assumed that holdover relief was retained, with the abolition of the CTT lifetime charge. He confirmed that he was content with this proposal (described in detail in Mr Houghton's minute of 20 February: Abolition of CTT lifetime charge: implications for CGT).

(iii) The proposal to issue a consultative document on profit sharing should appear in a footnote to the scorecard not in the table itself.

(iv) The Financial Secretary was asked to organise a further sift through the original starters list to see if there were any further minor measures that might be included in the Budget.

(v) The Minister of State was asked to look again at the VAT lollipops for charities. The Chancellor wondered whether some should be held over for next year; there was a risk that they would be dwarfed by the larger measures in this Budget. On the other hand, the CPRG, who had pressed for these minor concessions, would not be major beneficiaries from other changes; and it might be tactically useful to meet some of the lobby's modest specific requests.

(i) Tax relief on housing repairs was a possible late starter. This was for discussion at a separate meeting later in the day.

(ii) National Insurance Contributions

2. Miss Noble's note identified two options for changing employee National Insurance contributions:-

Option 1: Insert an additional reduced rate band of 8 per cent for employees, parallel to the employers £95 to £140 band.

Option 2: Insert an additional reduced rate band of 8 per cent for employees parallel to the employers £95 to £140 band and reduce the lower rates in existing bands by 1 per cent.

The Chancellor suggested the additional option of abolishing class 2 flat rate contributions for the self-employed.

3. Miss Noble noted that DHSS had already floated the idea of abolishing the class 2 contribution and making an offsetting increase in class 4. Abolition of class 2 on its own would take a lot of self-employed out of National Insurance contributions altogether, depriving them of their right to a retirement pension. In discussion, it was suggested that it might be worth considering abolishing class 2 and recouping half the loss of revenue by increasing class 4.

4. It was agreed that option 2 was significantly better than option 1 on presentational grounds. It would achieve a 1 per cent cut in marginal rates for all those earning less than £140 a week as well as extending the reduced rate band for employees to above half average male earnings; it would also significantly improve the Government's record on the combined burden of NICs and income tax on the lower paid. By contrast, option 1 did little more than tidy up last year's scheme, and targetted a reduction on contributions only on those earning between £95 and £140 a week. While there was a case for focussing on this group, those with families would be helped by the introduction of family credit. But it would be

unwise to count on a major presentational gain from either NIC options; last year's changes had been successful in Parliamentary terms, but the wider response had been disappointing.

5. The Chancellor concluded that he had a slight preference for including changes in NICs in the Budget and, within that, for implementing option 2. Miss Noble was asked for urgent advice on whether abolition of class 2, with a partially offsetting increase in class 4 contributions was a runner for this year.

(iii) Employment measures

6. It was agreed that the Treasury should be prepared to concede up to 20,000 additional Community Programme places net ie. an extra 20,000 places without offsetting savings in DE programmes, or up to 40,000 Community Programme places with the further 20,000 financed by offsetting savings. The net expenditure cost of all the measures should be around £100 million in 1986-87 and £200 million in 1987-88. Within this overall constraint, the choice between additional CP places and offsetting savings was for Lord Young. Any offsetting savings agreed should be scored in the FSBR.

7. The next meeting with Lord Young should be chaired by the Chancellor who would stress the need for tight Budget security. The meeting would have before it Lord Young's further work on offsetting savings, and the analysis of existing pilot schemes for the long-term unemployed. The Chancellor would have a preliminary word with the Prime Minister.

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8. Following the Chancellor's meeting on Friday afternoon, the Government Actuary and the Inland Revenue had considered the case for reducing the lower trigger to 5 per cent. Mr Corlett reported that in 99 per cent of cases the projected unit credit method of valuation and strong actuarial assumptions would generate a higher margin than the bonus implicit in DHSS's contracting-out arrangements for SERPS. And, in the 1 per cent of cases where

there might be a practical problem, it was open to the Inland Revenue to waive the requirement to reduce surpluses below 5 per cent. Nor were the Occupational Pension Board's standards likely to prove a difficulty except in the most obscure cases.

9. It was agreed that the trigger should be 5 per cent. The question of how Inland Revenue should react to the very small minority of cases where this would prove inconsistent with the arrangements for contracting-out was for further consideration. Inland Revenue should report further at next week's overview meeting.

10. The proposal to omit the 20 per cent upper trigger point was also accepted.

11. The Chancellor asked how a flat exit charge as high as 45 per cent could be justified. Mr Battishill replied that the exit charge would fulfil two functions:-

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12. The Chancellor commented that this justification had a retrospective flavour, which could be difficult presentationally. The main priority was to get the new scheme established; the tax rate on refunds could be adjusted later, in the light of experience.

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16. The Chancellor noted that the latest estimates suggested that, in the context of the Big Bang, a reduction in stamp duty could have a geared up effect that would substantially reduce its revenue cost. It now looked as though a $\frac{1}{2}$ per cent cut, coupled with measures already agreed to broaden the base, would be broadly revenue neutral not only in 1986-87 but in 1987-88. The Bank's latest view was that the revenue yield would probably be reduced rather than increased by extending stamp duty to market makers.

17. Mr Walker commented that the Bank's view had always been that most of the reduction in commissions and the narrowing of spreads that might be expected to result from the Big Bang would come about only in the context of the increased turnover that would be stimulated by a cut in stamp duty and accompanying action on ADRs. In the absence of fiscal change, the Big Bang would lead to only a modest reduction in commissions, and very little increase in taxable turnover. However a $\frac{1}{2}$ per cent cut in stamp duty could lead to a reduction in transactions costs of around 1 per cent.

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(iii) The minor oil duties should be restructured, with an increase in gas oil sufficient to finance abolition of all the other duties, with the exception of heavy fuel oil duty (which should be left unchanged).

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30. Customs and Excise were asked for an urgent note confirming the details of this package.

31. The Chancellor confirmed that he would give a firm pledge to introduce a duty differential in favour of unleaded petrol in this year's Budget speech. Legislative action on this proposal was for the 1987 Finance Bill.

RL.

RACHEL LOMAX
24 February 1986

<u>Distribution</u>

Those present
Sir G Littler
Mr Evans
PS/IR
PS/C&E

BUDGET CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 26 February 1986

*CHIEF SECRETARY
*FINANCIAL SECRETARY
*ECONOMIC SECRETARY
*MINISTER OF STATE
*SIR P MIDDLETON
*SIR T BURNS
*MR F E R BUTLER
SIR G LITTLER
*MR CASSELL
MR MONCK
MR A WILSON
MR EVANS
*MR MONGER
MR ODLING-SMEE
*MR SCHOLAR
MR CULPIN
*MR PRATT
*MR CROPPER
*MR LORD
*MR H DAVIES
SIR L AIREY - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc PS/IR
PS/C&E

1. Tony
2 Philip
3 gwp.

SEVENTH BUDGET OVERVIEW MEETING: PROVISIONAL AGENDA

The seventh Budget Overview meeting will be held on Monday, 3 March at 11am. The agenda is as follows:-

(i) Budget scorecard
Minute by Mr Scholar, 27 February.
The scorecard will include a checklist of the decisions needed on all the main Budget tax measures.

CHANCELLOR OF THE EXCHEQUER

(ii) Presentation of the Budget

To be raised orally.

2. The Overview should finish well before lunch, and will be immediately followed by a meeting to discuss the draft FSBR (excluding Parts II and III, which are being considered separately). Those on the above list marked with an asterisk (*) are invited to remain for the FSBR meeting.

RL

RACHEL LOMAX

BR/18

BUDGET CONFIDENTIAL

* CHIEF SECRETARY
* FINANCIAL SECRETARY
* ECONOMIC SECRETARY
* MINISTER OF STATE
* SIR P MIDDLETON
* SIR T BURNS
* MR F E R BUTLER
SIR G LITTLER
* MR CASSELL
MR MONCK
MR A WILSON
MR EVANS
* MR MONGER
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* MR LORD
* MR H DAVIES
SIR L AIREY - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

FROM: MRS R LOMAX
DATE: ~~20~~ 26 February 1986

cc ~~Mr Byatt (item (iii) only)~~
~~Miss Noble (item (iii) only)~~
~~Mr Corlett (I/R) (Items (v), (vi), (vii) only)~~
~~Mr Walker (B/E) (item (vii) only)~~
PS/IR
PS/C&E

~~SIXTH~~ SEVENTH BUDGET OVERVIEW MEETING: ~~REVISED~~ PROVISIONAL AGENDA

The ~~sixth~~ seventh Budget Overview meeting will be held on Monday, ~~24 February~~ 3 March at 11am. The agenda is as follows:-

(i) <u>Budget scorecard</u>

Minute by Mr Scholar, ~~20 February.~~ 27 February

The scorecard will include a checklist of the decisions ~~for~~ needed ~~decisions~~ on all the main Budget tax measures

(ii) **Indirect taxes**

To be raised orally.

(Also relevant: Minor oil duties; minute by Mr Jefferson Smith 20 February. Matches and mechanical lighters: minute by Mr Jefferson Smith, 20 February.)

(iii) **National insurance contributions**

Minute by Miss Noble, 20 February.

(iv) **Employment package: Community Programme options**

Submission to Chief Secretary from Mr Monck, 20 February.

(v) **Charities package**

Minute by Mr Corlett, 17 February; note from PS/Financial Secretary, 19 February.

(vi) **Pension surpluses**

Minute by Mr Corlett, 19 February.
(Also relevant: Pension fund surpluses: actuarial assumptions, minute by Government Actuary, 20 February.)

(vii) **Stamp duty**

Minute by Mr Cassell, 20 February.

(viii) **BES: costings**

Minute by Mr Battishill, 20 February.

2. The meeting will continue over lunch.

RL

RACHEL LOMAX

(ii) Presentation of the Budget

To be raised orally.

2. The overview ~~will~~ should finish well before lunch, and will be ~~f~~ immediately followed by a meeting to discuss the draft FSBR (excluding Parts II and III, which are being considered separately). Those ~~marked~~ on the above list ~~marked~~ with an asterisk (*) are invited to remain for the FSBR meeting.

Rachel Lomax.

BUDGET CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 28 February 1986

*CHIEF SECRETARY
*FINANCIAL SECRETARY
*ECONOMIC SECRETARY
*MINISTER OF STATE
*SIR P MIDDLETON
*SIR T BURNS
*MR F E R BUTLER
SIR G LITTLER
*MR CASSELL
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MR A WILSON
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MR ISAAC - INLAND REVENUE
MR BATTISHILL - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc <u>On call for FSBR meeting</u>
<u>Part 4</u>
Miss Sinclair
Mr Calder - IR
Mr Johns - IR
<u>Part 5&6</u>
Mr Turnbull
Miss Peirson

PS/IR
PS/C&E

SEVENTH BUDGET OVERVIEW MEETING: AGENDA

The seventh Budget Overview meeting will be held on Monday, 3 March at 11 am. The revised agenda is as follows:-

(i) <u>Budget scorecard</u>
Minute by Mr Scholar, 27 February.
The scorecard includes a checklist of the decisions needed on all the main Budget tax measures.

Also relevant: Income Tax Options - Mr Mace, 27 February

1986 Budget: National Insurance Contributions - Miss Noble, 20 February. (NB. not 27 February)

Charitable Giving - Mr Beighton, 27 February

Budget Day changes - Mr Battishill, 27 February

(ii) Presentation of the Budget

To be raised orally.

2. The Overview should finish well before lunch, and will be immediately followed by a meeting to discuss the draft FSBR (excluding Parts II and III, which are being considered serparately). Those on the above list marked with an asterisk (*) are invited to remain for the FSBR meeting. Copy recipients are asked to stand by from noon onwards for discussion of the relevant sections of the FSBR.

3. Miss Peirson's note of 20 February (1986 FSBR: Allocating the Reserve) is relevant to the discussion of parts 5 and 6.

AWK

pp RACHEL LOMAX

BR/35

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
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MR CROPPER
MR H J DAVIES
MR LORD
MR L AIREY IR
MR BATTISHILL IR
MR ISAAC IR
SIR A FRASER C&E
MR KNOX C&E

cc PS/IR
PS/C&E

OVERVIEW MEETING

There will be no overview meeting on Monday 10 March. A final scorecard will be circulated early next week.

RL

RACHEL LOMAX

RR3.80

RECORD OF THE SEVENTH BUDGET OVERVIEW MEETING:

11 AM ON 3 MARCH 1986

COPY NO OF 6
REF NO 1 JJ22

Present	Chancellor	Mr Monger
	Chief Secretary	Mr Odling-Smee
	Financial Secretary	Mr Scholar
	Economic Secretary	Mr Culpin
	Minister of State	Mr Pratt
	Sir P Middleton	Mr Cropper
	Sir T Burns	Mr Lord
	Mr F E R Butler	Mr H Davies
	Sir G Littler	Sir L Airey - IR
	Mr Cassell	Mr Battishill - IR
	Mr Monck	Mr Isaac - IR
	Mr Wilson	Sir A Fraser - C&E
		Mr Knox - C&E

Papers

(i) Scorecard: Mr Scholar's minute of 27 February.

(ii) Income tax options: Mr Mace, 27 February.

(iii) Stamp duty: ADR: Mr Isaac, 27 February.

(iv) Charitable giving by companies: Note by Mr Beighton, 27 February.

(v) Vermouth and fortified wine: Recent market developments: Minute by Mr Jefferson-Smith, 27 February.

(vi) Pre-Budget deliveries of tobacco products: Note by Mr Jefferson-Smith, 28 February.

Excise duties

The Chancellor confirmed the excise duty package summarised in paragraph 2 of the seventh scorecard.

2. Vermouth and fortified wine: It was agreed that nothing should be done in this year's Finance Bill, but that Customs should aim for a longer term restructuring of the wine duties. Contingent defensive briefing should be prepared against the possibility that this would lead to a significant loss of revenue in 1986-87, with attendant publicity.

3. Tobacco forestalling: It was agreed that Customs should issue a press notice announcing restrictions on clearances of cigarettes ahead of the Budget. The draft press notice was amended in the light of the discussion, to highlight the growing scale of the problem this year, and to suggest that Customs might be considering putting such action on a routine footing for the future.

Pension fund surpluses

4. No decision was taken as to how Inland Revenue should respond to the very small minority of cases where the 5 per cent trigger might prove inconsistent with the arrangements for contracting out. The point should be covered in briefing, using the argument that it was always open to funds to reduce surpluses by improving benefits paid.

5. It was agreed that the tax charge on refunds should be set at a rate of 40 per cent. The Chancellor was concerned that it should not be presented as a new tax, but as a special charge (at a flat rate, and securely ring-fenced) to corporation tax. Mr Battishill pointed out that this presentation could increase pressure to allow ACT to be set off against the new charge. He undertook to report further on this presentation. It was agreed that the new charge should not be separately identified in the FSBR (eg. in table 6.B3); it should be aggregated with CT (or income tax as appropriate) and referred to, if necessary, in footnotes.

Stamp duty

6. The Financial Secretary questioned the provisional decision to

charge entry into ADRs at 3 per cent. After discussion it was agreed to set the charge at 5 per cent. Even at this rate, which was likely to prove prohibitive, the consequences for companies wishing to make new issues in the US were unlikely to be unduly damaging.

7. Mr Isaac's minute of 27 February noted that the new ADR charge could not take effect until the Budget Resolutions were passed on 24 March, and set out three options for dealing with the potential loss of tax in the intervening six days. The Chancellor ruled out approach A (do nothing): the risk of serious revenue loss was too great. He also ruled out approach C (delay tabling the ADR resolution until 24 March). The Economic Secretary and the Inland Revenue were asked to look at option B (construct a temporary change, applicable between 18 and 24 March). If it proved possible to improve on option B, so much the better.

8. Mr Isaac confirmed that the costing of the stamp duty package took into account increased yield from CGT arising from higher turnover. Mr Scholar was asked to look at the way this was presented in the FSBR.

Charitable giving

9. It was agreed that the limit on relief for single donations by companies should be set at 3 per cent of dividends. At least to start with, there should be no special rules for non-profit making bodies, or companies which, for whatever reason, did not pay dividends.

Minor starters

10. The Chancellor was very attracted to the proposal to impose a withholding tax on foreign entertainers and sportsmen performing in the UK. He recognised that there might be some political difficulty (for example over opera singers), but that pointed to legislation in 1986 (if that were possible) rather than 1987. Before taking a final decision, the Chancellor asked Mr Battishill

for the following further information:-

(i) A breakdown between how much of the tax would actually be borne by individuals, and how much by overseas Exchequers.

(ii) A list of the other OECD countries which already had such a withholding tax.

(iii) Whether Parliamentary Counsel could prepare something to appear in the Finance Bill as introduced - even if substantial amendment at Report Stage proved necessary.

11. The Financial Secretary, in conjunction with the Chief Secretary, had been looking at the possibility of a CGT relief for selling land to repay debts. This would help small farmers, at a small cost. The Financial Secretary would be putting a recommendation to the Chancellor very shortly.

12. It was agreed that the July 1986 Social Security Uprating should be exempted from income tax. The cost should be scored as a lollipop. Mr Isaac to provide a line to take to ensure that this was not taken as a precedent for future occasions when the uprating turned out to be miniscule.

Budget judgement

13. The Chancellor said that the latest forecast showed room for a budget package of around £1 billion within a PSBR no higher than that suggested in last year's MTFS, even assuming oil prices of $15 a barrel or lower. In principle, therefore, it would be possible to use some or all of this additional room for manoeuvre to cut income tax by 1p, restructuring the higher rates as outlined in Mr Mace's minute of 27 February and offsetting the NIC package. There was a related question about what PSBR figure to publish for 1985-86; the latest forecast pointed to a likely outturn of around £6 billion, well below previous expectations.

14. In discussion the following points were made:-

(i) There was considerable uncertainty about the prospects for oil prices which would continue right up to the Budget and probably beyond. This was a strong argument for playing safe in the Budget, which in turn pointed to a neutral Budget.

(ii) While it was debatable whether a £1 million budget package would have a directly damaging impact on markets, especially if coupled with an obviously prudent PSBR and oil price assumption, the announcement that it was after all possible to cut income tax, after all that had been said so far, was likely to be greeted with cynicism. This would be politically damaging; and a poor political reception to the Budget could itself damage market sentiment.

(iii) In presentational terms, a cut in income tax would have far more impact than changing employee NIC's.

(iv) A failure to cut income tax this year would be a severe blow to the Government's tax strategy, which would be politically damaging especially in the longer term.

(v) An overly cautious approach to the budget, supported by PSBR and oil price assumptions which might rapidly be overtaken by events (eg if the oil price bounced back, or the 1985-86 PSBR was significantly undershot) would not only be a missed opportunity - it might seriously weaken the Treasury's hand in the forthcoming public expenditure round. The risk was that the leeway created by not cutting taxes would be immediately taken up by higher public spending.

(vi) While there was a clear case for not departing too far from the PSBR shown in last year's MTFS, the combination of a £7½ billion PSBR and a zero fiscal adjustment might lack credibility. If the decision was to stick with a neutral Budget, it would be preferable to publish a PSBR of £7 billion, on the assumption of a $15 oil price.

(vii) The Inland Revenue were already coming under pressure to do something about the instalment system for paying PRT. This would be intensified by publishing an oil price assumption that implied that the oil market was unlikely to stabilize during the coming financial year.

(viii) The modest scale of the employment and enterprise measures would be more readily defended in the context of a neutral Budget.

15. Summing up, the Chancellor said he was minded to go for a neutral Budget, and to publish figures for the PSBR of £7 billion in both 1985-86 and 1986-87. However, final decisions on income tax were not needed until 4 March; he would reflect further, in the light of the discussion.

Next overview

16. The next overview meeting will be held on Monday 10 March at 11 am. All papers should be circulated on Thursday 6 March.

RACHEL LOMAX
3 March 1986

Distribution

Those present
Mr Evans
PS/IR
PS/C&E

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

Ch

A complete set of overview minutes.

In practice, ADRs were mentioned most weeks.

[signature] K
11/11

[signature]

RECORD OF THE SEVENTH BUDGET OVERVIEW MEETING:

11 AM ON 3 MARCH 1986

Present

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Sir G Littler
Mr Cassell
Mr Monck
Mr Wilson

Mr Monger
Mr Odling-Smee
Mr Scholar
Mr Culpin
Mr Pratt
Mr Cropper
Mr Lord
Mr H Davies

Sir L Airey - IR
Mr Battishill - IR
Mr Isaac - IR

Sir A Fraser - C&E
Mr Knox - C&E

Papers

(i) Scorecard: Mr Scholar's minute of 27 February.

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(iii) Stamp duty: ADR: Mr Isaac, 27 February.

(iv) Charitable giving by companies: Note by Mr Beighton, 27 February.

(v) Vermouth and fortified wine: Recent market developments: Minute by Mr Jefferson-Smith, 27 February.

(vi) Pre-Budget deliveries of tobacco products: Note by Mr Jefferson-Smith, 28 February.

Excise duties

The Chancellor confirmed the excise duty package summarised in paragraph 2 of the seventh scorecard.

2. Vermouth and fortified wine: It was agreed that nothing should be done in this year's Finance Bill, but that Customs should

aim for a longer term restructuring of the wine duties. Contingent defensive briefing should be prepared against the possibility that this would lead to a significant loss of revenue in 1986-87, with attendant publicity.

3. Tobacco forestalling: It was agreed that Customs should issue a press notice announcing restrictions on clearances of cigarettes ahead of the Budget. The draft press notice was amended in the light of the discussion, to highlight the growing scale of the problem this year, and to suggest that Customs might be considering putting such action on a routine footing for the future - and timing it so that it was manifestly in advance of Budget decisions.

Pension fund surpluses

4. No decision was taken as to how Inland Revenue should respond to the very small minority of cases where the 5 per cent trigger might prove inconsistent with the arrangements for contracting out. The point should be covered in briefing, using the argument that it was always open to funds to reduce surpluses by improving benefits paid.

5. It was agreed that the tax charge on refunds should be set at a rate of 40 per cent. The Chancellor was concerned that it should not be presented as a new tax, but as a special charge (at a flat rate, and securely ring-fenced) to corporation tax. Mr Battishill pointed out that this presentation could increase pressure to allow ACT to be set off against the new charge. He undertook to report further on this presentation. It was agreed that the new charge should not be separately identified in the FSBR (eg. in table 6.B3); it should be aggregated with CT (or income tax as appropriate) and referred to, if necessary, in footnotes.

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6. The Financial Secretary questioned the provisional decision to charge entry into ADRs at 3 per cent. After discussion it was agreed to set the charge at 5 per cent. Even at this rate, which was likely to prove prohibitive, the consequences for companies wishing to make new issues in the US were unlikely to be unduly damaging.

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3 March 1986

Distribution
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Mr Evans
PS/IR
PS/C&E

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RECORD OF THE SEVENTH BUDGET OVERVIEW MEETING:

11 AM ON 3 MARCH 1986

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	Financial Secretary	Mr Scholar
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