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PARTA

SECRET

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PART A

1988 BUDGET PRESENTATION
AND PRESS RELEASE
BROADCASTING

DD's 25 years NA3/3 17/8/95

PO -CH /NL/0117
PART A

15-3-88

Inland Revenue

Policy Division
Somerset House

PP

From: M J G ELLIOTT
Date: 12 November 1987

1. MR McGIVERN Note at end. [initials] 12/11

2. FINANCIAL SECRETARY

FINANCE BILL 1988 STARTER 213: ASSESSMENTS ON A CURRENT YEAR BASIS

1. This note seeks your views on a rather awkward problem, and possible legislative solutions to it. Briefly, we are testing in the High Court (by way of appeal against a recent decision of the Special Commissioners) the question whether a long-standing administrative practice under which we make assessments to tax in certain circumstances is supportable in law.

2. We are advised that we have an arguable case in the High Court, but that our prospects of success are not good and we are likely to lose. If we do, and take the matter no further, we shall have to change our practice. That will mean -

- a once for all Exchequer cost of some £m60-70;

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c. Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Jenkins
(Parl. Counsel)

c. Mr Painter
Mr McGivern
Mr Beighton
Mr Calder
Mr Cleave
Mr Easton
Mr Pattison
Mr Yard
Mr Dearman
Mr Halliday
Mr Elliott
Miss Brand
PS/IR

- significant operational complications with potentially substantial staff costs (180 units) next year, and an on-going cost of some 40 units in subsequent years.

3. For some taxpayers, a change of practice would remove a source of grievance. But for others, it would complicate to some extent the way in which we would have to deal with their affairs.

4. Both the transitional staff costs of 180 units, and the on-going costs of the order of 40 units, would be particularly unwelcome at present; no provision has been made for them in our budget. They could be avoided, in whole or in part, by legislation to preserve the existing practice. For the reasons explained later in this note, the legislation would not be presentationally attractive. But in view of the Exchequer cost and staffing implications we feel you will wish to consider the possibility; and that is why this item appears in the starters list.

5. The remainder of this note sets out the problem in more detail.

What the Special Commissioners have decided

6. Our practice has for long been to make assessments to tax, on income which is assessable under Schedule D on a current year basis, in estimated figures during the course of the year in which the income is received. The Commissioners have decided that this practice is not supportable in law. In their view, an assessment cannot be made in these circumstances until after the end of the year in question.

"Current year" and "preceding year" basis of assessment

7. As you know, income tax is charged under Schedule D on a number of different types of income - for example, business profits, investment income received gross, and income from furnished lettings. The law provides that, in most circumstances, the measure of the income to be assessed for any particular tax year is the amount of the taxpayer's income for the preceding tax year (the "preceding year" - 'PY' - basis). But in some cases the measure is the income for the year of assessment itself (the "current year" - 'CY' basis).

8. The statutory rules which determine whether income within Schedule D is to be assessed on the PY or CY basis are complicated. But, in general, they provide that most sources of income which run on from year to year are to be assessed on the PY basis. The CY basis applies, broadly, for the first and second years in which income first arises from a new source, and for the final year in which it arises. It also applies permanently to certain types of income, notably small maintenance payments and Irish income; and income from furnished lettings is also usually assessed on this basis.

9. The law also provides that whether the PY or the CY basis applies, tax for any year is payable on 1 January in that year (in some circumstances, in two instalments: 1 January and the following 1 July).

Current Schedule D assessing practice

10. Our practice is to make assessments, for income assessable on both the PY and CY basis, between August and November each year, in time for the tax to be paid on the following 1 January. By the time the assessment is made the tax office might, in theory, have received the taxpayer's return of income for the preceding year; so, when the PY basis applies, they could make the assessment

on the right amount of income first time. In practice - because taxpayers tend to get their returns in late - that is frequently not possible; so the amount of income to be assessed has to be estimated.

11. But when the CY basis applies, there is clearly no possibility of the tax office knowing, at the time they make the assessment, what the taxpayer's actual income will be for the year in which they are making it. The taxpayer will not, indeed, have an opportunity of including that income on a tax return until after the end of the year on the following 5 April. So assessments on income to which the CY basis applies have to be made on an estimated basis, and revised later when the taxpayer's return of income for the particular year is to hand.

The Commissioners' view of the law

12. What the Commissioners have decided is that we cannot, as a matter of law, make a valid assessment on the CY basis until after the end of the tax year to which it relates, when the taxpayer will have had an opportunity of including in his tax return the income to be assessed. The question turns on the interpretation of Section 29 of the Taxes Management Act, which gives the Inspector power to make an estimated assessment where it appears to him that there are profits chargeable "which have not been included in a return". The Commissioners held that the words in question provide authority for making assessments only on income which could, at the time the assessment was made, have been included in a return, because the whole of the income had arisen by that time. Our view - which we shall be putting to the Court - is that the words are sufficient to authorise the making of assessments in cases where the Inspector has every reason (particularly in the light of past returns) to suppose that income will arise from a particular source, even if the whole of that income, or any part of

it, is not actually known at the time the assessment is made.

Practical effects of the Commissioners' decision

13. If the Court supports the line the Commissioners have taken, and the law remains unchanged, we shall have to abandon our practice and delay the making of assessments on a CY basis until after the taxpayer sends in a return of the income to be assessed. In the general run of cases, that will mean a delay of one year. The consequences will be -

(a) Delay in payment of tax

14. There will be a once-for-all delay of one year in the payment of tax assessed in-year on the CY basis. We have looked at this carefully, and our best estimate of the amount at stake is that it is likely to be of the order of £m60-70.

(b) Operational consequences

15. These will be twofold. First, there will be a net on-going increase of work for tax offices, generating on-going staff costs of some 40 units. Second, there will be transitional difficulties in the year in which we change the practice, generating further once-for-all staff costs.

On-going operational consequences

16. At first sight it looks perverse that re-timing the making of a particular type of assessment should cause any continuing extra work at all. Indeed, one might suppose that it would save work, because it would mean that an estimated assessment did not have to be made in the first place. But unfortunately it is not that simple. The Annex to this paper explains why the net

result of the change of practice would be an on-going staff cost.

Transitional operational consequences

17. At whatever date the Court gives its decision - and at the moment we cannot say when that may be - there will be a large number of assessments made under the present practice which have not become final and conclusive. If the decision goes against us and we take the matter no further, all these open assessments - mostly for 1987/88, but some for earlier years - will no longer be soundly based in law. So strictly they should all be discharged and any tax repaid, and further assessments then made at the appropriate time. That would mean looking at some 800,000 open assessments to see if they were affected by the decision; and that would be a very expensive operation in staff terms. We estimate that some 120 units would be needed to look at the potentially affected cases, while the work of adjusting those that needed to be adjusted (perhaps 175,000) would cost about 60 units - a total of some 180 units in the transitional year.

Possible solutions to this problem

(i) Fully retrospective legislation

18. The only certain way of avoiding any costs would be to amend the underlying legislation in next year's Finance Bill with unlimited retrospective effect - but perhaps with a saving, on the lines of this year's foreign partnerships legislation, for the particular case before the Courts or any other case where the same issue had been raised with the Inspector and held over pending the Court's decision. That would both validate assessments which were still open at the time the Court gave its adverse decision, and safeguard the position for all future years of assessment.

19. The argument in favour of that course is that it would avoid any costs at all. The argument against is that retrospective legislation of this kind is always highly unpopular and inevitably controversial, as you will have very much in mind following this year's foreign partnerships legislation. It could be said in defence of this legislation that it would not in any sense be altering or increasing anyone's liability to tax; it would only be advancing (in a relatively small number of cases) the time at which tax became payable. But on the other hand, and quite apart from the retrospective point, it would be said - and we appreciate the political unattractiveness of this - that the legislation was authorising the Revenue to make assessments on income which a taxpayer had not yet received. Legislation on this point could thus be distinguished from the legislation on foreign partnerships. There, the purpose was to restore the law to a position which could clearly be seen as reasonable. Here, the position you would be seeking to restore would itself be open to criticism. It also needs to be kept in mind that if we proceeded in this way, we should have to withdraw our appeal from the Courts as soon as it was certain that the legislation would become law, because there would then no longer be a point of law for the Court to consider.

20. We recognise that you will find this option unattractive. But we feel it needs to be mentioned as the only certain way of avoiding all the Exchequer and staff costs.

(ii) Legislation for the future only

21. An alternative would be to introduce amending legislation which took effect only from next year (1988/89). That would avoid the on-going staff costs of 40. But it would do nothing for the transitional costs. We could, however, cut these down appreciably by issuing a Press Release, at the time the legislation was

announced, explaining the background to the litigation, and inviting anybody who considered that they might be affected by an adverse decision and whose assessment had not yet become final to make a late appeal, or a further application for postponement of the tax, pending the decision.

22. We are advised that it would be perfectly proper to put the onus on taxpayers to approach us, rather than attempting to track them down ourselves. And we would hope by doing so to cut the transitional staff costs from the figure of 180 to something in the region of 30 to 50. The Exchequer effect would amount to the postponement of a probably small amount of tax from one year to the next: there would be no net cost taking both years together.

23. Legislation which was not retrospective would be less presentationally unattractive than legislation which was. But it would no doubt still be argued that like our existing practice, it was - for the future - obliging people to pay tax on income they hadn't yet received.

(iii) Treatment of 1987/88 cases if there is legislation next year

24. If you decided to legislate next year without retrospective effect, we would propose to instruct Inspectors to take no action, after your decision, to enforce collection of any tax for 1987/88 charged in assessments which had been clearly - and exclusively - made on a CY basis. We are advised that we would not be under any legal obligation to proceed in that way. But we feel that it would not be right to enforce collection of tax which had been assessed on a basis which your decision to legislate had called into question.

(iv) Action if there is no legislation

25. If you decide not to legislate, there would obviously be no way of avoiding the full Exchequer costs or the on-going staff costs, if the Court's decision goes against us. But we would - if you were content - propose to issue a Press Release when the decision was given, inviting those affected to get in touch with us on the same basis as suggested at paragraph 21. That would at least cut down the transitional staff costs a little.

Timing considerations

26. As I have said, it is not possible for us to say at this stage when the case will come on in the High Court, though it is almost certain that it will not do so before the end of the year. But if you decide on legislation, we need to keep in mind that - if the Courts gave their decision before Budget day - it would be necessary to make an announcement at that point.

27. Because of this uncertainty about the timing in the Court, we are also as we see it in the position that any legislation - if you decide on that course - will have to be in next year's Bill. Otherwise, if the decision came after the end of Report next year, the only way we could protect the Revenue for 1988/89 would be by retrospective legislation in the following year.

Other background information

28. You ought also to be aware that the recent Special Commissioners' decision is not the first on this point. They expressed similar views in two earlier cases. These cases were not considered suitable for taking to appeal. But we proposed legislation on the point in the 1982 Finance Bill. Ministers agreed provisionally to legislate, but the point subsequently fell victim to pressure on Finance Bill space. The present case has

been taken by one of the Special Commissioners himself, and is clearly in the nature of a test case.

Summary

29. In summary, the position as we see it is this. Wehave to operate as sensibly as we can a legal framework which contemplates that -

(a) income from the same source may be assessable on the CY or the PY basis, depending on the particular circumstances, and

(b) when the CY basis applies, people may be asked to pay tax for a particular year on a particular source of income before they have received some or all of that income.

30. Our present practice - which has been running at least since 1931, and probably longer - is designed to cope with that, and to change it will mean an appreciable Exchequer cost and considerable staff costs. Legislation next year is the only way of reducing these costs in any significant way.

Points for decision

31. We should be grateful to know your views, and in particular -

- Do you agree to legislation next year to restore the existing practice?

- If so, should the legislation have retrospective effect, or should it take effect only from 1988/89?

- If you decide not to legislate, or if the legislation applies from 1988/89 onwards, are you content that we should not seek to identify every case ourselves, but by issuing a Press Release invite those affected to contact us?

MJE.

M J G ELLIOTT

We are sorry to have to bother you with this rather nasty little problem, but we are likely to lose in the High Court and if Ministers do not legislate to maintain the existing arrangements, there will be a significant Exchequer and staff cost. Retrospective legislation - always unpopular - would be of a different kind to last year's and looks very unattractive. A 1989 start would seem the better course, although the legislation could still be controversial.

We are at your disposal if you would like a discussion.

EMcG

E McGIVERN

ANNEX

Continuing Operational consequences

1. These will vary, in individual cases, depending on the circumstances, and in particular on two factors; first, whether the income to be assessed on the CY basis is the taxpayer's only taxable income for the year in question, and second, how prompt the taxpayer is in sending in his annual return.

2. A simple example may help to illustrate this. Suppose that my only source of income is rent from property let furnished, and that in June this year I sent in my tax return showing how much rent I received in the tax year 1986/87. Under the present arrangements, my tax office would by now have sent me an assessment on rental income for 1987/88 based on the amount of rent shown in my return. I shall appeal against that assessment because it is estimated. The tax will be due on 1 January 1988, but if I think I am being asked to pay too much I can ask for payment of part to be postponed until the actual liability is known - at risk of my having to pay interest if I turn out to have postponed too much. When I send in my 1987/88 return next year, the tax office will then send me a revised assessment.

3. In those circumstances, a change in our practice (taking effect this year) would mean that I would get no 1987/88 assessment at all this year; I would get one next year which (assuming that I got my return in on time) would not need to be estimated and would indeed be right first time.

4. In a simple case of that kind a change in the practice would benefit the taxpayer because he would -

- delay payment of one year's tax for a year;

- not be asked to pay tax on income he hadn't received at the time payment was due (this is, as you will know, an occasional source of complaint).

5. The Revenue would have to ensure that the income was assessed in the following year but would save a small number of staff because instead of making an assessment one year and revising it the next we would only be making one assessment.

6. Unfortunately, however, things are not that simple. First, it is pretty unusual for income assessed on the CY basis to be someone's main source of income. Second, most people do not send in their returns in time for assessments to be made reflecting them; something like 60% of all Schedule D assessments, both "PY" and "CY", have to be made on an estimated basis.

7. So for many cases a more realistic scenario would be this. Suppose I am in business on my own account with my profits assessable on the PY basis. I also have some rental income from furnished letting, assessable on the CY basis. At present, my tax office will send me a single assessment for the tax year 1987/88, covering both sources of income, in the summer or autumn of 1987. Obviously I will appeal against the rental income figure, because that is bound to be an estimate. But if I had not sent in my business accounts before the assessment was made, that assessment too would be estimated, and I would appeal against that as well.

8. If we changed our practice, there would be two assessments, one on the rental income and one on the business profits. The assessment on the profits would be made this year, and the assessment on rental income next. This is where the extra burden for the Revenue comes in. What was previously one assessment would now have to be split into two; and the (now) separate assessment on

rental income would in many cases still have to be an estimated one, bringing with it the associated work on appeals, amendments, and collection. So the savings which we would make in the simpler cases would be absorbed and we would incur a net <u>cost</u> of 40 units.

9. In this example, the <u>taxpayer</u> would still benefit from the once for all delay in payment, and he would still not be asked to pay tax on income he hadn't received. He might, however, find dealing with his tax affairs a bit more confusing, because he would be getting two separate assessments - for two different years - at the same time.

10. It needs to be kept in mind, too, that even this second example is fairly simple. A taxpayer might have numerous holdings of overseas shares and be actively buying and selling. If an estimated assessment had to be made on his income during the year of assessment the Inspector could not know at the time he made the assessment whether the dividends were assessable on the CY basis or the PY basis. Under the present practice the Inspector can make an estimated assessment during the year to cover both dividends assessed on the CY <u>and</u> the PY basis; and then amend it, when he receives full details of the dividends received, to reflect the actual amount assessable for the year. If the practice had to be abandoned, the Inspector's task would be much more difficult; he would have to identify separately the dividends assessable on a CY basis, exclude these from the amended assessment, and then make a separate assessment relating specifically to the CY based income.

3362/9

CONFIDENTIAL

FINANCIAL SECRETARY TO THE TREASURY

BF when we have a note of 'X'

PS/CHANCELLOR

FROM: J J HEYWOOD
DATE: 23 November 1987

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Culpin
Mr Cropper
Mr Tyrie
Mr Jenkins - OPC
Mr McGivern - IR
Mr Elliott - IR
PS/IR

STARTER 213: ASSESSMENTS ON A CURRENT YEAR BASIS

The Financial Secretary has read Mr Elliott's submission of 12 November.

2. The Financial Secretary thinks this is a particularly awkward issue. In the short term he favours Option (ii) in Mr Elliott's submission - the introduction of amending legislation to take effect from 1988/89 onwards. He provisionally agrees that we should - in an attempt to reduce the transitional staff costs - put the onus on taxpayers with open assessments to approach the Revenue. But he intends to hold a meeting later this week to go through the issues in detail with officials, and to examine whether the X proposed amending legislation is the optimal long term solution.

J.H.

JEREMY HEYWOOD
Private Secretary

42/2.BTW.4372/18

CONFIDENTIAL

FINANCIAL SECRETARY TO THE TREASURY

Ch/ Agree with FST's conclusion?

25 16/11

FROM: **FINANCIAL SECRETARY**
DATE: **15 December 1987**

CHANCELLOR

cc Mr Cropper
Mr Tyrie

STARTER 213: ASSESSMENT ON A CURRENT YEAR BASIS

I have had a discussion with officials on this thorny subject and wanted to draw it to your attention because I think that whatever we do we are likely to face difficulties.

Problem

2. The Revenue have decided to appeal against a recent decision by the Special Commissioners which has thrown into doubt the long-standing practice under which certain assessments to tax are made on a "current year basis". It emerged in discussion, that on two previous occasions the Special Commissioners had made it clear that in their view current year assessments were unlawful. On each of these occasions the Revenue simply brushed aside the Special Commissioners' views and continued with the existing pratice. This time, however, the Revenue have appealed and their assessment is that they are likely to lose.

3. If the Revenue do lose and we do not legislate to reverse the decision, there would be a once and for all Exchequer cost of £60m-70m. There would also be a one-off manpower cost of 180 units and ongoing costs of 40 units per annum. In addition there would, in principle, be a read-across to Schedule A assessments (£250m of tax per annum) which, although not specifically at issue in this case, are similarly raised on a current year basis. The Revenue believe that we would come under irresistable pressure to change the basis of Schedule A assessments if we accepted that current year Schedule D assessments were unlawful.

CONFIDENTIAL

Proposed Solution

4. Given the unattractiveness of simply letting the courts decide (on the assumption that the courts will decide against the Revenue), I have considered carefully what action we can take.

5. One option would be to introduce legislation in 1988 with unlimited retrospective effect. This would validate assessments which were still open at the time the court gave its adverse decision and of course, would sort matters out for the future. But I do not favour this "clean" option at all since unless there is an overwhelming case for it I do not think we should contemplate fully retrospective legislation, as a matter of principle.

6. The other option would be to legislate for the future only. we would have the necessary legislation in the Finance Bill and would argue that this was to clear up any confusion caused by the Special Commissioners' ruling.

7. At first sight this seems to be a fairly straightforward solution. The question arises, however, of whether we would need to give special treatment for those taxpayers who had been assessed on a current year basis for 1987/88 and who had not yet settled their tax bills by the time the Finance Bill was published (tax is due on 1 January 1988 under the existing practice).

8. On the one hand, the fact that we are challenging the Special Commissioners' view implies that we do not accept it. Therefore, until the court finds against the Revenue the existing practice remains legally valid.

9. On the other hand, the fact that we are introducing legislation implies that we are uncertain about our interpretation of the law. In that case would it not be considered to be sharp practice to continue to enforce payment of tax (even to the point, if necessary, of distraining goods)?

10. The Revenue originally proposed that in announcing legislation for the future we ought to announce also that any taxpayer whose 1987/88 case was still open could make a late appeal to the Revenue or apply for a postponement of the tax payment.

11. I understand why the Revenue suggested this, but I do think that it would look a little odd, to advertise in the technical press that taxpayers with open cases could apply for a postponement whilst taxpayers who had settled could not ask for their cases to be reopened, and all this against a presentation that we thought the law was clear and were correspondingly taking the Special Commissioners to appeal.

12. My preference, therefore, would be to introduce legislation for the future and to make no announcement that open cases could be held over. The Revenue are checking on whether this would be acceptable in law.

NL

NORMAN LAMONT

mjd 2/45Jn

CONFIDENTIAL

pp

FROM: J M G TAYLOR

DATE: 24 December 1987

PS/FINANCIAL SECRETARY

cc Mr Cropper
Mr Tyrie

STARTER 213: ASSESSMENT ON A CURRENT YEAR BASIS

The Chancellor has seen the Financial Secretary's minute of 15 December. He agrees with the Financial Secretary's conclusion that we should, if acceptable, introduce legislation for the future and make no announcement that open cases could be held over.

JT

J M G TAYLOR

42/2.BTW.4372/19 **CONFIDENTIAL**

FINANCIAL SECRETARY TO THE TREASURY

FROM: J J HEYWOOD
DATE: 5 January 1988

MR McGIVERN IR

cc PS/Chancellor
Mr Scholar
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Elliott IR
PS/IR

STARTER 213: CURRENT YEAR ASSESSMENT

The Financial Secretary has discussed this with you and others.

2. His preference is for a version of Option (II) in Mr Elliott's paper. But he does not want to issue a press release along the lines you proposed, unless an adverse court decision emerges before the Finance Bill is published.

3. You agreed to check on whether the Revenue Solicitor was happy with this approach. In the meantime it was agreed that you could send instructions to Counsel on the legislation required.

4. During the discussion you said that twice before the Special Commissioners had questioned the legality of the "current year basis". Without asking you to breach the rules of confidentiality the Financial Secretary would be grateful to know why you do not feel able to brush the most recent judgment aside in the way that the earlier judgments were ignored.

5. More generally, he would like to know what the status of a Special Commissioners' ruling is. If unchallenged would this become the law or does it not have any general applicablity?

JEREMY HEYWOOD
Private Secretary

PAM11

BUDGET SECRET

✓ pmp

FROM: A C S ALLAN
DATE: 19 JANUARY 1988

CHANCELLOR

BUDGET PRESENTATION

This is a chance to run through the presentation of the various Budget items, primarily to rehearse the line for the Prime Minister on Sunday, but also helpful for Budget presentation more generally. Robert's Chevening paper is relevant. The comments below add a few other points/questions.

Overall Strategy

2. Tax burden little changed. How do we justify particular figure for PSBR surplus, especially given claims for more NHS spending (not a point for the Prime Minister, but important to get line right).

Income Tax

3. I doubt there will be problems with the Prime Minister, except possibly in relation to the aggregate size of the package (though she might well have been concerned about abolition of the UEL). Alan Walters has been helpful on top rate.

CGT Assimilation

4. Best sold to PM as ending distortions/fiddles? She may not like line that income and gains similar. Rebasing ends taxation of inflationary gains in the 70s.

Indep. Taxation

5. Best sold to PM as removing tax penalty on marriage. Arguments about privacy may carry less weight.

MIR

6. Again, removes tax penalty on marriage; residence basis at £30,000 has no effect on married couples or on single people living alone. Ending of relief on home improvement loans counters abuse (PAC etc).

Covenants and maintenance

7. Once again, ending abuse and distortions; simplification. But have to be careful about students in particular.

Benefits in Kind

8. Attack on benefits, no longer justified when tax rate so low. Simplification (?). Reduces major tax break for company cars. Accompanied by cut in CT rate, to lowest in world.

IHT

9. Some lightening of the burden. Small beer (& takes many people out of gifts)

Excise Duties

10. Nothing significant to raise with her.

VAT base

11. Newspaper industry much stronger now, and zero rating no longer justified. Useful revenue. Not books, so no tax on ?

Private Rented Sector

12. Some support for Ridley reforms.

Forestry

13. Already agreed.

A C S ALLAN

BUDGET SECRET : TASK FORCE LIST

Copy No. 1 of 25

FROM: N MONCK

DATE: 28 January 1988

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Sir A Wilson
Mr Scholar
Mr Culpin
Mr Odling-Smee
Mr Sedgwick

Mr A C S Allan
Miss Sinclair
Mr C Riley
Miss C Evans
Mr Cropper
Mr Tyrie
Mr Call

PS/IR
Mr Isaac)
Mr Painter) IR
Mr Lewis)

PS/C & E

TAXATION OF CAR BENEFITS-IN-KIND

I attach a note, prepared by EI and IAE2 Divisions, about the estimated effects on the UK car market and UK car production of doubling the 1988/89 car benefit scales in 1989/90. There is a summary table immediately below this minute. As the note explains, the estimates are very broad brush and do not benefit either from econometric evidence or from any consultation with DTI officials.

2. You will see from the bottom two lines of the summary table that the estimated net effect on UK car production is in round terms 65,000 or less. This would be equivalent to about 6½ per cent annual production (using 1987 output) if the adjustment was largely completed in the first year, or 3 per cent if as seems more likely the adjustment was spread over two years or so. This is low but not negligible and a lot would depend on whether such an effect was super-imposed on rising or falling total output. That in turn would depend partly on the general economic circumstances and partly on whether UK car production maintains or further improves its recent overall competitiveness.

3. You are planning to mention this to Lord Young tomorrow (Miss Sinclair's brief of 27 January). If he presses for figures, you could draw on these round numbers, emphasising the uncertainties about the net effect of the tax change and about the likely overall state of the UK car industry as the result of other factors. As Miss Sinclair suggests, you could offer official talks with DTI about the estimates.

FBT

4. I have discussed with FP and ET how the estimated effects might change if the new scales applied under a FBT. Our view was that they would be rather stronger because they would impact first on employers. But the extra effect probably would not be large because the scales would remain well below the true benefit level (less than 50 per cent if the full standing charge is counted).

NM

N MONCK

SUMMARY ESTIMATES : IMPACT ON UK CAR MARKET IN 1989 and 1990

STOCKS

Estimated 1989 stock of company cars for employees	1.4 million
Estimated effect (-14%) of doubling scale charges on desired stock of such cars	-200,000
Offsetting effects on other company cars (eg pool or car hire)	+100,000
Net effect on stock of cars used by companies	-100,000

FLOWS

Effect on total annual car sales if[1] adjustment spread over 1 or 2 year period	100,000 - 50,000
(as % of 1987 new car sales)	(5% - 2½%)
Estimated[3] effect on annual sales of UK-badged cars[2][6]	87,000 - 44,000
Estimated[3] effect on UK-produced cars[4][6]	64,000 - 32,000
(as % of 1987 UK production)	(6.6% - 3.3%)
Estimated[3] effect on ARG cars	12,000 - 6,000
(as % of 1987 Rover Group production)[5][6]	(2.6% - 1.3%)

Notes

(1) Above figures ignore additional off-setting increase in desired stock of private cars

MB

(2) Above figures ignore probably positive offset in demand for UK-badged and UK-produced cars resulting from anticipated shift downmarket where these badges/producers predominate.

(3) Assuming 1986 proportion in company car stock as reported by Tolley

(4) Assuming 1984 proportions of imports in UK-badged cars registered in the UK

(5) Car, land rover and van output (467,600)

(6) These figures ignore potential changes in market competitiveness of UK manufacturers and plants

IMPACT OF INCREASED TAXATION OF CAR BENEFITS-IN-KIND ON UK CAR MARKET

Note by EI and IAE

Background

This note estimates the effect on the UK market of doubling the scale used for taxing the benefit of a company car which is available to a director or "higher paid" (ie over £8,500 pa) employee for private use. It assumes there are no other changes in this car tax structure (eg in variations according to business use and break points) or in the ceiling on capital allowances for cars costing over £8,000.

2. Present car scale charge depends mainly on the size (ie engine capacity) or value of the car, its age and amount of business use. If an engine does more than 18,000 business miles in a year the scale is halved, or scaled up by 1½ if it does 2,500 miles or less. The main scale charges are shown in Table 1 of Annex A.

3. The benefits (avoiding depreciation, repair, tax and insurance costs) are significantly under-taxed. Current charges represent on average only some 25 per cent or 45 per cent of the actual benefit depending on whether this includes 100 or 50 per cent of the standing charges, although successive real increases in scale charges since 1981/82 have pushed up the ratio of the charge to the benefit by about 1½per cent pa. Since 1981/2 the proportion of new car registrations as company cars has risen from 40 per cent to 48 per cent (1987) and the stock of company cars has risen steadily at some 70,000 pa, raising the share of company cars in the total. Estimates of the car stock and company car characteristics are given in Table 2 of Annex A. If the present scales were doubled for 1989/90, they would on average represent about 85 per cent of the actual benefit, counting 50 per cent of the standing charge and allowing for a 5 per cent increase in moving costs.

Effects of Increasing the scales

4. Doubling the scale charges reduces the subsidy on company cars and the corresponding income-in-kind for employees and increases the effective cost of company car services. The following general effects on domestic demand and the UK market can be anticipated:

i. Effect on company cars

Reducing the subsidy will reduce the desired stock of company cars for employees with the following probable consequences:

a. Reduction in the purchase of new cars by companies for employees.

b. Delay in replacement of existing stock of company cars for employees.

c. Shift downmarket towards cheaper cars when replacing present stock.

d. Off loading of excess stock on to secondhand market.

e. Increased purchase of pool cars and use of hire cars to replace business demand previously satisfied by company cars.

ii. Effect on employees' cars

There will be knock-on effects on the demand for private cars as a result of fewer company cars. This is difficult to estimate particularly because the overall impact will in part depend on how far companies compensate employees for the reduction in the benefit of subsidised company cars. Possible consequences are:

a. Increased demand for cars owned by employees.

b. Demand increase may impact most on secondhand sector.

c. Any increase in demand for new cars is likely to be downmarket.

iii. Other effects

A disproportionate impact on demand for UK 'badged' and for for "UK produced" new cars since the company sector, which buys half the new cars in the UK, is skewed towards UK badges. This will be partly offset by an increase in demand for UK produced cars to the extent that overall demand for company cars shifts downmarket (where UK badges predominate).

Quantifying the effects

5. No pertinent econometric work on the elasticity of company car demand is available but a number of factors suggest that demand is relatively inelastic:

- Overall demand for company cars had been increasing despite real increases to the scale since 1981/82;

- doubling the present (1988/89) scales implies that on average the taxable element will amount to only 45-85% of the actual benefits of private use ie a subsidy will continue and a significant reduction in demand might not be expected until this subsidy is removed;

- an estimated 90% of company cars have business mileage of over 2500 a year suggesting the demand for business cars may be insensitive to changes in tax on benefits-in-kind;

- the prestige and convenience of company cars.

6. These factors suggest the market demand for company cars for employees is unlikely to respond significantly even to a doubling of the taxable benefit for employees. For most, having a company car will still represent an addition to income. In addition, any significant reduction of the desired stock of company cars for employees is likely to be partly offset, as paragraph 4 above suggests, by increased demand for pool company cars, hire cars and individually owned cars.

7. In all these areas there is an almost complete absence of econometric evidence. It has therefore been necessary to adopt assumptions and explore sensitivities. These are spelt out below. The focus of the following appraisal is on the potential impact on UK new car demand, and the possible implication for UK 'badged' cars and, within that, the effect on UK car production.

8. The adjustment to the desired stock of company cars for employees may take longer than one year but is likely to be relatively quick because changed scales for 1989/90 will be announced in the 1988 Budget and company cars are replaced, on average, every 2-3 years.

9. If we assume a reduction in the desired stock in the affected sector from 1.4 million to 1.2 million (over 14 per cent), this implies an adjustment of 200,000 cars. There would be an increase in sales of second hand cars and reduction in demand for new cars. Within the company sector as a whole, the need to meet demand for business travel with the lower stock of company cars for employees is likely to lead to higher stocks of 'pool' company cars and increased resort to hire cars. It is assumed that the increase in desired stocks in these sectors offsets, perhaps, half the amount (since personal use and business use miles in company cars for employees are roughly identical). This leads to a net reduction in the overall stock of cars used by employees of some 100,000 or some 5 per cent of total new car sales of 2 million in 1987.

10. There is likely to be some accompanying increase in the desired stock of cars owned by employees; especially among households relying solely on the company car for car services. But this is difficult to quantify.

11. Company cars are predominantly UK-badged (some 87% in 1986) and the brunt of the net reduction in demand for cars is likely to fall on manufacturers with UK facilities. The impact on UK annual production will depend primarily on the sourcing decisions of these manufacturers and, fundamentally, the cost and quality performance of their UK plants, their competitivenes with plants overseas. This cannot, obviously, be forecast with any certainty. Moreover, the trend towards increased flexibility in choice of company car may well have eroded the 1986 figure of Uk badge proportions significantly by 1989/90. Using 1987 estimates of the UK-produced share of UK-badged company cars suggests that some 64,000 of the 100,000 net reduction in company car purchases in 1989/90 would be at the expense of UK production.

12. UK-badged cars almost completely dominate the lower-priced, company car bracket. The arithmetic above takes no account of the impact of the increased scale charges and the expected general down-market shift on the pattern of the company sector's normal replacement purchases. In 1987 these purchases amounted to 950,000 cars. Any further switch towards UK-badged cars in such regular sales would offset the potential loss to UK production. It is worth noting that the potential loss of 64,000 referred to above could be completely offset by a fairly marginal switch towards UK-badged or UK produced cars in such large-scale annual purchases.

13. Two additional points must be considered. First, the illustrative arithmetic shown above ignores the general growth in the market. The numbers are net, compared with what otherwise would have happened. A net reduction of 100,000 in total UK demand (ie assuming no increase in cars owned by employees) is far from alarming relative to the growth in total UK sales of 140,000 recorded in 1987. What is at stake may simply be lower growth. But the impact on UK production, despite the possible offsetting factors is potentially more serious. 1987 growth of UK production was only 9,000 cars and output could be falling in 1989/90, even if there were a further improvement in the performance of UK manufacturers and plants and no real increase in scale charges.

14. If all adjustments take place within a year, thereafter market trends in growth are restored at the new set of effective prices, and from the new distribution of cars among sectors in the UK. In practice the adjustment could be spread over two years or more.

Sensitivities

15. The key assumption in this arithmetic is the size of the response of employers and employees with company sector cars to the increase in effective costs. Although this is highly uncertain we do not feel that we have underestimated this response given the experience of past responses to (albeit small) scale charge increases, the use of company cars for employees for business miles (15 per cent of such exceed 18,000 business miles per year), the use of company cars as status symbols and perhaps most important, the fact that even with a doubling of scale sharges most users will still receive more benefit than that taxed.

16. Regarding the partially compensating changes in other company sector demand for cars, the assumption rests primarily on the generally agreed inelastic demand for business travel per se combined with the observed inadequacy of alternative modes of travel for the normal, frequently stopping business journeys where flexibility and immediacy are crucial.

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ANNEX A

TABLE 1

Size/value of car	**Scale Charge** 1987/88	**-** £	**Cars under 4 years old** 1988/89
Up to 1400 cc	525		580
1401 - 2000 cc	700		770
Over 2000 cc	1100		1210
Cars with an original cost £19,250-£29,000	1450		1595
Cars with an original cost exceeding £29,000	2300		2530

TABLE 2

Stock of cars in UK (1987/88, million)

Company cars		2.2 (1)
of which: for employees	1.3 (2)	
general use (pool)) hire firms)	0.9	
Private cars		15.8
TOTAL		18.0 (1)

Source: (1) DVLC (2) IR

TABLE 3

IR Breakdown of Company cars for employees and directors (1989/90 estimate)

Size/value of car	No. of cars
Up to 1400cc	250,000
1401-2000 cc	800,000
Over 2000cc	200,000
Cars cost £19,250-29,000	70,000
Cars cost > £29,000	30,000
	1,350,000

TABLE 4

Manufacturers of company cars Manufacturer	(1986 Survey by Tolley % UK company cars		Adjusted for* Estimated UK content
Ford	45%)	87%	31%
Vauxhall	29%)		20%
Austin Rover	12%)		12%
Talbot	1%)		1%
French	4%		-
Germany	7%		-
Swedish	2%		-
Japanese	1%		-
TOTAL	100%		64%

*Assuming imports penetrated 1987 levels

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Copy 2 of 29
FROM: ROBERT CULPIN
DATE: 4 February 1988

CHANCELLOR

cc Principal Private Secretary
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr J Anson
Sir A Wilson
Mr Byatt
Mr Scholar
Mr Sedgwick
Mr Odling-Smee

Miss Evans
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Miss Sinclair
Mr Riley

Mr Battishill)
Mr Isaac) Inland Revenue
Mr Painter)

Mr Unwin)
Mr Knox) Customs & Excise

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B.L.O.

BUDGET PRESENTATION

The big picture on the Budget is pretty clear. The main bull points will be:

- hat-trick repeated
- lowest basic and top rates since the War
- independence for women
- fairer CGT
- strong growth and low inflation.

The main criticisms will be:

- Budget for the rich
- wasted opportunity
- current account deeper in red.

It would be easy to extend both lists.

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2. The big picture on publicity is also pretty clear. In addition to the traditional publications, we shall:

- continue and improve the Budget EPR

- have pamphlets on independent taxation and maintenance and covenants.

We should pay particular attention this time to the distributional tables. In particular, it will be essential to show the gains from independent taxation - so far as the statistics allow - by income of wives, not couples. And we shall have to consider how to manage information on measures which affect different years.

3. Beyond the big picture, there will be lots of less familiar measures. You might like to ask your Ministerial colleagues, as usual, to look at the presentation of these, and to consider how both large and small measures can be packaged together to appeal to particular constituencies.

4. In the light of that, we may well want to circulate a further paper on presentation for an Overview nearer the Budget, possibly with a consolidated list of awkward questions. In the meantime, this minute gives brief notes.

Numbers affected

5. The changes in the basic rate and the personal allowances will affect far more people than anything else. The key Revenue numbers are approximately these, all in tax units:

- 21 million pay basic rate income tax

- Of these, about 1¼ million pay higher rate income tax

- 1¼ million have company cars

- 1½ million a year take out home improvement loans

- Less than 0.2 million a year pay capital gains tax

- About 0.1 million a year make covenants to students

- Less than .005 million each year pay inheritance tax.

The Budget as a Whole

6. A simple presentational story would go something like this:

- For most people, most of the time, the main thing wrong with taxes is that they are too high: you are getting them down.

- In some cases, there is a crying need for structural reform - the higher rates, the taxation of married women, and capital gains. You are tackling them.

- In other cases, the tax system is unfair. There is no reason for the nurse on low earnings to subsidise richer people's company cars or double glazing. Nor is there any reason for the tax system to penalise marriage. You are making it fairer.

- In other cases, the rules are needlessly complicated. What is the point, for example, of taxing recipients of maintenance payments only to give unlimited tax relief to donors? You are making things simpler.

Grouping measures

7. In the main, the big measures will present themselves; as always, the key will be to get clear explanations into the speech and supporting documents. But we need to give a bit of thought to themes. For example:

- We can clearly group measures under the headings suggested in the previous paragraph: structural reform, fairness, simplicity, etc.

- We can group them under the traditional functional headings: taxes on spending, capital taxes, etc.

- We can make up quite a package of measures to broaden the personal tax base and clean out nonsenses: cars, forestry, maintenance and covenants, etc.

- There are at least two green measures: forestry and unleaded petrol.

- And so on.

A number of measures will no doubt appear under several headings.

The main measures

8. On the main elements of the Budget you will, as usual, face a number of more or less rude questions; but you have already been over the most obvious. For example:

(a) Whatever happened to the MTFS?

(b) When you said the PSBR should be 1 per cent of GDP, how were we to know you meant minus 1 per cent?

(c) Why is your monetary policy accommodating so much inflation?

(d) Why are your PSBR forecasts always up the pole?

(e) Why stoke up consumption by cutting taxes on persons while allowing the burden on business to rise?

(f) Why haven't you reduced the proportion of GDP you take in taxes and National Insurance contributions?

(g) What proportion of the cost of the Budget goes to higher rate taxpayers? And how do you justify it when their gross incomes are rising faster than anyone else's, and you are about to let them off the rates?

(h) Do you expect them to respond, as before, by contributing a higher proportion of your revenue?

(i) Why keep the married man's/couple's allowance when everyone agrees it should go?

(j) Why give it back to people who currently forfeit it by exercising the wife's earnings election?

(k) Why are you doing nothing, through independent taxation, for the one-earner couples you said you wanted to help?

(l) Why aren't you introducing partially transferable allowances?

(m) If capital gains are like income, why tax only indexed gains but unindexed income?

(n) And why keep, then double, the £6,600 exemption for capital gains?

(o) Why raise CGT rates for some, only to lock them into their existing investments?

(p) Can we expect you to rebase CGT again?

(q) Why are you breaking your Manifesto pledge to "keep the present system of mortgage tax relief"?

(r) How do you justify yourself to people who can only buy a house if they pool their mortgage relief and share?

(s) Why have you dropped the Green Paper idea of converting the Additional Personal Allowance into a benefit?

(t) Why give the APA to any cohabiting couples?

(u) Will it take Revenue snoopers to police the restriction on the APA which you are imposing?

(v) How will you defend yourself if deserted mothers get lower maintenance awards because you are depriving fathers of tax relief?

(w) Why are you going back on the announcement you have already made about car scales for 1988-89?

(x) Is lightening inheritance tax now a fixture of Budgets?

(y) Why nothing serious for companies?

(z) Why no reform of National Insurance/no Green Paper on savings/no improvements in oil taxation/nothing whatever for health/etc etc?

I cannot believe these will stump you.

9. Listing them reminds me of an awkward detail which I am not sure Ministers have yet addressed.

- If maintenance payments are going to be tax free to future recipients, will you be able to justify taxing existing recipients?

There are several transitional problems of this kind. The Revenue are preparing a paper.

10. There is a further general question, which keeps cropping up, about what behavioural assumptions we should make in costings for the FSBR. That deserves a note, and FP will provide one in due course.

"Minor" measures

11. What else will attract significant attention?

12. First, a couple of measures you discussed at the last Overview:

- company residence and migration

- the private rented sector.

13. Second, any consultative document you put out on Budget Day on "residence". Is there a presumption that you will publish one with the Budget?

14. Third:

- importers' details: roughly, allowing British manufacturers, subject to certain conditions, to find out who is importing what from where. You are still in correspondence with Lord Young about this

- "unnamed persons": roughly, giving the Inland Revenue the power to get information which will enable them to identify taxpayers involved in known schemes of tax avoidance or evasion

- ending the tax deductibility of what's left of the three Martini lunch.

If you proceed with these three measures, will they all be part of the Budget - that is, announced on Budget Day and included in the FSBR?

15. Fourth and last, Customs' powers to search. As I understand it, you are committed to legislating in the Finance Bill to make it clear that women suspected of drug smuggling may be subjected to intimate body searches by male doctors. I take it this will not be part of the Budget. Does it need to be announced at all, or can it just be included in the Finance Bill as published?

Conclusion

16. Much will no doubt change between now and the Budget, and there is a lot of work ahead to get ourselves into the best position to sell it. But the main lines of presentation look straightforward and strong. And the main difficulties are blindingly obvious - practically everything benefits the better off, the reform buffs will be disappointed, and you will be swimming against the health tide.

RC

ROBERT CULPIN

Chief Secretary

Cleaning up personal taxes: base broadening and simplification

- Cars and other perks
- Home improvement loans
- Forestry
- Maintenance and covenants
- Minor allowances
- Top slicing

Financial Secretary

Income Tax rates and consequentials

- Main personal allowances
- basic and higher rates
- LAPR, trusts

Independent taxation

- Penalties on marriage

Lloyd's

Paymaster General

Business

- CT rates
- BES
- Business entertainment
- Section 482
- ESOPs
- Private rented sector/assured tenancies
- PRP
- CGT retirement relief
- Inheritance tax

Housing

- Private rented
- Mortgages: residence basis
- Home improvement loans

Economic Secretary

Taxes on spending

Keith etc

Capital taxes

- CGT reform and simplification
- Building societies
- Capital duty
- IHT

Countryside

- Forestry
- Rollover for milk

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Inland Revenue

The Board Room
Somerset House
London WC2R 1LB

Many thanks. The sooner I can see a cockshy basis on the main Budget options, the sooner I will be able to say whether or not I wish to launch this innovation this year. Meanwhile I am most grateful for raising this possibility. N.

FROM: A J G ISAAC

4 February 198

CHANCELLOR OF THE EXCHEQUER

ISAAC >CH 4/2

1. I should be grateful if we could, at this stage, seek your (provisional) guidance on the presentation on Budget Day of the distributional effects of the income tax changes. (I am discussing here only the main income tax changes. I am not concerned with interactions with any other Budget changes affecting - eg - cars or capital gains tax.)

Last year's attached.

Yes

2. I take it for granted that we should produce on Budget Day the usual Press Release "income tax tables". These take a range of "specimen incomes", on certain conventional assumptions (for example - a married man with no reliefs other than his personal allowance), and show how much people gain or (if relevant) lose at each specimen income level from the main income tax changes. The tables show comparisons on both a "static" and a "dynamic" basis. If you are content, we shall let you see drafts nearer the time.

---

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Riley
Mr Olding-Smee
Mr Cropper
Mr Tyrie
Mr Call

Mr Battishill
Mr Isaac
Mr Painter
Mr Calder
Mr Lewis
Mr Beighton
Mr Eason
Mr Mace
PS/IR

3. The question is whether, this year, we should do something more. For some years we have been developing our ability to provide you with a better illustration of how tax changes will affect people in the real world - taking account of the numbers of people at different income levels, their family relationships, the tax reliefs that they claim for pension contributions, mortgage interest and so forth.

4. In brief, we have been increasingly aware of the limitations of the "stylised" presentation at specimen income levels. The main problem is that, by ignoring reliefs, gains from Budget cuts are over-estimated at each level of gross income. We have seen a need to present you with real-life figures, showing how many people actually lose or gain at different income levels, and how much they gain or lose. You see regularly the results of this work: most recently, for example, in the comparisons of the effects of Options 1, 2 and 3 in Mr Eason's submission, at your last Overview meeting.

See esp. Tables 3+5 flagged.

5. So far, however, we have not produced figures of this kind for publication on Budget Day (though you will remember that we did include an analysis of this kind in the Personal Tax Green Paper, Annex 4) and information on gainers and losers is included in the Budget brief. There would be quite a bit of work, starting from now, to produce a distributional analysis of this more advanced kind, which we could confidently publish on Budget Day. Given the other pressures on Statistics Division, I would not want to direct resources on to this work, unless you yourself are attracted by the prospect of publication. Obviously, however, I am not at this stage asking for anything more than a provisional steer. I assume that you would not want to make a firm commitment, until you have seen what the tables look like.

6. The question on which I am seeking your guidance is therefore whether you would like us to work up a "real-life" distributional analysis of the income tax changes in the Budget, with a view to publication on Budget Day, in addition to the

usual stylised "specimen income tables". The new tables would probably be added to the existing Press Release and we would need to ensure that adequate explanations were given to avoid confusion between the two types of tables.

Difficult to decide without seeing a draft. In principle, useful, though not necessarily helpful, on Bgt Day itself, to reveal 40% of gain to those on over £30,000. (Eason Table 5), assuming that's right.

AH

A J G ISAAC

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BUDGET

Copy No. 1 of 2
FROM: ROBERT CULPIN
DATE: 4 February 1988

pmp

CHANCELLOR

PRAYERS: BUDGET PRESENTATION

Suggested division of labour below. Last year's precedent below that.

2. As agreed, some measures deliberately appear twice.

3. I suggest you stress that the outline is only a starting point. You will obviously want to revise it in the light of colleagues' comments. Even then, it cannot be final at this stage. Part of the object will be to identify themes which are not yet on the list but can help us with particular constituencies. All contributions welcome.

RC

ROBERT CULPIN

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Economic Secretary

Taxes on spending

Keith etc

Capital taxes

- CGT reform and simplification
- Building societies
- Capital duty
- IHT

Countryside

- Forestry
- Rollover for milk

MR 9/60

B/8

BUDGET SECRET

FROM: A C S ALLAN
DATE: 19 February 1987

PS/CHIEF SECRETARY

cc: PS/FST
PS/EST
PS/MST

ALLOCATION OF RESPONSIBILITIES FOR BUDGET PRESENTATION

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

<u>CST</u>

Business, including

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

<u>FST</u>

Income tax, including

- MIR
- Car/fuel benefits

Plus

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

<u>FST</u>

City issues, including

- Lloyds
- Banks

(continued)

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Plus

- Dual resident companies
- Keith
- Stamp duty

MST

Customs stuff

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

Plus

- PRP
- Employee share schemes.

ACSA

A C S ALLAN

Inland Revenue

Policy Division
Somerset House

FROM: E McGIVERN
DATE: 4 FEBRUARY 1988

FINANCIAL SECRETARY

STARTER 213: CURRENT YEAR ASSESSMENT

1. I am sorry for the delay in replying to Mr Heywood's note of 5 January, in which you asked three questions:-

   i. Is the Revenue Solicitor content that we should not issue a Press Release at the time the Finance Bill is published on the lines suggested in paragraph 21 of Mr Elliott's paper of 12 November?

2. The suggestion was that at the time the Government's intention to legislate was announced, e.g. when the Finance Bill was published, we might also invite any taxpayer, whose assessment for years up to and including 1987/88 was still open, to make a further application for postponement of the tax. We shall clearly have to issue a Press Release in the normal way describing briefly what the legislation is doing and why; this invitation to taxpayers could have formed part of that.

---

cc:		cc:	
	Chancellor		Mr Painter
	Mr Scholar		Mr McGivern
	Mr Culpin		Mr Easton
	Miss Sinclair		Mr Yard
	Mr Cropper		Mr Pattison
	Mr Tyrie		Mr Elliott
	Mr Jenkins (OPC)		Miss Brand
			PS/IR
			PS/IR

3. We have consulted our Solicitor, who advises that there is no legal obligation on us in these circumstances to issue this sort of invitation. As you pointed out yourself in our discussion, we are taking the particular case to the Courts - and continuing with our existing and long-standing practice - on the clear understanding that we have a defensible legal case for doing so; the fact that legislation is being introduced for the future does not impinge on that.

4. We shall therefore aim to issue a Press Release which does no more than describe the effect of the new legislation and why it is being introduced. Since the clause is going to need a Budget Resolution, we shall have to issue this release on Budget Day. You will of course see a draft nearer the time in the usual way.

5. We have very recently learned that the case is to be heard in the High Court on 8 June - i.e. much about the time when, on present plans, the clause might come on in the Finance Bill Committee. There is a question whether, if we lose and decide not to take the case further, we should at that stage issue a Press Release on the sort of lines we have been discussing.

6. We are advised that we would be under no legal obligation to issue any Release at that time either; we could perfectly properly leave it to taxpayers to take the point themselves. But given the coincidence of timing between legislation and litigation there is a good case for issuing a Release as it is highly likely that we shall be asked to say how we propose handling open cases. However, the point does not need to be decided yet and we will come back to you nearer the time.

ii. What is the status of a Special Commissioners' ruling?

7. The Special Commissioners are an independent tribunal set up to hear appeals in tax cases. Their decisions on questions of fact are final (assuming there was evidence to support the facts as found by them); but their decisions on the way in which the law applies to a particular set of facts can be taken on appeal to the Courts. Their hearings take place in private and no reports of their decisions are issued; and no doctrine of precedent applies, i.e. the Commissioners are not obliged, as the Courts are, to take account of their earlier decisions in deciding current cases, though they do, unofficially, try to follow their previous decisions.

8. It follows that in strictness a Special Commissioners' decision in a particular case is binding only in that case. Nevertheless, our view - shared by our Solicitor - is that, whatever the precise legal position, it would be highly improper for us consistently not to appeal against adverse decisions by the Commissioners on a point of principle of general application, while still operating a practice based on our contrary view. The proper course in these circumstances would be either to accept the Commissioners' decision (and seek amending legislation for the future if we thought the point sufficiently important) or to appeal to the Courts. Were we to do otherwise, we should be open to censure if a case should reach the Ombudsman.

9. Against that background, I come to your third question -

iii. Why should we not "brush aside" the latest judgment like the earlier two?

10. We did not pursue the first of the two earlier cases because we concluded that the better course would be to seek legislation in the next Finance Bill (1982) to put the matter beyond doubt. And, as Mr Elliott said in his earlier note, that is what we did; the proposal to legislate was approved by Ministers and we got to the stage of having a clause drafted, but it was then crowded out.

11. We did not pursue the second case because we took the view (this was early in 1985) that there was some prospect that it might be possible to sweep the point up in a wider context - either as part of the legislative response to the Keith recommendations or in connection with the further work then contemplated on moving generally to a "current year" basis of assessment. And, less important, we also had in mind at that stage that the point did not seem to be one of major importance to taxpayers, in the sense that there were relatively few complaints and very few cases were actually going to appeal.

12. By the time the third case came up, it was quite clear that neither Keith nor any wider developments on current year basis were going to provide an opportunity for dealing with this point. Furthermore, the appellant in the third case is himself a Special Commissioner who was clearly pursuing the matter as a test case; and we also knew that another individual intended to give publicity to the wider issue (i.e. that the Commissioners did not agree with our view of the law) if we did not take the matter further. In

effect, therefore, we were faced with the position tht the Commissioners clearly saw this as a point of principle of general application which we believed it would be improper to ignore - see paragraph 8.

13. It was against this general background that we decided we no longer had any alternative but to take the matter to appeal and seek amending legislation in case the Commissioners' decision should be upheld.

EMcG.

E McGIVERN

FS/Dkl

MC53

FROM: MARK CALL
DATE: 8 FEBRUARY 1988

CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Forman, MP
Mr Cropper
Mr Tyrie

Ch/ I have spoken to the Revenue, who do not think they can make any sensible estimate in view of the considerable uncertainties outlined at flag A. Do you want a fuller note?

MPW 15/2

CHIEF SECRETARY'S BACKBENCH BUDGET SOUNDINGS: 4 FEBRUARY

Those attending:

Dr Alan Glyn, MP
Mr John Marshall, MP
Mr Gerald Howarth, MP
Mr Andrew Hunter, MP
Mr Harry Greenaway, MP
Mr Favell, MP
Mr Call

Dr Alan Glyn said it was no good pouring more money into the NHS until its problems were sorted out. In the meantime, the Government should allow carryover to avoid wasteful end-year spending, and make clear that the NHS was not going to be funded in this way forever. His constituency wanted tax cuts not more spending on the NHS. Regarding the Budget, he was in favour of reducing the higher rates of income tax, and introducing a new lower rate band. CGT should be abolished. The Government should stop subsidising sin in the form of MIRAS for sharers. The ceiling should be raised to £35,000. He was in favour of tax relief for private medical insurance.

Gerald Howarth agreed with Dr Glyn on the NHS. On the Budget he stressed that the first Budget of the Parliament was the opportunity to do the difficult things. He wanted a basic rate of

25p, pointing out that not to do this would send the wrong signals on the economy. The gap between the 25p basic rate and the first higher rate should be reduced. On CGT he believed that Capital Gains should be treated as income. MIRAS should not be available to sharers. He was very much in favour of the Butterfill EDM on Home Income Plans, whereby elderly people could continue to receive tax relief if they rolled up the interest to be paid from their estate. He believed this would be very popular, and cost the Treasury very little. The £4 disregard available to War Pensioners when calculating their entitlement to other benefits should be increased. On VAT he said he would like to see a broadening of the base if there were to be a reduction in the rate of VAT. If the only extension of VAT was to newspapers that would cause a problem. Overall, his priority was for improving family taxation. He urged the Chancellor not to penalise smokers and drinkers, saying that if the argument was that these people's habits placed an extra burden of cost on the Health Service, then by the same token mountaineers should be taxed.

Andrew Hunter also endorsed Dr Glyn's comments on the NHS. He asked for consistency in War Pensions, pointing out that widow's whose husbands died in action pre- and post-1973 received very different pensions. He agreed with the need to reduce the burden of direct taxation on individuals. However, he felt it was first necessary to reduce the burden of taxation on industry, so that it would be able to respond to increased consumer demand. His overall theme for the Budget would be increased individual responsibility, rolling back the frontiers of the state etc.

Harry Greenaway said he had recently been to 7 Ward AGMs and asked them what they would like in the Budget. He said it was important to remember that the Conservatives were the Party of the family, and accordingly was against the tax advantage to sharers through MIRAS. His solution was to give a married couple £60,000 allowance. There was widespread support in his constituency in favour of income tax reductions. CGT for long-term gains should be abolished. VAT should not be applied to books. "Something should be done" for pensioners. His theme for the Budget would be "power to the people through the pocket".

MC

MARK CALL

ps4/3H

CONFIDENTIAL

FROM: A P HUDSON
DATE: 8 February 1988

MR ISAAC - IR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Odling-Smee
Miss Sinclair
Mr Riley
Mr Cropper
Mr Tyrie
Mr Call
PS/IR

HUDSON → ISAAC 8/2

PRESENTATION OF INCOME TAX CHANGES

The Chancellor was most grateful to you for your 4 February minute, and for raising the possibility of additional distributional analysis of the income tax changes in the Budget, for publication on Budget Day in addition to the usual Press Release "income tax tables".

2. He would be grateful to see a "cockshy" based on the Budget option. The sooner he can see this, the sooner he will able to say whether or not he wishes to launch this innovation year.

A P HUDSON

008/3291

CONFIDENTIAL

BF | 22.2
AH

FROM: ZOË EVEREST-PHILLIPS
DATE: 9 February 1988

PS/CHANCELLOR

cc: PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Scholar
Mr Culpin
Mr Odling-Smee
Miss Sinclair
Mr Riley
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call

Mr Isaac - IR
PS/IR

PRESENTATION OF INCOME TAX CHANGES

The Chief Secretary has seen Mr Isaac's note of 4 February and has observed that it would be useful to see "real life" gains presented.

ZOË EVEREST-PHILLIPS
Assistant Private Secretary

Don't see we gain much from publishing these except that at least we know they're right – IFS figures might not be.

[initials]

1. Andrew (any comments?)

2. Ch

This is tricky. Table 13 Figures do show smaller gains for most levels of gross incomes, though less marked in £5,000 – £10,000 band. But is it a good presentational point to show smaller gains for those in £10,000 – £20,000 range?

And because these figures give average gains for all those earning £70,000 or over, figure for gain is £15,000 for married couple compared with £8,000 in Table 2. Rather defeats the £70,000 cut-off. And invites calculation:

80,000 earning £70,000 or over get average gain of £13,000 = £1 billion which could have been spent on NHS.

AA

INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

Ch/ Do you want any changes to the traditional tables? "Real life" tables - Tables 13+14 - in the Press Release? (1(a)+(b), over) [initials] 17/2

COPY NO 1 OF 38

FROM: R J EASON

DATE: 17 FEBRUARY 1988

This is the promised submission. We should, of course, need to look carefully at the text accompanying and explaining the tables. [initials] 17.2

1. MR ISAAC
2. CHANCELLOR OF THE EXCHEQUER

(Reads): This is the promised submission. We should, of course, need to look carefully at the text accompanying and explaining the tables.

BUDGET INCOME TAX PRESS RELEASE

1. As requested in Mr Hudson's note of 8 February, I attach a first draft of the tables for the main income tax Press Release. All figures are provisional and they are based on Option 3. Tables 1 to 12 are the traditional specimen income tables in which we assume taxpayers have no allowances or reliefs other than their appropriate personal

cc. Principal Private Secretary
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr J Anson
Sir A Wilson
Mr I Byatt
Mr M C Scholar
Mr R Culpin
Mr P Sedgwick
Mr J Odling-Smee
Mrs C Evans
Mr A Hudson
Mr P McIntyre
Mr P Cropper
Mr A Tyrie
Mr M Call
Miss C E C Sinclair
Mr C J Riley
Mr Unwin (Customs & Excise)
Mr Knox (" & ")

Chairman
Mr Isaac
Mr Painter
Mr Beighton
Mr Calder
Mr Lewis
Mr Mace
Mr Cayley
Mr Eason
Mr Ko
Miss White
PS/IR

Ch

I am most grateful, but I think that 13 & 14 ~~[illegible]~~ published on Budget Day, alongside the traditional tables, would be too confusing; & on balance of advantage I'd stick to the trad tables alone.

allowances. Tables 13 and 14 are new 'real life' tables as foreshadowed in Mr Isaac's submission of 5 February. We should welcome guidance on

(a) whether you would like any changes to the traditional tables;

(b) whether you would like real life tables included in the Press Release, and if so whether Tables 13 and 14 are suitable.

Traditional Tables

2. There is still some further work outstanding on the traditional tables, such as checking that the income ranges for the aged tables cover the aged income limit adequately and that the tables which include NIC show the effects of the changes in the reduced rate bands. The main findings from the tables are not unexpected.

(a) The majority of basic rate taxpayers will gain about 2 per cent of gross earnings (because the tax value of double indexation is about 2 per cent of the allowance level (27 per cent of the 7.4 per cent increase) and the value of the basic rate cut is 2 per cent of taxable income);

(b) gains at the highest incomes are large in both absolute terms and as a proportion of total income;

(c) in the dynamic tables (Tables 9 to 12) in which gross earnings are assumed to rise by 6½ per cent, increases in net income in 1988-89 comfortably exceed this rate of growth except for low income families in Table 11 who are affected by the unchanged level of child benefit.

Real-Life Tables

3. Tables 13 and 14 are our first attempt at 'real-life' tables for publication. They are designed to show the actual distributional effects of the main Budget income tax package taking account of each tax units sources of income, its allowances, and reliefs. The tables will need some notes of explanation to avoid confusion with the traditional tables. Table 13 gives a broad analysis of gainers by income and family type. It therefore shows larger average gains to married two earner couples than to other family types because of their higher incomes. It also shows that within a particular income range, gains are larger for single people. The main difference from the traditional tables however is that Tables 13 and 14 show how few people will gain very large amounts and how many will gain smaller but significant amounts from the basic rate cut. Compared with Tables 1 to 12, we have used less detailed income ranges in Tables 13 and 14 since all figures are estimates based on projections of the Survey of Personal Incomes. We have however retained the top level of £70,000 for consistency.

4. Table 13 would make public the total cost of the income tax package by showing the reduction in tax liability averaged over all 21.4 million tax units. This is the full year cost against an unindexed base and therefore not the same as the receipts cost for 1988-89 that will be given in the FSBR.

ie £6·8bn

5. Tables 13 and 14 are similar in style to those given in Annex 4 of the Reform of Personal Taxation and publication would help pre-empt some parliamentary questions and perhaps analysis by outside institutions such as the IFS.

Coverage of Press Release Tables

6. In the past the tables in this Press Release have only shown the changes in tax liability from the main income tax package (changes in allowances, thresholds, and rates), although changes in NIC and child benefit are included in some tables. We have constructed this year's tables on the same basis and the proposed new Tables 13 and 14 include the effects of the main income tax package only. It is possible that publication may generate requests for more x) comprehensive analysis of Budget measures which at present it would be difficult to meet.

R J EASON

I do not think that x is a reason for not doing what we can do

x I do not think that x is a reason for not doing what we can do.

[illegible]

TABLE 1

SINGLE PERSONS - ANNUAL FIGURES

	Charge for 1987-88		Proposed charge for 1988-89		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
3,000	155	*5.2*	99	*3.3*	56	*1.9*
4,000	425	*10.6*	349	*8.7*	76	*1.9*
5,000	695	*13.9*	599	*12.0*	96	*1.9*
6,000	965	*16.1*	849	*14.2*	116	*1.9*
7,000	1,235	*17.6*	1,099	*15.7*	136	*1.9*
8,000	1,505	*18.8*	1,349	*16.9*	156	*2.0*
9,000	1,775	*19.7*	1,599	*17.8*	176	*2.0*
10,000	2,045	*20.4*	1,849	*18.5*	196	*2.0*
12,000	2,585	*21.5*	2,349	*19.6*	236	*2.0*
14,000	3,125	*22.3*	2,849	*20.4*	276	*2.0*
16,000	3,665	*22.9*	3,349	*20.9*	316	*2.0*
18,000	4,205	*23.4*	3,849	*21.4*	356	*2.0*
20,000	4,745	*23.7*	4,349	*21.7*	396	*2.0*
25,000	6,812	*27.2*	5,958	*23.8*	854	*3.4*
30,000	9,170	*30.6*	7,958	*26.5*	1,212	*4.0*
40,000	14,384	*36.0*	11,958	*29.9*	2,426	*6.1*
50,000	20,203	*40.4*	15,958	*31.9*	4,245	*8.5*
60,000	26,203	*43.7*	19,958	*33.3*	6,245	*10.4*
70,000	32,203	*46.0*	23,958	*34.2*	8,245	*11.8*

TABLE 2

MARRIED COUPLES - ANNUAL FIGURES

	Charge for 1987-88		Proposed charge for 1988-89		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
4,000	55	*1.4*	0	*0.0*	55	*1.4*
5,000	325	*6.5*	226	*4.5*	99	*2.0*
6,000	595	*9.9*	476	*7.9*	119	*2.0*
7,000	865	*12.4*	726	*10.4*	139	*2.0*
8,000	1,135	*14.2*	976	*12.2*	159	*2.0*
9,000	1,405	*15.6*	1,226	*13.6*	179	*2.0*
10,000	1,675	*16.8*	1,476	*14.8*	199	*2.0*
12,000	2,215	*18.5*	1,976	*16.5*	239	*2.0*
14,000	2,755	*19.7*	2,476	*17.7*	279	*2.0*
16,000	3,295	*20.6*	2,976	*18.6*	319	*2.0*
18,000	3,835	*21.3*	3,476	*19.3*	359	*2.0*
20,000	4,375	*21.9*	3,976	*19.9*	399	*2.0*
25,000	6,195	*24.8*	5,362	*21.4*	833	*3.3*
30,000	8,486	*28.3*	7,362	*24.5*	1,124	*3.7*
40,000	13,631	*34.1*	11,362	*28.4*	2,269	*5.7*
50,000	19,381	*38.8*	15,362	*30.7*	4,019	*8.0*
60,000	25,381	*42.3*	19,362	*32.3*	6,019	*10.0*
70,000	31,381	*44.8*	23,362	*33.4*	8,019	*11.5*

Calculations assume that only the husband has earned income.

TABLE 3

SINGLE PERSONS AND MARRIED COUPLES - ANNUAL FIGURES

COMPARISON BETWEEN INDEXATION FOR 1988-89 AND PROPOSED CHARGE FOR 1988-89

	Charge under Indexation[1]		Proposed charge for 1988-89		Reduction in tax over Indexation	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
3,000	131	*4.4*	99	*3.3*	32	*1.1*
4,000	401	*10.0*	349	*8.7*	52	*1.3*
6,000	941	*15.7*	849	*14.2*	92	*1.5*
8,000	1,481	*18.5*	1,349	*16.9*	132	*1.6*
10,000	2,021	*20.2*	1,849	*18.5*	172	*1.7*
12,000	2,561	*21.3*	2,349	*19.6*	212	*1.8*
15,000	3,371	*22.5*	3,099	*20.7*	272	*1.8*
20,000	4,721	*23.6*	4,349	*21.7*	372	*1.9*
25,000	6,640	*26.6*	5,958	*23.8*	682	*2.7*
30,000	8,944	*29.8*	7,958	*26.5*	986	*3.3*
40,000	14,089	*35.2*	11,958	*29.9*	2,131	*5.3*
50,000	19,823	*39.6*	15,958	*31.9*	3,865	*7.7*
60,000	25,823	*43.0*	19,958	*33.3*	5,865	*9.8*
70,000	31,823	*45.5*	23,958	*34.2*	7,865	*11.2*
MARRIED COUPLES						
4,000	15	*0.4*	0	*0.0*	15	*0.4*
6,000	555	*9.2*	476	*7.9*	79	*1.3*
8,000	1,095	*13.7*	976	*12.2*	119	*1.5*
10,000	1,635	*16.4*	1,476	*14.8*	159	*1.6*
12,000	2,175	*18.1*	1,976	*16.5*	199	*1.7*
15,000	2,985	*19.9*	2,726	*18.2*	259	*1.7*
20,000	4,335	*21.7*	3,976	*19.9*	359	*1.8*
25,000	6,004	*24.0*	5,362	*21.4*	642	*2.6*
30,000	8,247	*27.5*	7,362	*24.5*	885	*3.0*
40,000	13,302	*33.3*	11,362	*28.4*	1,940	*4.8*
50,000	18,965	*37.9*	15,362	*30.7*	3,603	*7.2*
60,000	24,965	*41.6*	19,362	*32.3*	5,603	*9.3*
70,000	30,965	*44.2*	23,362	*33.4*	7,603	*10.9*

[1] Assuming allowances and thresholds are indexed in accordance with Section 24, Finance Act 1980.

[2] Calculations assume that only the husband has earned income.

TABLE 4A

SINGLE PERSONS AND MARRIED COUPLES AGED 65-79 - ANNUAL FIGURES

	Charge for 1987-88		Proposed charge for 1988-89		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
3,000	11	*0.4*	0	*0.0*	11	*0.4*
4,000	281	*7.0*	205	*5.1*	76	*1.9*
5,000	551	*11.0*	455	*9.1*	96	*1.9*
6,000	821	*13.7*	705	*11.8*	116	*1.9*
7,000	1,091	*15.6*	955	*13.6*	136	*1.9*
8,000	1,361	*17.0*	1,205	*15.1*	156	*2.0*
9,000	1,631	*18.1*	1,455	*16.2*	176	*2.0*
10,000	1,937	*19.4*	1,705	*17.0*	232	*2.3*
11,000	2,315	*21.0*	2,022	*18.4*	293	*2.7*
12,000	2,585	*21.5*	2,349	*19.6*	236	*2.0*
MARRIED COUPLES[1]						
5,000	88	*1.8*	0	*0.0*	88	*1.8*
6,000	358	*6.0*	241	*4.0*	117	*2.0*
7,000	628	*9.0*	491	*7.0*	137	*2.0*
8,000	898	*11.2*	741	*9.3*	157	*2.0*
9,000	1,168	*13.0*	991	*11.0*	177	*2.0*
10,000	1,474	*14.7*	1,241	*12.4*	233	*2.3*
11,000	1,924	*17.5*	1,558	*14.2*	366	*3.3*
12,000	2,215	*18.5*	1,975	*16.5*	240	*2.0*

[1] Calculations assume that only the husband has earned income.

For incomes above these levels, the figures are the same as those in Tables 1 and 2.

TABLE 4B

SINGLE PERSONS AND MARRIED COUPLES AGED 80 AND OVER - ANNUAL FIGURES

	Charge for 1987-88		Proposed charge for 1988-89		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
3,000	0	*0.0*	0	*0.0*	0	*0.0*
4,000	251	*6.3*	172	*4.3*	79	*2.0*
5,000	521	*10.4*	422	*8.4*	99	*2.0*
6,000	791	*13.2*	672	*11.2*	119	*2.0*
7,000	1,061	*15.2*	922	*13.2*	139	*2.0*
8,000	1,331	*16.6*	1,172	*14.6*	159	*2.0*
9,000	1,601	*17.8*	1,422	*15.8*	179	*2.0*
10,000	1,907	*19.1*	1,672	*16.7*	235	*2.4*
11,000	2,315	*21.0*	1,989	*18.1*	326	*3.0*
12,000	2,585	*21.5*	2,349	*19.6*	236	*2.0*
MARRIED COUPLES[1]						
5,000	42	*0.8*	0	*0.0*	42	*0.8*
6,000	312	*5.2*	199	*3.3*	113	*1.9*
7,000	582	*8.3*	449	*6.4*	133	*1.9*
8,000	852	*10.6*	699	*8.7*	153	*1.9*
9,000	1,122	*12.5*	949	*10.5*	173	*1.9*
10,000	1,428	*14.3*	1,199	*12.0*	229	*2.3*
11,000	1,878	*17.1*	1,515	*13.8*	363	*3.3*
12,000	2,215	*18.5*	1,932	*16.1*	283	*2.4*

[1] Calculations assume that only the husband has earned income.

For incomes above these levels, the figures are the same as those in Tables 1 and 2.

TABLE 5

SINGLE PERSONS AND MARRIED COUPLES - WEEKLY FIGURES

	Charge for 1987-88		Proposed charge for 1988-89		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
50.00	0.91	*1.8*	0.00	*0.0*	0.91	*1.8*
60.00	3.61	*6.0*	2.48	*4.1*	1.13	*1.9*
65.00	4.96	*7.6*	3.73	*5.7*	1.23	*1.9*
70.00	6.31	*9.0*	4.98	*7.1*	1.33	*1.9*
80.00	9.01	*11.3*	7.48	*9.4*	1.53	*1.9*
90.00	11.71	*13.0*	9.98	*11.1*	1.73	*1.9*
95.00	13.06	*13.7*	11.23	*11.8*	1.83	*1.9*
100.00	14.41	*14.4*	12.48	*12.5*	1.93	*1.9*
120.00	19.81	*16.5*	17.48	*14.6*	2.33	*1.9*
140.00	25.21	*18.0*	22.48	*16.1*	2.73	*2.0*
160.00	30.61	*19.1*	27.48	*17.2*	3.13	*2.0*
180.00	36.01	*20.0*	32.48	*18.0*	3.53	*2.0*
200.00	41.41	*20.7*	37.48	*18.7*	3.93	*2.0*
250.00	54.91	*22.0*	49.98	*20.0*	4.93	*2.0*
295.00	67.06	*22.7*	61.23	*20.8*	5.83	*2.0*
300.00	68.41	*22.8*	62.48	*20.8*	5.93	*2.0*
350.00	81.91	*23.4*	74.98	*21.4*	6.93	*2.0*
400.00	96.60	*24.2*	87.48	*21.9*	9.12	*2.3*
500.00	139.65	*27.9*	122.27	*24.5*	17.38	*3.5*
600.00	187.89	*31.3*	162.27	*27.0*	25.62	*4.3*
MARRIED COUPLES[1]						
75.00	0.55	*0.7*	0.00	*0.0*	0.55	*0.7*
80.00	1.89	*2.4*	0.31	*0.4*	1.58	*2.0*
90.00	4.59	*5.1*	2.81	*3.1*	1.78	*2.0*
95.00	5.94	*6.3*	4.06	*4.3*	1.88	*2.0*
100.00	7.29	*7.3*	5.31	*5.3*	1.98	*2.0*
120.00	12.69	*10.6*	10.31	*8.6*	2.38	*2.0*
140.00	18.09	*12.9*	15.31	*10.9*	2.78	*2.0*
160.00	23.49	*14.7*	20.31	*12.7*	3.18	*2.0*
180.00	28.89	*16.0*	25.31	*14.1*	3.58	*2.0*
200.00	34.29	*17.1*	30.31	*15.2*	3.98	*2.0*
250.00	47.79	*19.1*	42.81	*17.1*	4.98	*2.0*
295.00	59.94	*20.3*	54.06	*18.3*	5.88	*2.0*
300.00	61.29	*20.4*	55.31	*18.4*	5.98	*2.0*
350.00	74.79	*21.4*	67.81	*19.4*	6.98	*2.0*
400.00	88.29	*22.1*	80.31	*20.1*	7.98	*2.0*
500.00	127.80	*25.6*	110.81	*22.2*	16.99	*3.4*
600.00	174.72	*29.1*	150.81	*25.1*	23.91	*4.0*

[1] Calculations assume that only the husband has earned income.

TABLE 6A

SINGLE PERSONS AND MARRIED COUPLES AGED 65-79 - WEEKLY FIGURES

	Charge for 1987-88		Proposed charge for 1988-89		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
55.00	0.00	*0.0*	0.00	*0.0*	0.00	*0.0*
60.00	0.83	*1.4*	0.00	*0.0*	0.83	*1.4*
80.00	6.23	*7.8*	4.71	*5.9*	1.52	*1.9*
100.00	11.63	*11.6*	9.71	*9.7*	1.92	*1.9*
120.00	17.03	*14.2*	14.71	*12.3*	2.32	*1.9*
140.00	22.43	*16.0*	19.71	*14.1*	2.72	*1.9*
160.00	27.83	*17.4*	24.71	*15.4*	3.12	*2.0*
180.00	33.23	*18.5*	29.71	*16.5*	3.52	*2.0*
200.00	40.71	*20.4*	34.71	*17.4*	6.00	*3.0*
220.00	46.81	*21.3*	42.40	*19.3*	4.41	*2.0*
MARRIED COUPLES[1]						
90.00	0.03	*0.0*	0.00	*0.0*	0.03	*0.0*
100.00	2.73	*2.7*	0.79	*0.8*	1.94	*1.9*
120.00	8.13	*6.8*	5.79	*4.8*	2.34	*2.0*
140.00	13.53	*9.7*	10.79	*7.7*	2.74	*2.0*
160.00	18.93	*11.8*	15.79	*9.9*	3.14	*2.0*
180.00	24.33	*13.5*	20.79	*11.6*	3.54	*2.0*
200.00	31.80	*15.9*	25.79	*12.9*	6.01	*3.0*
220.00	39.70	*18.0*	33.49	*15.2*	6.21	*2.8*

[1] Calculations assume that only the husband has earned income.

For incomes above these levels, the figures are the same as those in Table 5.

TABLE 6B

SINGLE PERSONS AND MARRIED COUPLES AGED 80 AND OVER - WEEKLY FIGURES

	Charge for 1987-88		Proposed charge for 1988-89		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
55.00	0.00	*0.0*	0.00	*0.0*	0.00	*0.0*
60.00	0.26	*0.4*	0.00	*0.0*	0.26	*0.4*
80.00	5.66	*7.1*	4.09	*5.1*	1.57	*2.0*
100.00	11.06	*11.1*	9.09	*9.1*	1.97	*2.0*
120.00	16.46	*13.7*	14.09	*11.7*	2.37	*2.0*
140.00	21.86	*15.6*	19.09	*13.6*	2.77	*2.0*
160.00	27.26	*17.0*	24.09	*15.1*	3.17	*2.0*
180.00	32.66	*18.1*	29.09	*16.2*	3.57	*2.0*
200.00	40.14	*20.1*	34.09	*17.0*	6.05	*3.0*
220.00	46.81	*21.3*	41.78	*19.0*	5.03	*2.3*
MARRIED COUPLES[1]						
90.00	0.00	*0.0*	0.00	*0.0*	0.00	*0.0*
100.00	1.84	*1.8*	0.00	*0.0*	1.84	*1.8*
120.00	7.24	*6.0*	4.98	*4.2*	2.26	*1.9*
140.00	12.64	*9.0*	9.98	*7.1*	2.66	*1.9*
160.00	18.04	*11.3*	14.98	*9.4*	3.06	*1.9*
180.00	23.44	*13.0*	19.98	*11.1*	3.46	*1.9*
200.00	30.92	*15.5*	24.98	*12.5*	5.94	*3.0*
220.00	39.70	*18.0*	32.67	*14.8*	7.03	*3.2*

[1] Calculations assume that only the husband has earned income.

For incomes above these levels, the figures are the same as those in Table 5.

TABLE 7

SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES
INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS

	Charge for 1987-88			Proposed charge for 1988-89			Reduction in tax and NIC after proposed change	
Income £	Income tax £	NIC[1] £	Net income after tax and NIC £	Income tax £	NIC[1] £	Net income after tax and NIC £	Income tax and NIC £	As percentage of total income per cent
SINGLE PERSONS								
50.00	0.91	2.50	46.59	0.00	2.50	47.50	0.91	*1.8*
60.00	3.61	3.00	53.39	2.48	3.00	54.52	1.13	*1.9*
65.00	4.96	4.55	55.49	3.73	3.25	58.02	2.53	*3.9*
70.00	6.31	4.90	58.79	4.98	4.90	60.12	1.33	*1.9*
80.00	9.01	5.60	65.39	7.48	5.60	66.92	1.53	*1.9*
90.00	11.71	6.30	71.99	9.98	6.30	73.72	1.73	*1.9*
95.00	13.06	6.65	75.29	11.23	6.65	77.12	1.83	*1.9*
100.00	14.41	9.00	76.59	12.48	7.00	80.52	3.93	*3.9*
120.00	19.81	10.80	89.39	17.48	10.80	91.72	2.33	*1.9*
140.00	25.21	12.60	102.19	22.48	12.60	104.92	2.73	*2.0*
160.00	30.61	14.40	114.99	27.48	14.40	118.12	3.13	*2.0*
180.00	36.01	16.20	127.79	32.48	16.20	131.32	3.53	*2.0*
200.00	41.41	18.00	140.59	37.48	18.00	144.52	3.93	*2.0*
250.00	54.91	22.50	172.59	49.98	22.50	177.52	4.93	*2.0*
295.00	67.06	26.55	201.39	61.23	26.55	207.22	5.83	*2.0*
300.00	68.41	26.55	205.04	62.48	27.00	210.52	5.48	*1.8*
350.00	81.91	26.55	241.54	74.98	27.45	247.57	6.03	*1.7*
400.00	96.60	26.55	276.85	87.48	27.45	285.07	8.22	*2.1*
500.00	139.65	26.55	333.80	122.27	27.45	350.28	16.48	*3.3*
600.00	187.89	26.55	385.56	162.27	27.45	410.28	24.72	*4.1*
MARRIED COUPLES[2]								
75.00	0.55	5.25	69.20	0.00	5.25	69.75	0.55	*0.7*
80.00	1.89	5.60	72.51	0.31	5.60	74.09	1.58	*2.0*
90.00	4.59	6.30	79.11	2.81	6.30	80.89	1.78	*2.0*
95.00	5.94	6.65	82.41	4.06	6.65	84.29	1.88	*2.0*
100.00	7.29	9.00	83.71	5.31	7.00	87.69	3.98	*4.0*
120.00	12.69	10.80	96.51	10.31	10.80	98.89	2.38	*2.0*
140.00	18.09	12.60	109.31	15.31	12.60	112.09	2.78	*2.0*
160.00	23.49	14.40	122.11	20.31	14.40	125.29	3.18	*2.0*
180.00	28.89	16.20	134.91	25.31	16.20	138.49	3.58	*2.0*
200.00	34.29	18.00	147.71	30.31	18.00	151.69	3.98	*2.0*
250.00	47.79	22.50	179.71	42.81	22.50	184.69	4.98	*2.0*
295.00	59.94	26.55	208.51	54.06	26.55	214.39	5.88	*2.0*
300.00	61.29	26.55	212.16	55.31	27.00	217.69	5.53	*1.8*
350.00	74.79	26.55	248.66	67.81	27.45	254.74	6.08	*1.7*
400.00	88.29	26.55	285.16	80.31	27.45	292.24	7.08	*1.8*
500.00	127.80	26.55	345.65	110.81	27.45	361.74	16.09	*3.2*
600.00	174.72	26.55	398.73	150.81	27.45	421.74	23.01	*3.8*

[1] National Insurance Contributions are at the standard Class 1 rate for employees contracted in to the State additional (earnings related) pension scheme.

[2] Calculations assume that only the husband has earned income.

TABLE 8

MARRIED COUPLE WITH TWO CHILDREN - NET WEEKLY INCOME

INCOME TAX, NATIONAL INSURANCE CONTRIBUTIONS AND CHILD BENEFIT

Weekly income in 1987-88					Weekly income in 1988-89				Increase in income after tax, NIC and child benefit	
Income[1]	Child benefit	Income tax	NIC[2]	Net income[3]	Child benefit	Income tax	NIC[2]	Net income[3]	Increase in income	As percentage of total income
£	£	£	£	£	£	£	£	£	£	per cent
75.00	14.50	0.55	5.25	83.70	14.50	0.00	5.25	84.25	0.55	*0.7*
80.00	14.50	1.89	5.60	87.01	14.50	0.31	5.60	88.59	1.58	*2.0*
90.00	14.50	4.59	6.30	93.61	14.50	2.81	6.30	95.39	1.78	*2.0*
95.00	14.50	5.94	6.65	96.91	14.50	4.06	6.65	98.79	1.88	*2.0*
100.00	14.50	7.29	9.00	98.21	14.50	5.31	7.00	102.19	3.98	*4.0*
120.00	14.50	12.69	10.80	111.01	14.50	10.31	10.80	113.39	2.38	*2.0*
140.00	14.50	18.09	12.60	123.81	14.50	15.31	12.60	126.59	2.78	*2.0*
160.00	14.50	23.49	14.40	136.61	14.50	20.31	14.40	139.79	3.18	*2.0*
180.00	14.50	28.89	16.20	149.41	14.50	25.31	16.20	152.99	3.58	*2.0*
200.00	14.50	34.29	18.00	162.21	14.50	30.31	18.00	166.19	3.98	*2.0*
250.00	14.50	47.79	22.50	194.21	14.50	42.81	22.50	199.19	4.98	*2.0*
295.00	14.50	59.94	26.55	223.01	14.50	54.06	26.55	228.89	5.88	*2.0*
300.00	14.50	61.29	26.55	226.66	14.50	55.31	27.00	232.19	5.53	*1.8*
350.00	14.50	74.79	26.55	263.16	14.50	67.81	27.45	269.24	6.08	*1.7*
400.00	14.50	88.29	26.55	299.66	14.50	80.31	27.45	306.74	7.08	*1.8*
500.00	14.50	127.80	26.55	360.15	14.50	110.81	27.45	376.24	16.09	*3.2*
600.00	14.50	174.72	26.55	413.23	14.50	150.81	27.45	436.24	23.01	*3.8*

[1] Calculations assume that only the husband has earned income.

[2] National Insurance Contributions are at the standard Class 1 rate for employees contracted in to the State additional (earnings related) pension scheme.

[3] Net income is earnings, less tax and national insurance contributions, plus child benefit. It does not include any means tested benefit.

TABLE 9

SINGLE PERSONS AND MARRIED COUPLES - COMPARISON WITH 1987-88 WHERE EARNINGS INCREASE BY 6½ PER CENT BETWEEN 1987-88 AND 1988-89

Charge for 1987-88			Proposed charge for 1988-89			
Income £	Income tax £	Percentage of total income taken in tax per cent	Adjusted income[1] £	Income tax £	Percentage of total income taken in tax per cent	Percentage change in net income per cent
SINGLE PERSONS						
3,000	155	*5.2*	**3,195**	148	*4.6*	*7.1*
4,000	425	*10.6*	**4,260**	414	*9.7*	*7.6*
6,000	965	*16.1*	**6,390**	946	*14.8*	*8.1*
8,000	1,505	*18.8*	**8,520**	1,479	*17.4*	*8.4*
10,000	2,045	*20.4*	**10,650**	2,011	*18.9*	*8.6*
12,000	2,585	*21.5*	**12,780**	2,544	*19.9*	*8.7*
15,000	3,395	*22.6*	**15,975**	3,342	*20.9*	*8.9*
20,000	4,745	*23.7*	**21,300**	4,674	*21.9*	*9.0*
25,000	6,812	*27.2*	**26,625**	6,608	*24.8*	*10.1*
30,000	9,170	*30.6*	**31,950**	8,738	*27.3*	*11.4*
40,000	14,384	*36.0*	**42,600**	12,998	*30.5*	*15.6*
50,000	20,203	*40.4*	**53,250**	17,258	*32.4*	*20.8*
60,000	26,203	*43.7*	**63,900**	21,518	*33.7*	*25.4*
70,000	32,203	*46.0*	**74,550**	25,778	*34.6*	*29.0*
MARRIED COUPLES[2]						
4,000	55	*1.4*	**4,260**	41	*1.0*	*6.9*
6,000	595	*9.9*	**6,390**	574	*9.0*	*7.6*
8,000	1,135	*14.2*	**8,520**	1,106	*13.0*	*8.0*
10,000	1,675	*16.8*	**10,650**	1,639	*15.4*	*8.2*
12,000	2,215	*18.5*	**12,780**	2,171	*17.0*	*8.4*
15,000	3,025	*20.2*	**15,975**	2,970	*18.6*	*8.6*
20,000	4,375	*21.9*	**21,300**	4,301	*20.2*	*8.8*
25,000	6,195	*24.8*	**26,625**	6,012	*22.6*	*9.6*
30,000	8,486	*28.3*	**31,950**	8,142	*25.5*	*10.7*
40,000	13,631	*34.1*	**42,600**	12,402	*29.1*	*14.5*
50,000	19,381	*38.8*	**53,250**	16,662	*31.3*	*19.5*
60,000	25,381	*42.3*	**63,900**	20,922	*32.7*	*24.1*
70,000	31,381	*44.8*	**74,550**	25,182	*33.8*	*27.8*

[1] The adjusted incomes shown for 1988-89 are for illustration. They have been obtained by increasing the corresponding incomes in 1987-88 by 6½ per cent.

[2] Calculations assume that only the husband has earned income.

TABLE 10

SINGLE PERSONS AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES

COMPARISON WITH 1987-88 WHERE EARNINGS INCREASE BY 6½ PER CENT BETWEEN 1987-88 AND 1988-89
INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS

Charge for 1987-88				Proposed charge for 1988-89				
Income £	Income tax £	NIC[1] £	Percentage of total income taken in tax and NIC per cent	Adjusted income[2] £	Income tax £	NIC[1] £	Percentage of total income taken in tax and NIC per cent	Percentage change in income after tax and NIC per cent
SINGLE PERSONS								
50.00	0.91	2.50	*6.8*	**53.25**	0.79	2.66	*6.5*	*6.9*
60.00	3.61	3.00	*11.0*	**63.90**	3.45	3.19	*10.4*	*7.2*
65.00	4.96	4.55	*14.6*	**69.22**	4.78	3.46	*11.9*	*9.9*
70.00	6.31	4.90	*16.0*	**74.55**	6.11	5.21	*15.2*	*7.6*
80.00	9.01	5.60	*18.3*	**85.20**	8.78	5.96	*17.3*	*7.8*
90.00	11.71	6.30	*20.0*	**95.85**	11.44	6.70	*18.9*	*7.9*
95.00	13.06	6.65	*20.7*	**101.18**	12.77	7.08	*19.6*	*8.0*
100.00	14.41	9.00	*23.4*	**106.50**	14.10	9.58	*22.2*	*8.1*
120.00	19.81	10.80	*25.5*	**127.80**	19.43	11.50	*24.2*	*8.4*
140.00	25.21	12.60	*27.0*	**149.10**	24.75	13.41	*25.6*	*8.6*
160.00	30.61	14.40	*28.1*	**170.40**	30.08	15.33	*26.6*	*8.7*
180.00	36.01	16.20	*29.0*	**191.70**	35.40	17.25	*27.5*	*8.8*
200.00	41.41	18.00	*29.7*	**213.00**	40.73	19.17	*28.1*	*8.9*
250.00	54.91	22.50	*31.0*	**266.25**	54.04	23.96	*29.3*	*9.1*
295.00	67.06	26.55	*31.7*	**314.18**	66.02	27.45	*29.8*	*9.6*
300.00	68.41	26.55	*31.7*	**319.50**	67.35	27.45	*29.7*	*9.6*
350.00	81.91	26.55	*31.0*	**372.75**	80.66	27.45	*29.0*	*9.6*
400.00	96.60	26.55	*30.8*	**426.00**	93.98	27.45	*28.5*	*10.0*
500.00	139.65	26.55	*33.2*	**532.50**	135.27	27.45	*30.6*	*10.8*
600.00	187.89	26.55	*35.7*	**639.00**	177.87	27.45	*32.1*	*12.5*
MARRIED COUPLES [3]								
75.00	0.55	5.25	*7.7*	**79.88**	0.28	5.59	*7.3*	*7.0*
80.00	1.89	5.60	*9.4*	**85.20**	1.61	5.96	*8.9*	*7.1*
90.00	4.59	6.30	*12.1*	**95.85**	4.28	6.70	*11.5*	*7.3*
95.00	5.94	6.65	*13.3*	**101.18**	5.61	7.08	*12.5*	*7.4*
100.00	7.29	9.00	*16.3*	**106.50**	6.94	9.58	*15.5*	*7.5*
120.00	12.69	10.80	*19.6*	**127.80**	12.26	11.50	*18.6*	*7.8*
140.00	18.09	12.60	*21.9*	**149.10**	17.59	13.41	*20.8*	*8.0*
160.00	23.49	14.40	*23.7*	**170.40**	22.91	15.33	*22.4*	*8.2*
180.00	28.89	16.20	*25.0*	**191.70**	28.24	17.25	*23.7*	*8.4*
200.00	34.29	18.00	*26.1*	**213.00**	33.56	19.17	*24.8*	*8.5*
250.00	47.79	22.50	*28.1*	**266.25**	46.88	23.96	*26.6*	*8.7*
295.00	59.94	26.55	*29.3*	**314.18**	58.86	27.45	*27.5*	*9.3*
300.00	61.29	26.55	*29.3*	**319.50**	60.19	27.45	*27.4*	*9.3*
350.00	74.79	26.55	*29.0*	**372.75**	73.50	27.45	*27.1*	*9.3*
400.00	88.29	26.55	*28.7*	**426.00**	86.81	27.45	*26.8*	*9.3*
500.00	127.80	26.55	*30.9*	**532.50**	123.81	27.45	*28.4*	*10.3*
600.00	174.72	26.55	*33.5*	**639.00**	166.41	27.45	*30.3*	*11.6*

[1] National Insurance Contributions are at the standard Class 1 rate for employees contracted in to the State additional (earnings related) pension scheme.

[2] The adjusted incomes shown for 1988-89 are for illustration. They have been obtained by increasing the corresponding incomes in 1987-88 by 6½ per cent.

[3] Assuming that only the husband has earned income.

TABLE 11

MARRIED COUPLE WITH TWO CHILDREN - INCOME ALL EARNED - WEEKLY FIGURES

COMPARISON WITH 1987-88 WHERE EARNINGS INCREASE BY 6½ PER CENT BETWEEN 1987-88 AND 1988-89

INCOME TAX, NATIONAL INSURANCE CONTRIBUTIONS AND CHILD BENEFIT

1987-88					1988-89					
Income[1] £	Child Benefit £	Income tax £	NIC[2] £	Net income £	Adjusted income[3] £	Child benefit £	Income tax £	NIC[2] £	Net income £	Percentage change in net income per cent
75.00	14.50	0.55	5.25	83.70	**79.88**	14.50	0.28	5.59	88.51	*5.7*
80.00	14.50	1.89	5.60	87.01	**85.20**	14.50	1.61	5.96	92.13	*5.9*
90.00	14.50	4.59	6.30	93.61	**95.85**	14.50	4.28	6.70	99.37	*6.2*
95.00	14.50	5.94	6.65	96.91	**101.18**	14.50	5.61	7.08	102.99	*6.3*
100.00	14.50	7.29	9.00	98.21	**106.50**	14.50	6.94	9.58	104.48	*6.4*
120.00	14.50	12.69	10.80	111.01	**127.80**	14.50	12.26	11.50	118.54	*6.8*
140.00	14.50	18.09	12.60	123.81	**149.10**	14.50	17.59	13.41	132.60	*7.1*
160.00	14.50	23.49	14.40	136.61	**170.40**	14.50	22.91	15.33	146.66	*7.4*
180.00	14.50	28.89	16.20	149.41	**191.70**	14.50	28.24	17.25	160.71	*7.6*
200.00	14.50	34.29	18.00	162.21	**213.00**	14.50	33.56	19.17	174.77	*7.7*
250.00	14.50	47.79	22.50	194.21	**266.25**	14.50	46.88	23.96	209.91	*8.1*
295.00	14.50	59.94	26.55	223.01	**314.18**	14.50	58.86	27.45	242.37	*8.7*
300.00	14.50	61.29	26.55	226.66	**319.50**	14.50	60.19	27.45	246.36	*8.7*
350.00	14.50	74.79	26.55	263.16	**372.75**	14.50	73.50	27.45	286.30	*8.8*
400.00	14.50	88.29	26.55	299.66	**426.00**	14.50	86.81	27.45	326.24	*8.9*
500.00	14.50	127.80	26.55	360.15	**532.50**	14.50	123.81	27.45	395.74	*9.9*
600.00	14.50	174.72	26.55	413.23	**639.00**	14.50	166.41	27.45	459.64	*11.2*

[1] Calculations assume that only the husband has earned income.

[2] National Insurance Contributions are at the standard Class 1 rate for employees contracted in to the State additional (earnings related) pension scheme.

[3] The adjusted incomes shown for 1988-89 are for illustration. They have been obtained by increasing the corresponding incomes in 1987-88 by 6½ per cent.

TABLE 12

MARRIED COUPLES - HUSBAND AND WIFE BOTH WORKING

COMPARISON OF INCOME AFTER TAX IN 1987-88 AND 1988-89
WHERE EARNINGS INCREASE BY 6½ PER CENT

Weekly income in 1987-88		Charge in 1987-88			Adjusted weekly income in 1988-89[1]		Proposed charge in 1988-89			
Husband	Wife	Joint	Income tax	Percentage of income taken in tax	Husband	Wife	Joint	Income tax	Percentage of income taken in tax	Percentage change in income after tax
£	£	£	£	per cent	£	£	£	£	per cent	per cent
100.00	**50.00**	150.00	8.20	*5.5*	**106.50**	**53.25**	159.75	7.73	*4.8*	*7.2*
	100.00	200.00	21.70	*10.8*		**106.50**	213.00	21.04	*9.9*	*7.7*
	150.00	250.00	35.20	*14.1*		**159.75**	266.25	34.35	*12.9*	*8.0*
	200.00	300.00	48.70	*16.2*		**213.00**	319.50	47.66	*14.9*	*8.2*
	300.00	400.00	75.70	*18.9*		**319.50**	426.00	74.29	*17.4*	*8.5*
150.00	**50.00**	200.00	21.70	*10.8*	**159.75**	**53.25**	213.00	21.04	*9.9*	*7.7*
	100.00	250.00	35.20	*14.1*		**106.50**	266.25	34.35	*12.9*	*8.0*
	150.00	300.00	48.70	*16.2*		**159.75**	319.50	47.66	*14.9*	*8.2*
	200.00	350.00	62.20	*17.8*		**213.00**	372.75	60.98	*16.4*	*8.3*
	300.00	450.00	89.20	*19.8*		**319.50**	479.25	87.60	*18.3*	*8.6*
200.00	**50.00**	250.00	35.20	*14.1*	**213.00**	**53.25**	266.25	34.35	*12.9*	*8.0*
	100.00	300.00	48.70	*16.2*		**106.50**	319.50	47.66	*14.9*	*8.2*
	150.00	350.00	62.20	*17.8*		**159.75**	372.75	60.98	*16.4*	*8.3*
	200.00	400.00	75.70	*18.9*		**213.00**	426.00	74.29	*17.4*	*8.5*
	300.00	500.00	107.40	*21.5*		**319.50**	532.50	103.77	*19.5*	*9.2*
300.00	**50.00**	350.00	62.20	*17.8*	**319.50**	**53.25**	372.75	60.98	*16.4*	*8.3*
	100.00	400.00	75.70	*18.9*		**106.50**	426.00	74.29	*17.4*	*8.5*
	150.00	450.00	89.20	*19.8*		**159.75**	479.25	87.60	*18.3*	*8.6*
	200.00	500.00	107.40	*21.5*		**213.00**	532.50	103.77	*19.5*	*9.2*
	300.00	600.00	136.82[2]	*22.8*		**319.50**	639.00	134.70[2]	*21.1*	*8.9*
400.00	**50.00**	450.00	89.20	*19.8*	**426.00**	**53.25**	479.25	87.60	*18.3*	*8.6*
	100.00	500.00	107.40	*21.5*		**106.50**	532.50	103.77	*19.5*	*9.2*
	150.00	550.00	124.50[2]	*22.6*		**159.75**	585.75	121.39[2]	*20.7*	*9.1*
	200.00	600.00	138.00[2]	*23.0*		**213.00**	639.00	134.70[2]	*21.1*	*9.2*
	300.00	700.00	165.00[2]	*23.6*		**319.50**	745.50	161.33[2]	*21.6*	*9.2*

[1] The adjusted incomes shown for 1988-89 are for illustration. They have been obtained by increasing the corresponding incomes in 1987-88 by 6½ per cent.

[2] Denotes wife's earnings election beneficial.

TABLE 13

NUMBERS OF TAXPAYERS[1] GAINING FROM THE MAIN INCOME TAX CHANGES AND AVERAGE REDUCTIONS IN TAX LIABILITY IN 1988-89

NON-AGED

Gross Income (lower limit) £	Single people Number thousands	Single people Average Reduction £	Married couples wife not earning Number thousands	Married couples wife not earning Average Reduction £	Cf gains from Table 2	Married couples wife earning Number thousands	Married couples wife earning Average Reduction £
0	2,100	70	170	80		20	70
5,000	3,700	140	1,200	140	100-200	600	140
10,000	1,700	210	1,600	200	200-300	1,500	210
15,000	440	290	810	280	300-400	1,600	290
20,000	180	430	270	380	400-800	930	370
25,000	60	780	120	680	800-1100	450	580
30,000	50	1,200	110	1,200	1100-2300	410	870
40,000	20	2,500	50	2,200	2300-4000	130	1,400
50,000	20	4,700	40	4,300	4000-8000	80	3,100
70,000	10	14,000	30	15,000	8000 +	40	11,000
Total	8,300	190	4,400	390		5,800	460

AGED / **ALL TAXPAYERS[1]**

Gross Income (lower limit) £	Aged Single people Number thousands	Aged Single people Average Reduction £	Aged Married couples Number thousands	Aged Married couples Average Reduction £	All taxpayers Number thousands	All taxpayers Average Reduction £	Total £m
0	650	70	50	40	3,000	70	210
5,000	480	140	840	130	6,800	140	952
10,000	170	270	300	290	5,300	210	1113
15,000	60	340	120	330	3,100	290	899
20,000	30	610	80	460	1,500	390	585
25,000	20	930	50	830	700	640	448
30,000	20	1,600	30	1,300	610	990	604
40,000	-	-	20	2,500	210	1,800	378
50,000	-	-	10	5,200	150	3,800	570
70,000	-	-	10	14,000	80	13,000	1040
Total	1,400	220	1,500	380	21,400	320	6800

[1] Single people and married couples

Note: where there are no entries figures are less than 5,000

TABLE 14

TAXPAYERS[1]: SIZES OF REDUCTIONS IN TAX LIABILITY IN 1988-89

(thousands)

Gross Income (lower limit)	Reductions in tax liability in 1988-89 (£)							
	0-50	50-100	100-200	200-300	300-400	400-500	Over 500	All
0	410	2,600	-	-	-	-	-	3,000
5,000	40	570	6,100	30	-	-	-	6,800
10,000	-	10	2,000	3,200	120	-	-	5,300
15,000	-	-	60	1,700	1,300	-	-	3,100
20,000	-	-	-	70	940	370	100	1,500
25,000	-	-	-	-	50	220	430	700
30,000	-	-	-	-	-	20	590	610
40,000	-	-	-	-	-	-	210	210
50,000	-	-	-	-	-	-	150	150
70,000	-	-	-	-	-	-	80	80
Total	450	3,200	8,200	5,100	2,400	600	1,600	21,400

[1]Single people and married couples

Note: where there are no entries figures are less than 5,000 mjd 3/67A

CONFIDENTIAL

FROM: A C S ALLAN
DATE: 18 February 1988

MR EASON - IR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Odling-Smee
Miss C Evans
Mr Cropper
Mr Tyrie
Mr Call

PS/IR
Mr Isaac - IR

BUDGET INCOME TAX PRESS RELEASE

The Chancellor was most grateful for your minute of 17 February. But, on reflection, he thinks that to publish tables 13 and 14 on Budget Day, along with the traditional tables, would be confusing, and the balance of advantage lies in sticking with the traditional tables alone.

ACSA

A C S ALLAN

3743/103

BUDGET CONFIDENTIAL

Pvg

FROM: P D P BARNES
DATE: 19 February 1988

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Mr Cropper
Mr Tyrie
Mr Call

BUDGET INCOME TAX PRESS RELEASE

The Economic Secretary has seen Mr Eason's submission to the Chancellor of 17 February.

2. The Economic Secretary would vote for stopping all tables at incomes of £50,000 not at £70,000.

Overtaken

Ch
couldn't get away with this
AA

PB

P D P BARNES
Private Secretary

BUDGET SECRET: BUDGET LIST ONLY

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

Copy No. 2 of 32
FROM: ROBERT CULPIN
DATE: 19 February 1988

CHANCELLOR

cc Principal Private Secretary
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Sir A Wilson
Mr Byatt
Mr Scholar
Mr Sedgwick
Mr Odling-Smee

Mr RIG Allen
Mr Pickford
Miss Sinclair
Mr Riley
Miss Simpson
Miss Evans
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call

Mr Battishill)
Mr Isaac) Inland Revenue
Mr Painter)

Mr Unwin)
Mr Knox) Customs & Excise

BUDGET SECRET

BUDGET PRESENTATION

You asked me to circulate further material, grouped by Ministers' responsibilities for presentation. I attach:

(a) a list of questions by FP;

(b) a skeleton of the main tax brief by EB.

B.L.O.

They deliberately overlap.

2. The questionnaire may look quite long, but it is by no means definitive. It is only when we work up the briefs, the speech and so on that we realise how many questions we can't answer. Still, there is enough here to be getting on with.

3. The skeleton brief is no more than that. It is there to get us started. It groups measures in much the same clusters as the Budget Speech, but puts them in (rough) order of importance. It does not try to cover every measure or every line of questioning, only the most immportant or difficult.

SECRET

BUDGET SECRET
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4. Papers like this are bound to concentrate attention, rightly, on awkward questions. But what we really want is Ministers' guidance on how best to present our positive case.

RC

ROBERT CULPIN

FROM: A P HUDSON
DATE: 23 February 1988

MR CULPIN
MR CORLETT - IR
MR MACE - IR

cc Sir P Middleton
Sir T Burns
Mr Scholar — Mr Anson
Miss Sinclair
Mr Riley
Mr R I G Allen
Mr Pickford
Mr A C S Allan
Mr Burr
Miss C Evans
Miss Simpson
Mr Cropper
Mr Tyrie
Mr Call
Mr Isaac - IR
PS/IR

INDEPENDENT TAXATION, AND MAINTENANCE AND COVENANTS: DRAFT TREASURY PRESS RELEASES

I have revised the draft Treasury press releases (former pamphlets) on Independent Taxation and Maintenance and Covenants, and I attach the new versions.

2. Please could I have any comments by lunchtime on Thursday (25 February).

APH

A P HUDSON

TREASURY PRESS RELEASE ON INDEPENDENT TAXATION: FOURTH DRAFT

[Introduction]

The Chancellor announced in the Budget a completely new system for taxing married couples, giving

- independent taxation for husbands and wives
- complete privacy and independence for married women
- an end to the tax penalties on marriage.

2. This press release explains why the change is taking place, and what it will mean for taxpayers.

Why the System has to Change

3. The present system for taxing married couples is based on treating husband and wife as one taxpayer. The husband is legally responsible for filling in a tax return covering both their incomes, and settling the tax bill for both of them.

4. This system is based on a principle that dates back to the earliest days of income tax, in 1805. Not surprisingly, it produces results which are simply not acceptable today.

5. First, a wife cannot have privacy or independence in her tax affairs. Because her husband has to fill in the tax return, she has to give him details of all her income - whether earnings, savings, pensions, and everything else. Even if a woman runs her own business, her husband has to fill in the tax return. This is

absurd, in an age when two out of three married women are in paid work, and millions more have savings of their own.

6. Second, some couples can actually have to pay more tax simply because they are married. This affects, in particular, couples where the wife has a certain amount of savings income, but would not have to pay tax if she had her own tax allowance to set against this.

7. Tax penalties on marriage can occur for various other reasons. The most important of these is mortgage interest relief: a married couple are entitled to mortgage interest relief on loans up to £30,000, whereas an unmarried couple can have relief on up to £30,000 each.

8. It is quite wrong for the tax system to penalise marriage at all.

9. The Government have therefore decided on a major reform. This will remove these problems, giving privacy and independence to married women, and removing the tax penalties on marriage.

THE NEW SYSTEM: INDEPENDENT TAXATION

10. The basic principle of the new system is that husband and wife will be taxed completely independently - on earnings, savings, pensions, and any other income. The two incomes will no longer be added together, and each partner will pay their own tax, independent of the other.

11. As now, most taxpayers will not need tax returns. But when one is needed, the wife will have the chance to fill it in herself, if she wishes, and handle her own tax affairs. Equally, if she still wants to ask her husband to fill it in, she can do so.

12. The married man's allowance and wife's earned income allowance will be abolished. All taxpayers, male or female, married or single, will have a personal allowance, which replaces the present single person's allowance (in 1988-89 terms, £0000, for people under 65).

13. If nothing else were done, all married couples would see their tax threshold fall. So married couples will also get a new married couple's allowance. The married couple's allowance and the personal allowance together will be worth the same as the present married man's allowance. So, in 1988-89 terms, the married couple's allowance would be £0,000 (the difference between the present married man's allowance of £0,000 and the single allowance of £0,000).

14. For simplicity, the married couple's allowance will go in the first instance to the husband, so he will see no reduction in his tax threshold as a result of the change to the new system. But if he does not have enough income to make use of the allowance he will be able to transfer any unused portion to his wife. The result is that no couple will pay more tax, and many will pay less.

15. The example below shows how the new system will work.

Example

Take a couple where the husband earns £10,000; the wife earns £2,000 from a part-time job and has £500 investment income, in dividends on shares inherited from her parents.

16. Since the new system is based on treating husband and wife independently, there will be no need for the special provisions in the present system - the Wife's Earnings Election, and Separate Assessment - which enable couples to opt for separate taxation. These will therefore be abolished.

Taxpayers over 65

17. Pensioner taxpayers will see a number of benefits from Independent Taxation.

18. As now, taxpayers over 65 will get a higher tax allowance (and those over 80 a higher allowance still). Married women will qualify in their own right for this allowance, rather than the wife's earned income allowance, so most married women pensioners will pay less tax. They will be able to set this allowance against income of any kind, including investment income and pensions based on their husband's contributions, where the wife's earned income allowance is not available.

19. There will be a higher rate of married couple's allowance for couples where one or both is over 65, and a higher rate still if either partner is over 80.

20. As now, all the age allowances will be subject to an income limit. They will be withdrawn by £2 for every £3 of income above the limit, until they reach the level of the ordinary allowances. Under Independent Taxation, husband and wife will each have their own income limit, whereas at present the limit applies to their joint income.

ENDING THE TAX PENALTY ON MARRIAGE

21. Independent Taxation eliminates automatically the most common tax penalty on marriage: the fact that a wife's investment income is taxed at her husband's top rate. The Government are also eliminating the other tax penalties, and some of the changes will come into effect before the main change to Independent Taxation in 1990.

Mortgage Interest Relief

22. At present, mortgage interest relief is available on a loan of up to £30,000 to buy a home. But two single people sharing a home can get relief on loans up to £30,000 each, whereas a married couple share a single ration of relief. This tax penalty on marriage is widely resented, and the Government are putting an end to it.

23. For new mortgages, taken out from August 1988, the limit on relief will apply to the house or flat, irrespective of whether there are one or more borrowers, married or single, living there. This puts unmarried couples on the same footing as married couples, and eliminates the tax penalty on marriage.

Capital Taxes

24. The problems of the absence of privacy for married women and the tax penalty on marriage arise for capital gains tax in the same way as for income tax. A married couple share one annual exemption for capital gains tax, whereas single people have one each, and the husband has to deal with the couple's CGT affairs.

25. From April 1990, under Independent Taxation, husband and wife will each have their own annual exemption, and will handle their own capital gains tax.

26. Transfers of assets between husband and wife will remain exempt from CGT and Inheritance Tax.

Additional Personal Allowance

27. At present, unmarried couples can each claim the Additional Personal Allowance if they have two or more children living with them. This means that between them, they get more allowances than a married couple.

28. [From April 1989], the rules for the Additional Personal Allowances will be changed so that an unmarried couple can get no more allowances in total than a married couple.

Maintenance and Covenants

29. A few unmarried couples exploit the present tax reliefs for maintenance and covenanted payments to gain a tax advantage not available to married couples. The Government is introducing a major reform of this area. For new maintenance arrangements and covenants (except to charities), the person receiving payments will not have to pay tax on them, and tax relief - up to a specified limit - will be given only to men maintaining their ex-wives. This will eliminate the tax penalty in this area.

TIMETABLE FOR CHANGE

30. Some time will be needed to prepare for the new system. Independent Taxation will therefore come into operation from April 1990.

31. Taxpayers do not need to take any action themselves. During the previous tax year, local tax offices will need to get in touch with some taxpayers to ask for the information they need to run the new system. That will involve, in particular, setting up records for married women as taxpayers in their own right, and transferring information onto these records from their husbands' tax records.

FURTHER INFORMATION

32. A number of Treasury and Inland Revenue press releases give further details of the Government's proposals.

Present system

Husband		Wife
Own earnings	10000	Wife's income is taxed with husband's
Wife's earnings	2000	
Wife's investment income	500	
so total income	12500	
less married man's allowance	3795	
less wife's earned income allowance	2000*	
so pays tax on	6705	
so tax bill is	1810.35	

Independent Taxation

Earnings	10000	Earning's	2000
less single allowance	2425	Investment income	500
less married couple's allowance	1370	less single allowance	(2425)
so pays tax on	6205	so tax bill is	(0)
so tax bill is	1675.35		

The wife now pays (no) tax on her income at all, whereas previously she had to pay tax on her £500 investment income.

*Rest of allowance cannot be used.

TREASURY PRESS RELEASE ON MAINTENANCE AND COVENANTS: FIFTH DRAFT

INTRODUCTION

1. When money is paid from husband to wife, or from parent to child, the tax system is usually not involved at all. These are simple, every day situations.

2. Ideally, all transfers of income should be just as simple. However, when they involve a legal agreement - a deed of covenant or a Maintenance Order - the tax consequences are very complicated indeed, and produce a host of anomalies. They also make a lot of work for taxpayers and the Inland Revenue alike.

3. The Government have therefore decided on a major simplification, taking most arrangements out of the tax system altogether.

4. This press release explains why the changes are being made and how the new system will work.

SUMMARY OF THE CHANGES

5. The new system will apply to new maintenance payments and deeds of covenant. Existing arrangements will not be affected. The people making the payments will continue to get tax relief on them, and the recipients will pay tax on the money they receive, in the same way as now, for as long as the payments continue. And tax relief will still be given for all covenants to charities.

6. For new maintenance payments under Court Orders or agreements made on or after 15 March:

- the person receiving the payments will not have to pay tax on them;
- a man maintaining his ex-wife (or a woman maintaining her ex-husband) will get tax relief on the payments made, up to a limit equal to the single allowance;
- there will be no tax relief for any other maintenance payments.

7. For payments made under new deeds of covenant, other than to charities:

- the person who receives the covenanted payments will not have to pay tax on them;
- no tax relief will be given to the person making the covenant;
- parents of students starting new courses will stand to benefit from a reduction in the parental contribution to the student grant, to balance the fact that tax relief will no longer be available on covenants made after Budget Day.

THE CASE FOR CHANGE

8. The present system, for both maintenance payments and covenants, is too complicated, produces anomalies and unfairness, and can penalise people who want to work.

Maintenance Payments

9. One in [twelve?] of the population now either makes or receives maintenance payments. The vast majority are made by divorced or separated men to their ex-wives.

10. There is no reason for the tax system to be involved simply because the payments are made under a particular

kind of legal agreement. What should be recognised is the expense arising from the breakdown of a marriage, and hence of the need to maintain two households.

11. The system should be as simple and straightforward as possible. In fact, it is extremely complicated.

- Most maintenance payments are paid gross, and the ex-husband has to claim tax relief separately. If the wife is above the tax threshold, she has to pay tax on the payments she receives. In many cases, no tax is raised, because the wife's tax bill is cancelled out exactly by the husband's tax relief.
- A further complication is that some maintenance payments are paid with tax already deducted. In that case, where the wife's income is below the tax threshold, she has to get a repayment from the Revenue. This makes more work for all, and delays the time when the wife or child gets the full amount of the money.

12. The system can also penalise marriage itself. A few couples, generally well-off and well advised, have gained extra tax relief by remaining unmarried. They take out maintenance orders against each other for the cost of raising their children, and get tax relief on the payments, which married couples are unable to do.

13. [The Courts have recently established that a divorced parent can get a Court Order against him or herself for the cost of educating his children who are living with him, and get tax relief for it. Given the tax advantages mentioned above that are open to unmarried couples with children, that could mean that the only parents who would not get tax relief for the cost of maintaining their children would be those who got married and stayed married!] [Can we omit from this release?]

Covenants

14. Similar problems arise from the present tax treatment of covenants.

15. Apart from those to charity, most covenants are made by parents' supporting their student children. But it is difficult to imagine a more convoluted way of getting State support into the hands of students.

16. The parent has to go through the legal rigmarole of making a covenant, and supplying evidence of payment. The Revenue then have to check the student's income, and repay him or her the tax that had been paid.

17. As covenant income itself is taxable, many students are discouraged from taking holiday jobs, because they will have to pay tax on the first £1 of their earnings. This is scarcely the best way of introducing young people to the tax system, or to paid work.

18. Covenants can also be used by unmarried couples to gain a tax advantage that is not available to married couples, by covenanting money to their own children and getting tax relief for that.

THE NEW SYSTEM

19. The Government have therefore decided on a radical reform.

Maintenance Payments

20. People receiving maintenance payments under new Court Orders or agreements will not have to pay tax on them. [Nor will they have to put them on their tax return.] This will simplify the tax affairs of some A million people.

21. A man maintaining his ex-wife will get tax relief on the payments he makes, up to a limit of [£2500], equal to the single person's allowance. This recognises the cost of helping to maintain a second household. If there were no limit, a few well off taxpayers could get large amounts of relief, far in excess of that available to the ordinary married man. On present experience, this limit will cover the vast majority of payments.

22. No relief will be available for other maintenance payments.

23. The system will be

- <u>much simpler</u>, with one claim for relief;
- <u>fairer</u>, with no tax penalty on marriage;
- and <u>better for incentives</u>, with the wife able to earn up to the single allowance without having to pay tax.

<u>Covenants</u>

24. With the exception of covenants to charities, new covenants (made on or after Budget Day) will be taken out of the tax system altogether. The payers will not get tax relief, and the recipients will not have to pay tax on the money they get.

25. The main beneficiaries from the existing system have been parents of students. They will be given broad compensation through a reduction in the parental contribution to the grant for students' starting new courses. Thus support for students will be concentrated in the grant system.

26. Students will be able to earn up to the tax threshold without paying tax, which improves their incentive to boost their income with a holiday job.

27. Other covenants are, in effect, a gift from one person to another, often from grandparents to grandchildren. There is no reason why these gifts should get tax relief simply because they are made under a legal agreement. This relief is therefore being abolished, as part of the Government's policy of removing special tax reliefs, where possible, and using the revenue saved to reduce the general burden of taxation.

Conclusion

28. These changes will bring a radical simplification of the tax system for ordinary people, sweeping away two different systems of taxing maintenance payments, the unintelligible legal mumbo-jumbo surrounding covenants, and the inevitable bureaucracy that follows both.

- The whole system will be easier to understand.
- All those receiving payments will find their tax affairs easier to handle.
- Student support will be simplified.

COPY NO. 1 OF 36

FROM: C J RILEY
DATE: 23 FEBRUARY 1988

CHANCELLOR

Many thanks.
What is expected
effect on M4 of
MIL relaxation?
N

cc Principal Private Secretary
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Sir A Wilson
Mr Byatt
Mr Monck
Mr Scholar
Mr Culpin
Mr Odling-Smee
Mr Sedgwick
Miss Sinclair
Mr Bredenkamp
Miss C Evans
Mr Hughes
Ms Munro
Mr A Hudson
Mr Cropper
Mr Tyrie
Mr Call
<u>Inland Revenue</u>
Mr Battishill
Mr Isaac
Mr Painter
Mr Lewis
Mr I Stewart
<u>Customs and Excise</u>
Mr Unwin
Mr Knox

CARS AND HOUSES: BEHAVIOURAL EFFECTS

I attach two notes. The first assesses the effects of doubling the car scales, drawing on work by MP1, EI and the Revenue. The second, by Alison Munro, considers the implications of the proposed changes in mortgage interest relief.

2. The notes set out our best guesses on the likely scale of effects. They are inevitably very uncertain. And we do not consider how the indirect effects should be treated in the FSBR. At present the Scorecard takes account only of direct effects, ignoring behavioural responses, and the conventional treatment in the FSBR is generally to do likewise.

<u>Cars</u>

3. This note takes forward the work reported by Mr Monck in his minute of 28 January. The main conclusions are as follows:

- the reduction in company cars for private use might be of the order of 100 thousand, out of a total of 1.2 million which might have been expected otherwise. This is slightly lower than the number reported by Mr Monck;

- the effect is likely to be spread over perhaps three years. There will be offsetting increases in pool and hire cars, and some increase in private demand;

- the implications for UK production are likely to be slight - perhaps a fall of around 1% compared with what otherwise would have happened;

- the increase in scales will lead to some upward pressure on wages, as some employees cash out their company cars and others seek compensation from their employers;

- the behavioural effects will tend to augment the increase in revenue which occurs directly as a result of the higher scale charges. They could add around £100 million in 1990-91.

4. The forecasters foresee continued growth in UK car sales and production, with the UK car industry now more confident than for several years. The cuts in personal taxation in the Budget will help the industry, so the increase in car scales should be no more than a fairly minor irritant - though UK producers may not see it that way.

Houses

5. The main change, in quantitative terms, is the removal of Mortgage Interest Relief on home improvement loans. The note concludes that:

- there may be some compensating increase in loans for house purchase, and probably some forestalling. This will offset some of the increase in revenue occurring as a direct consequence of withdrawing the relief, but we guess the effects are likely to be quite small - perhaps of the order of £50 million after three years.

- there is likely to be some reduction in expenditure on home improvements - perhaps around 2% in the longer term, equivalent to about 1% of total private investment in dwellings;

- the effects on house prices and the condition of the housing stock are likely to be negligible.

The effects of moving to a residence basis for MIR are likely to be very small.

6. The changes in MIR are expected to occur against a background of rising housing investment - perhaps around 2½-3% per year. As with cars, the cuts in personal tax in the Budget will help sustain housing expenditure - and house prices.

CJR

C J RILEY

FROM: A P HUDSON

DATE: 23 February 1988

MR MURPHY

cc Mr Culpin
Miss Sinclair
Miss Hay
Mr McManus - IR

BUDGET SPEECH: BUILDING SOCIETY INCORPORATION

Thank you for your help last week, in explaining to me our proposal on the tax consequences of building society incorporation.

... 2. I attach the paragraph I drafted for the Budget Speech. Please could you let me have any comments by close tomorrow (24 February)? If you are content, it would be helpful to know that, as well.

APH

A P HUDSON

G5. Second, Building Societies. The 1986 Building Societies Act gave Building Societies the opportunity, if they wished, to convert to being companies. At present, many would face a heavy, and unintended, tax charge if they did. I propose to rectify this.

BUDGET CONFIDENTIAL

Inland Revenue

This change will help offset any reduction in the attractiveness of PEPs which might result from other Budget changes.

Policy Division
Somerset House

FROM: A W KUCZYS
24 February 1988

1. MR CORLETT 24/2

2. FINANCIAL SECRETARY

PEPS LIMIT

1. I understand that, at Monday's overview meeting, Ministers decided to increase the overall limit on investment in personal equity plans from £2,400 to £3,000 (£250 a month).

2. This is a very straightforward change, which can be made by Regulations - there is no need for a Finance Bill clause. This minute seeks your decision on some detailed points.

3. First, when should the change take effect? Normally, changes to the PEPs rules would take effect from the following 1 January. In this case, however, I imagine you would want the increased limit to apply for the current year (1988)? (Those who had already invested the maximum £2,400 could then put in a further £600; those who are currently investing £200 a month could, if they wished, increase their payments so as to reach £3,000 by the end of the year.)

---

cc PS/Chancellor of the Exchequer
Chief Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Sir G Littler
Mr Scholar
Mr Culpin
Mrs Lomax
Miss Sinclair
Mr Ilett
Mr Neilson
Mr P Hall
Mr Cropper
Mr Tyrie
Mr Call

Mr Battishill
Mr Isaac
Mr Corlett
Mr Beighton
Mr Cleave
Mr Calder
Mr Davenport
Mr Eason
Mr Kuczys
Miss Dougharty
Mr McNicol
PS/IR

4. There would be no Inland Revenue difficulty about applying the new limit in the current year. As far as plan managers are concerned, some of their literature will become out of date. But the change will provide them with the opportunity for a marketing drive, urging clients to take advantage of the Chancellor's generosity. So we would not expect complaints on this account. On the basis that the new limit applies in 1988, the cost of the change will be negligible in 1988-89, and £m5 in 1989-90. There is no staff cost.

5. The second point concerns the amount of cash which may be held in a personal equity plan. At present, the "cash investment limit" is set at the greater of £240 or 10 per cent of the market value of plan investments. We think it would be appropriate to increase the figure of £240 to £300 in line with the main change. This too would be done by Regulation, and the revenue effect would be negligible.

6. Finally, there is the question of unit trusts and investment trusts. The maximum which may be held in a unit or investment trust is currently the greater of £420 or 25 per cent of the amount subscribed. The maximum possible holding in a unit trust will rise automatically from £600 (25 per cent of £2,400) to £750 (25 per cent of £3,000). But that will not affect unit trust-only schemes like the Framlington PEP, for which the relevant limit is the figure of £420. You may encounter some criticism from, for example, Mr Miller of Framlington if the overall limit is increased but the unit trust limit is left unchanged.

7. In response to Mr Ilett's and Mr Hall's minutes of 19 February ("PEPs and the new-style unit trust") you agreed that any substantive changes in the unit trust rules should wait until the Autumn, to take effect from 1 January 1989. On merits, this would still be the best course, since an increase now in the limit might well be seen - mistakenly - as a commitment to the current unit trust arrangements. Our recommendation (and FIM's) would therefore be to make no change. If, however, you were concerned to head off possible

criticism from Framlington's and others, it would be quite straightforward to make a small increase in the £420 limit at the same time as increasing the overall ceiling. The limit needs to be set at a convenient monthly amount (£420 is £35 a month) so the options are:

a. £480 (£40 a month)

b. £540 (£45 a month) - which is the nearest practicable figure to a 25 per cent increase, the same as the proposed increase in the £2,400 overall ceiling.

c. £600 (£50 a month).

Again, the change would be made by secondary legislation, and the cost would be negligible.

Conclusion

8. We should be grateful for your decisions on:

a. whether the increase to £3,000 should apply to the current calendar year;

b. whether the cash investment limit should also be increased (to £300); and

c. whether the unit trusts limit should be left until the Autumn, or increased now - and if increased, to what level?

A W KUCZYS

FROM: A P HUDSON
DATE: 24 February 1988

MR MACE - INLAND REVENUE

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Call
Mr Isaac - IR
PS/IR

INDEPENDENT TAXATION: PRESS RELEASE

The Chancellor was grateful for your 19 February minute. He has the following comments on the draft press release.

2. He does not think the present arrangement of the sections brings out the key points to best advantage. He will therefore like to move the first eight paragraphs of section 2, on the new allowances, to come after paragraph 7 of the first section on independence. He also thinks it would be better to pull out the changes to CGT from the Income Tax section, and cover them in a separate, short section of their own.

3. The press release should give more prominence to the reasons why the new system cannot be introduced until 1990.

4. It should also deal with the question of why the Government's objectives cannot be achieved within the existing system, for example through the present options for separate taxation, and the possibility of extending them into a wife's income election.

5. The Chancellor would like to make more of the fact that it would not be compulsory for the wife to fill in her own tax return.

She can ask her husband to do the job, if she wishes, though she will, of course, have to sign it herself.

6. The Chancellor has the following specific comments on the drafting.

- Section 1, paragraph 4, final sentence: Delete "complete".
- Section 2, paragraph 3: Redraft the opening along the lines:

  "There will also be a married couple's allowance of [size]. The tax system thus continues to recognise marriage. It will go to the man unless ..."

  In the second sentence of the present draft, delete "at least".
- Section 2, paragraph 9, third indent: Redraft to read "... income limit, and will be withdrawn ...".
- Section 2, paragraph 17: Replace "1989-90" with something like "its level before the change".

APH

A P HUDSON

BUDGET CONFIDENTIAL

FROM: J M G TAYLOR

DATE: 24 February 1988

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
Sir P Middleton
Mr Anson
Mr Byatt
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Instone
Mr Cropper
Mr Tyrie
Mr Call
Mr Jenkins OPC
Mr Painter IR
Mr McGivern IR
Mr Reid IR
PS/IR

PRIVATE RENTED ACCOMMODATION: DETAILED BES RULES

The Chancellor has now confirmed that he wishes to go for full BES (rather than ¾ BES).

2. He has also confirmed that the qualifying period should be 4 years.

J M G TAYLOR

FROM: N J ILETT
DATE: 29 February 1988

FINANCIAL SECRETARY

cc: PPS
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mrs Lomax
Miss Sinclair
Mr Neilson
Mr Cropper
Mr Tyrie
Mr Call

Mr Corlett IR
Mr Kuczys IR
PS/IR

This problem will always be with us so long as PEPs run on a calendar year basis & the ~~announce~~ announcement of changes is in March. We might have done better to have PEPs year run from 1st June. But too late now.

PEPs LIMIT

Could I add one comment to Mr Kuczys' submission of 24 February? (I was away from the office last week).

2. An increase in the PEP limit in the middle of a PEP year will impose some additional costs on managers, particularly the mass-market, low margin operators like the clearing banks and Save and Prosper. In part this is through reprinting documents (as Mr Kuczys says) and changing instructions to staff; potentially more significant, however, changes to computer systems may also be needed. Without consultation, we cannot be sure whether these disadvantages will outweigh the benefit to the managers where the increase in the limit will bring. The short point is that the increase in the limit will not be 100% good news for the managers.

3. There would be no problem, of course, if the new limit came into effect at the beginning of the 1989 PEP year, ie on 1 January 1989. But it would then look a bit odd to make the announcement so early. Also, as you know, we are planning to have another look at PEPs in the summer, in particular at the unit trust rules, with a view to announcing changes in good time for 1989. It would look odd to make several announcements on

PEPs during the year. There is quite a lot to be said for the principle of running PEPs on the basis that changes are made on a calendar year basis.

4. That said, the satisfactory share ownership survey results could be used to dispose of one argument against increasing the limit, ie that we are resorting to a panic measures to stem a fall in share ownership.

M.

N J ILETT

Inland Revenue

Policy Division
Somerset House

FROM: ROBIN WILLIS
DATE: 29 FEBRUARY 1988

This is an urgent follow-up, on an important point for the Resolution, arising out of this afternoon's decision to abolish capital duty and unit trust duty.
CWG 29/2

1. MR CORLETT

2. FINANCIAL SECRETARY

CAPITAL DUTY AND UNIT TRUST INSTRUMENT DUTY (UTID)

This submission seeks decisions on the transitional arrangements for the abolition of capital duty and UTID.

Start date

2. We propose to abolish both capital duty and UTID from midnight on Budget day.

Chancellor	Chairman
CST	Mr Isaac
~~FST~~	Mr Corlett
PMG	Mr Beighton
EST	Mr Calder
Mr Scholar	Mr Johnston
Mr Culpin	Mr Cleave
Mrs Lomax	Mr Gonzalez
Miss Sinclair	Mr Pipe
Mr Hudson	Mr Adderley
Mr Cropper	Mr Haigh
Mr Jenkins (OPC)	PS/IR
	Mr Willis

3. We cannot easily take the start of Budget day because it is possible that some people will execute trust documents and have them stamped on the same day. Unlike the assessed taxes we do not have a tax year for stamp duty and an inbuilt delay.

Transitional arrangements for capital duty

4. The main question is whether we should abolish the charge for:

a. all transactions after Budget day; or

b. all transactions after budget day and transactions before Budget day on which capital duty has not been paid.

5. The reason for considering option (b) is that there is 30 days between the date of a chargeable transaction and the date on which duty should be paid. When people hear that capital duty is abolished they may think that they do not need to pay duty even on transactions already completed. We should then need to pursue collection of tax, and could expect complaints that they would not have had to pay if they had carried out the transaction just a few days later.

6. However there is bound to be a dividing line between those who do and do not benefit from the abolition. There will be some people who fall just on the wrong side no matter where we draw it. And it would be odd to draw it so as to reward those who are slow to pay and, by comparison, penalise those who paid promptly before Budget day.

7. We therefore recommend abolition for transactions after Budget day.

8. There are also some technical points about the application of provisons which claw back relief from capital duty on certain transactions if the company ceases to meet the qualifying conditions for 5 years after the transaction. We will let you have a more detailed note of these. But our general view is that it would not be worth keeping alive a possible charge to capital duty until 1993. I think it would be better to get rid of the tax as quickly and cleanly as possible.

UTID

9. The main question here is, as with capital duty, whether the duty should be abolished for transactions after Budget day or for transactions on which duty has not been paid. For the same reasons we recommend abolishing the charge for transactions after Budget day.

SUMMARY

10. I recommend that capital duty and UTID are abolished:

a. from midnight on Budget day;

b. for transactions after Budget day.

11. It would be very helpful to have early decisons on these points so that Parliamentary Counsel can draft the necessary Budget resolutions.

DWones

R B WILLIS

83

⇒ Alex pl can you remember to let me know who you will be adding to Monday's overview core list for 16/1 meeting by this Friday.
Thanks Julie

Julie ⇐

Please add Judith Simpson to Overview cost list

Alex

⇒ Tony

pl ask some to look out for me a copy of Alex's minute of a month or so ago about overview meetings

Thanks
Julie
6/1.

4369/27

BUDGET: CONFIDENTIAL

FINANCIAL SECRETARY TO THE TREASURY

PS/CHANCELLOR

FROM: J J HEYWOOD

DATE: 29 February 1988

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir G Littler
Mr Scholar
Mr Culpin
Mrs Lomax
Miss Sinclair
Mr Ilett
Mr Neilson
Mr P Hall
Mr Cropper
Mr Tyrie
Mr Call

Mr Corlett - IR
Mr Kuczys - IR
PS/IR

Ch, 'Agree with FST's conclusions?
JT 29/2

I agree. ~~Keep surprises going~~

PEPS LIMIT

The Financial Secretary has seen Mr Kuczys' minute of 24 February.

2. The Financial Secretary thinks we <u>should</u> increase the PEP limit to £3,000. He also thinks that:

(i) This should take effect from the current year.

(ii) The cash investment limit should be increased to £300.

(iii) The unit trusts limit should be increased to £540.

3. On (iii), the Financial Secretary can see the argument for postponing any change until the Autumn, but he thinks that on balance it is not worth provoking the likes of Framlington. Their irritation would, he thinks, be more vocal and sustained than the PEP managers' gratitude.

J.H.

JEREMY HEYWOOD
Private Secretary

42aG/NH/4145/18

BUDGET CONFIDENTIAL

NL 1/1

FROM: R N G BLOWER
DATE: 29 February 1988

MR HUDSON

cc Mr Taylor
PS/FST
Mrs Lomax
Mr Culpin
Miss Sinclair
Mr R Allen
Mr Ilett
Mr Pickford
Miss C Evans
Mrs Burnham
Mr Neilson o/r
Mr Walker IR

BUDGET DAY PRESS NOTICES

1. Your minute of 29 February to Mrs Burnham raises the question of whether the results of the Treasury/Stock Exchange survey on share ownership should have a Budget day press release.

2. Last year the Chancellor announced the "headline" total in the Budget speech; I imagine he will wish to do the same again this year. But it was felt the rather good results could be swamped by other Budget news, so the Financial Secretary announced the detail in his winding up speech. The results were press released alongside the Financial Secretary's speech.

3. The results this year are again rather good in all the circumstances so it would be a pity to lose this particular bit of "news" amongst other Budget news. I would therefore suggest that the same procedure as last year is followed i.e. headline in the Budget speech; detail in the winding up; and press release of the winding up.

Bob Blower

R N G BLOWER

BUDGET CONFIDENTIAL

FROM: A P HUDSON

DATE: 29 February 1988

MRS BURNHAMS

cc Mr Culpin
Miss Sinclair
Mr R I G Allen
Mr Pickford
Miss C Evans
Mr Neilson
Mr Walker - IR

BUDGET DAY PRESS NOTICES

Thank you for sending me a copy of your 22 February minute to Mr Culpin.

2. Somebody else may well have picked this up, but one subject not mentioned in your minute is the Treasury/Stock Exchange survey on shareownership. I assume we shall want a Treasury Budget Day release on this. Mr Neilson will no doubt comment if he disagrees.

APH

A P HUDSON

BUDGET CONFIDENTIAL

FROM: J M G TAYLOR
DATE: 1 March 1988

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir G Littler
Mr Scholar
Mr Culpin
Mrs Lomax
Miss Sinclair
Mr Ilett
Mr Neilson
Mr P Hall
Mr Cropper
Mr Tyrie
Mr Call
Mr Corlett - IR
Mr Kuczys - IR
PS/IR

PEPS LIMIT

The Chancellor has seen your minute of 29 February. He agrees with the Financial Secretary's conclusions.

J M G TAYLOR

BUDGET CONFIDENTIAL

FROM: A C S ALLAN
DATE: 2 March 1988

MR EASON - IR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
PS/IR
Mr Isaac - IR
Mr Mace - IR

INDEPENDENT TAXATION: DISTRIBUTIONAL EFFECTS AND PRESS RELEASE

The Chancellor was grateful for your minute of 26 February, which raises interesting, but tricky issues. He had the following comments:

(i) We certainly do not want tables 5 and 6, and not tables 2 and 4 either.

(ii) Are we open for criticism for providing more information on this than we do for the main Budget income tax package?

(iii) He would like to see tables 1 and 3 redone with the last three lines collapsed into a single 30+ line.

(iv) Perhaps most important, he feels we need a corresponding table which shows the overall position for individuals: ie husbands and wives taken together (but not as couples). So, for example, in the 5-10 group there will be 300 individuals (290+10) etc.

(v) He would also like to see how the total cost breaks down among the various income groups.

ACSA

A C S ALLAN

BUDGET CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House

FROM: MISS C SPROWL
DATE: 3 MARCH 1988

1. MR STEWART 3/3

2. MR CORLETT 3/3

3. PAYMASTER GENERAL

CHARITIES - PAYROLL GIVING SCHEME

A draft of the Budget Day Press Release on the increase of the limit for donations under the payroll giving scheme is attached. May we have your approval or comments by midday Tuesday 8 March please?

C Sprowl

MISS C SPROWL

---

cc Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Cropper
Mr Tyrie
Mr I R G Allen
Mrs Wiseman

Mr Isaac
Mr Corlett
Mr Stewart
Mr Beighton
Mr Davenport
Mr Walker
Miss McFarlane
Mrs Fletcher
Miss Sprowl
PS/IR

BUDGET CONFIDENTIAL

DRAFT PRESS RELEASE

INLAND REVENUE
Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

PAYROLL GIVING SCHEME FOR CHARITIES - TAX RELIEF LIMIT TO BE DOUBLED

The Chancellor proposes in his Budget to increase the limit on charitable donations qualifying for tax relief under the payroll giving scheme from £120 a year to £240 a year.

The increase is designed to:-

- encourage new participation in payroll giving schemes; and

- enable those employees already giving the present maximum of £120 a year to increase their donations.

It means that anyone who is in a scheme will be able to give up to £20 a month to any charity or charities they choose and get tax relief on the whole of the donation.

The increase will take effect from 6 April 1988, and will therefore apply to the 1988-89 tax year.

NOTES FOR EDITORS

1. The payroll giving scheme was announced by the Chancellor of the Exchequer in his 1986 Budget and started on 6 April 1987. Since then over 2,000 employers' schemes have been established including arrangements for over 400,000 Civil Servants.

2. The scheme permits employees to make donations to charity up to a specified limit and get tax relief on them. The original limit of £100 was increased to £120 a year in the 1987 Budget. The donations are deducted by the employer from employees' wages or salaries and passed through agencies to the charities chosen by the employee.

COPY NO. 1 OF 37

FROM: C J RILEY
DATE: 4 MARCH 1988

CHANCELLOR → cc Principal Private Secretary
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Sir A Wilson
Mr Byatt
Mr Monck
Mr Scholar
Mr Culpin
Mr Odling-Smee
Mr Sedgwick
Miss Sinclair
Mr Bredenkamp

Mr Courtney
Miss C Evans
Mr Hughes
Ms Munro
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Inland Revenue
Mr Battishill
Mr Isaac
Mr Painter
Mr Lewis
Mr I Stewart
Customs and Excise
Mr Unwin
Mr Knox

Thanks

CARS AND HOUSES: BEHAVIOURAL EFFECTS

You asked what is the expected effect on M4 of the abolition of home improvement loan relief (Mr Taylor's minute of 25 February).

2. The answer is that the effect should be trivial - a reduction in the stock of less than 0.1%, spread over 4 years or so. The attached minute by Mark Courtney explains why.

CJR

C J RILEY

878/88

FROM: M M COURTNEY

DATE: 2 March 1988

MR RILEY

cc: Mr Bredenkamp

HOUSING : EFFECTS OF CHANGES IN MIR

I was asked to look at the possible effects on M4 of the proposed withdrawal of mortgage interest relief on home improvement loans.

2. The revenue gains already assumed, before allowing for behavioural effects are:

	1988-89	1989-90	1990-91	1991-92
£m	80	200	300	400

Assuming a 10% gross interest rate, the stock of relevant home improvement loans is:

£bn	3.2	8.0	12.0	16.0

3. Two behavioural effects are assumed.

(i) forestalling, which reduces the new loans without MIR.

(ii) switching from loans for home improvement to higher house purchase loans.

These reduce the revenue gains and relevant stock of loans to:

Gain	1988-89	1989-90	1990-91	1991-92
Revenue £m	60	170	260	340
Stock of relevant loans £bn	2.4	6.8	10.4	13.6

4. Both of these should be allowed for before considering the third behavioural effect, which is what gives rise to any long-term effect on M4, namely.

(iii) a reduction in borrowing for home improvement. The assumed interest rate semi-elasticity of investment is -1.75 (ie a 1 percentage point increase in interest cost reduces investment eventually by 1.75%). Assume an interest rate of 10% and neglecting any additional benefit to higher rate taxpayers of MIR, interest costs rise by 2.5 percentage points on withdrawal of MIR. This gives a long-run reduction in the stock of loans for home improvement of £1.36bn x 0.0175 x 2.5 = £0.595 bn.

5. This represents a reduction in credit to the personal sector for home improvements of about £0.6 bn. There may however be offsets among the credit counterparts.

(i) Increased borrowing for other purposes - this might apply particularly for the 20% of home improvement loans assumed to be for other purposes.

(ii) Some loans for home improvements might come from non-banks, non-building societies (but the proportion is less than the 12% assumed for loans for house purchases, and these new mortgage lenders are themselves largely bank financed.)

(iii) Some of the decreased funding requirements for banks and building societies might be met by a reduction in borrowing from the overseas sector (eg fewer Eurosterling bonds take up by foreigners).

(iv) There will be some very slight tendency for interest rates to weaken in response to the drop in demand for home improvement loans, stimulating some additional borrowing for other purposes.

6. None of these offsets is likely to be very significant. Thus one can say that the reduction in the stock of private sector credit by 1992 is likely to be £0.6 bn or somewhat less.

7. By 1992 Q1 the stock of M4 is forecast to be £512 bn. Thus the stock of M4 by then is likely to be about 0.1% less than it otherwise would be. Over the four years to 1992 the average annual rate of growth of M4 would be lower by about 0.03 percentage points then it otherwise would have been.

Mark Courtney

M M COURTNEY

mjd 2/145Jn

BUDGET SECRET: TASK FORCE LIST

COPY NO. 34. OF 34

FROM: J M G TAYLOR
DATE: 25 February 1988

MR RILEY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Sir A Wilson
Mr Byatt
Mr Monck
Mr Scholar
Mr Culpin
Mr Odling-Smee
Mr Sedgwick
Miss Sinclair
Mr Bredenkamp
Miss C Evans
Mr Hughes
Ms Munro
Mr A Hudson
Mr Cropper
Mr Tyrie
Mr Call

Mr Battishill IR
Mr Isaac IR
Mr Painter IR
Mr Lewis IR
Mr I Stewart IR

Mr Unwin C&E
Mr Knox C&E

CARS AND HOUSES: BEHAVIOURAL EFFECTS

The Chancellor was most grateful for your minute of 23 February and the enclosed papers.

2. He has asked what is the expected effect on M4 of the abolition of home improvement loan relief. I should be grateful for advice.

J M G TAYLOR

INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

COPY NO 9 OF 26

FROM: R J EASON

DATE: 4 March 1988

CHANCELLOR OF THE EXCHEQUER

INDEPENDENT TAXATION: DISTRIBUTIONAL EFFECTS AND PRESS RELEASE

1. In response to Mr Allan's minute of 2 March, I attach a revised version of a possible section of the Independent Taxation Press Release on distributional effects. In this:-

(l) the tables are restricted to an analysis of gains to wives by their income, an analysis of gains to husbands by their income, and an individuals' table aggregating the separate husband and wife two previous tables;

---

cc Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call

Chairman
Mr Isaac
Mr Painter
Mr Beighton
Mr Calder
Mr Lewis
Mr Mace
Mr J C Jones
Mr Cayley
Mr Eason
Miss Dyall
Miss McFarlane
Mr Walker
Miss White
PS/IR

(2) all the figures have been re-estimated taking account of

(a) the Budget income tax changes;

(b) the 1985-86 Survey of Personal Income and post-Budget economic forecasts, including widening of the income distribution. The 1985-86 SPI incorporates bank interest charged to composite rate tax and therefore provides better information than the 1984-85 survey used for previous estimates (in which such income was paid gross and not distinguished from other similar income). The effect of this is to reduce somewhat the number of wives on low incomes who gain.

(3) the text has been updated and shortened. The last sentence of paragraph 3 has been deleted.

2. I set out below the distribution of full year costs at 1990-91 levels by income **of the individual.**

Income £000s	**Cost £m**
0-5	256
5-10	104
10-15	57
15-20	42
20-25	59
25-30	58
30+	105
All	682

The total cost shown reflects the direct impact of Independent Taxation on married couples. One consequence however is that in due course the composite rate of bank and building society interest will fall because more interest is going to non-taxpayers (married women). All account holders will gain from this and the costs are essentially part of changing to Independent Taxation. The costings to be shown in the FSBR have been revised to £500 million in 1990-91 (from £630 million) and to £1,000 million in 1991-92 (from £970 million) to reflect the composite rate effect and the other changes in paragraph 1.

Should we publish the figures?

3. You asked whether we would be criticised for releasing some distributional tables about independent taxation while only providing specimen income tables for the main Budget changes.

It is possible that there might be criticism of this kind, but a possible defence would be that the purpose of the specimen income tables is to provide the public, mainly through the press, with a set of look-up tables to allow each taxpayer to see how much he or she gains or loses from the increases in allowances or cuts in rates in most Budgets. Over the years, these have proved very valuable. However Independent Taxation is a major reform of the structure of income tax involving new allowances and separation of incomes within marriage. Its effects will be substantial for many taxpayers and the Press Release tries to describe these changes. It therefore includes some measures of those effects to show the number and type of people affected, in the same way as the 1986 Green Paper.

4. Nevertheless, having discussed with Mr Mace whether the distributional tables should be included in the Press Release, we suggest that, if you are uncertain about their inclusion for any reason, you might prefer on balance to delay release until after the Budget Debate. This would avoid immediate attention being focussed on them. And it would also give us more time to ensure that the results are thoroughly consistent with the final figures which go into the FSBR. The Press Release will have to be finalised by the middle of next week if we are to meet the necessary deadlines.

5. If interest is shown in this subject during debate, tables could be released by an arranged PQ. This does however run the risk that an MP might table a question which would reveal the distributional effects in a less favourable light.

R J EASON

4. EFFECTS OF THE NEW SYSTEM ON INCOME TAX LIABILITIES

1. Many married women, and some married men, will pay less income tax when independent taxation starts in 1990-91. The tables in this section give some broad estimates of the numbers involved and the reductions in their income tax liability. The estimates are based on projected levels of income in 1990-91 and the 1988 Budget proposals for income tax rates and allowances indexed to 1990-91 levels.

2. Table 1 shows that about 1.6 million wives will have less tax charged on their income, because they will have their own personal allowances and their income will be treated independently of their husbands. The average reduction will be about £300 per annum compared with the tax liability under the present rules in which the income is generally treated as the top slice of the husband's income.

3. About 1.2 million of these wives have income of less than £5,000 per annum and 700,000 of them are elderly. The size of the reduction in tax will often be small if there is only a small amount of investment income or a small pension, but, the 1.2 million will have an average tax reduction of over £200 per annum.

4. About 500,000 husbands will gain directly from independent taxation. Table 2 shows that some 370,000 husbands in couples previously making the wife's earnings election will pay between £400 and £650 less tax as they will be able to claim the married couple's allowance. Also an additional 130,000 elderly husbands will be able to claim age

allowance under independent taxation. Under the present system, these husbands are unable to claim because the couple's combined income is above the aged income limit.

5. Overall, over 2 million individuals will pay less tax after the introduction of independent taxation and almost 70 per cent of them have incomes of less than £10,000 per annum.

Notes to Tables

1. All estimates are derived from details of taxpayers in the 1985-86 Survey of Personal Incomes. Incomes, allowances, and reliefs are projected to 1990-91 on the basis of the tax rates and allowances proposed in the 1988 Budget. It is assumed that the composite rate of tax on interest from Bank and Building Society accounts will move broadly in line with the change in the basic rate of income tax. No change is assumed in the pattern of investments by married couples.

2. The reductions in tax liability relate only to income tax and they are for a full year at 1990-91 projected levels of income. They are on a consistent basis with the estimates of the aggregate receipts effects of independent taxation given in the FSBR.

3. Estimates in the tables are given to the nearest 10,000 taxpayers or £10 tax. Totals may not be the sum of component parts due to rounding and a dash is used to denote less than 5,000 taxpayers. Some cells have been aggregated to provide estimates.

TABLE 1

WIVES WITH REDUCTIONS IN TAX LIABILITY
AND AVERAGE REDUCTIONS BY WIFE'S INCOME

	Non-aged		Aged		All	
Wife's Income	Number	Average reduction	Number	Average reduction	Number	Average reduction
£000	000	£	000	£	000	£
0- 5	450	130	730	270	1,180	220
5-10	150	360	110	400	260	380
10-15	70	340	30	780	90	460
15-20	30	370	10	1,870	40	670
20-25	10	500	-	2,200	20	770
25-30	-	2,000	-	2,800	-	2,550
30+	-	2,000	-	3,000	10	2,500
All	720	230	880	340	1,610	290

TABLE 2

HUSBANDS WITH REDUCTIONS IN TAX LIABILITY
AND AVERAGE REDUCTIONS BY HUSBAND'S INCOME

	Non-aged		Aged		All	
Husband's income	Number	Average reduction	Number	Average reduction	Number	Average reduction
£000	000	£	000	£	000	£
0- 5	-	-	-	-	-	-
5-10	-	-	20	190	30	190
10-15	-	400	90	160	90	170
15-20	30	400	)	)	30	400
20-25	110	400	)	)	110	400
25-30	90	490	20)	570)	90	500
30+	140	630	)	)	140	630
All	370	510	130	210	500	430

TABLE 3

INDIVIDUAL TAXPAYERS WITH REDUCTIONS IN TAX LIABILITY
AND AVERAGE REDUCTIONS BY INDIVIDUAL'S INCOME

	Non-aged		Aged		All	
Gross Income	Number	Average reduction	Number	Average reduction	Number	Average reduction
£000	000	£	000	£	000	£
0-5	450	130	730	270	1180	220
5-10	150	360	140	360	290	360
10-15	70	340	110	300	180	310
15-20	70	380	10	1670	80	550
20-25	120	410	10	1140	130	450
25-30	90	540	-	1930	100	590
30+	140	660	10	1400	150	710
All	1090	320	1010	320	2100	320

4370/41

BUDGET CONFIDENTIAL

PWP

MR L E JAUNDOO -IR

FROM: MISS S J FEEST
DATE: 7 March 1988

cc PS/Chancellor
PS/Paymaster General
PS/Economic Secretary
PS/Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Tyrie

BUDGET DAY PRESS RELEASE - INHERITANCE TAX

The Financial Secretary was grateful for your minute of 7 March 1988 and approves the revised draft therein.

Susan Feest

SUSAN FEEST
Assistant Private Secretary

BD/42

BUDGET CONFIDENTIAL

pmp

cc PS/Chancellor
Miss Sinclair - FP
Mr R I G Allen - IDT
Mr Hurst - GEP2
Miss C Evans - FP

Treasury Chambers, Parliament Street, SW1P 3AG

01-270 4520

G R Russell, Esq
Deliverer of the Vote
House of Commons
LONDON
SW1

7th March 1988

Dear Roy,

BUDGET PUBLICATIONS : TUESDAY 15 MARCH 1988

As usual, I am writing to seek your co-operation in dealing with the Budget Publications and their release to Members.

2. The following documents will be published on Budget Day Tuesday 15 March 1988. Copies will be deposited with you at the Vote Office (marked with the appropriate embargo) during the course of the day and I should be grateful if you would **release** them **when (but not before) the Chancellor sits down at the conclusion of his Budget Statement.**

1.	Budget Resolutions	To be delivered under seal at 3.30pm.
2.	Financial Statement and Budget Report (Red Book)	To be delivered by HMSO under seal by 3.30pm.
3.	Budget Snapshot, associated Departmental Press Notices and the 'Budget in Brief' (previously the EPR supplement)	1000 collated sets to be delivered by my office between 3.00 and 3.30pm. We expect around 50 associated Press Notices, but I will confirm this nearer the time
4.	Chief Secretary's Summary and Guide to the Estimates	To be delivered by HMSO under seal by 3.30pm.

3. I am copying this letter to Andrew Makower, Clerk of Printed Papers, House of Lords, who should receive copies of all these documents (circa 150) except the Budget Resolutions, and I should be grateful if he would institute similar arrangements for their release.

Yours ever,

Brian

B O DYER
Parliamentary Clerk

BUDGET: CONFIDENTIAL

FINANCIAL SECRETARY TO THE TREASURY

FROM: MISS S J FEEST
DATE: 7 March 1988

G A A ELMER IR

cc PS/Chancellor
PS/Paymaster General
Miss Sinclair
Mr McGivern IR
PS/IR

FINANCE BILL 1988: CAPITAL ALLOWANCES

The Financial Secretary was grateful for your minute of 4 March 1988 and approves the press release therein.

Susan Feest

SUSAN FEEST
(Assistant Private Secretary)

BUDGET CONFIDENTIAL

PAYMASTER GENERAL

FROM: ROSIE CHADWICK
DATE: 7 March 1988

MR C GORDON - INLAND REVENUE

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Scholar
Mr Culpin
Miss Sinclair
Mr R I G Allen
Mr Michie
Mr Riley
Mrs Burnhams
Mr Hudson
Mr Cropper
Mr Tyrie
PS/Inland Revenue
Mr Pitts - IR

CAPITAL GAINS TAX BS 265: RETIREMENT RELIEF
BUDGET DAY PRESS RELEASE

The Paymaster General has seen the revised draft of this press release, with which he understands the Chancellor and the Financial Secretary are content. He too is broadly content, but suggests the following minor amendments:

i. insert commas after "This relief" in paragraph 1, line 2, after "retirement" in paragraph 1, line 4, and after "company" in paragraph 1, line 4 of the Notes for Editors.

ii. replace "small businessmen" in paragraph 3, line 3 with "owners of small businesses", and "individual who has been running his business" with "individuals who have been running their businesses," and so on.

iii. he wonders whether one of the examples could be a woman, and

iv. he would value your opinion on the merits of using:

	£
Top of "50% relief band" 500,000 x 60%	300 000

rather than the Width of "50% relief band" at present. *

REC.

ROSIE CHADWICK
Assistant Private Secretary

* Mr. Walker has just spoken to me about this. I gather that iv. is not correct.

BUDGET CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House

FROM: C GORDON
EXT: 6739
DATE: 7 MARCH 1988

PS/PAYMASTER GENERAL

CAPITAL GAINS TAX BS 265 : RETIREMENT RELIEF
BUDGET DAY PRESS RELEASE

I would be grateful if you and other copy recipients could please note - if you have not already done so - that my minute of 4 March to the Paymaster General covering our draft Press Release should have been classified "Budget Confidential" and that copies should be amended and dealt with accordingly.

C GORDON

---

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Scholar
Mr Culpin
Miss Sinclair
Mr R I G Allen
Mr Michie
Mr Riley
Mr Burnhams
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Isaac
Mr Pitts
Mr Beighton
Mr Cayley
Mr Hamilton
Mr Mace
Mr McManus
Mr Walker
Mr Willmer
Mr Michael
Mr Lester
PS/IR

BUDGET CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House

FROM: L E JAUNDOO
DATE: 7 MARCH 1988

1. MR ISAAC 7.3
2. FINANCIAL SECRETARY

BUDGET DAY PRESS RELEASE - INHERITANCE TAX

1. I attach a revised draft press release covering all the Inheritance Tax changes.

2. With one exception, the revised draft is identical to the earlier draft attached to Mr Walker's note of 25 February to the Principal Private Secretary. The only modification relates to the treatment of the political parties exemption. In order to reflect the Chancellor's comments (passed to us by telephone this morning), a new paragraph 4 explaining the background to the change has been added under the "Notes For Editors" section.

3. I would be grateful for the Financial Secretary's approval of the revised draft press release.

L E JAUNDOO

---

cc PS/Chancellor
PS/Paymaster General
PS/Economic Secretary
PS/Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Tyrie

Chairman
Mr Isaac
Mr Pitts
Mr Beighton
Mr Calder
Mr Jaundoo
Mr Walker
Mr Willmer
Mrs Evans
PS/IR

BUDGET CONFIDENTIAL

REVISED DRAFT

INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3X] 15 March 1988

INHERITANCE TAX

The Chancellor proposes in his Budget

- to **raise** the **threshold** for inheritance tax from **£90,000** to **£110,000**
- to **simplify** the **rate structure** by replacing the present **4** rates of tax with a **single rate** of **40** per cent
- to **abolish** the **£100,000 exemption limit** on gifts to political parties.

These changes are to apply to **transfers** on and after **15 March 1988.**

DETAILS OF CHANGES

Threshold and Rates of Tax

1. The proposed scale and the existing scale are shown in the table below:

Existing scale Range (£000s) to which tax applies	Rate of tax per cent	Proposed scale Range (£000s) to which tax applies
0 - 90	NIL	0 - 110
over 90 - 140	30	-
over 140 - 220	40	Above 110
over 220 - 330	50	-
Above 330	60	-

2. Under the requirement for statutory indexation, the threshold and bands would have been increased by 3.7 per cent - the increase in the RPI for the year to December 1987 - thereby making Inheritance Tax payable on transfers above £94,000. The changes in the proposed scale are more generous.

3. The estimated .../

3. The estimated additional cost of the proposed scale, compared with statutory indexation only, is £100 million for 1988-89, and for 1989-90, £200 million.

Gifts to political parties

4. The Chancellor proposes to abolish the £100,000 exemption limit on transfers to political parties made on or within one year of death. This means that on and after 15 March 1988, all gifts to qualifying political parties will normally be exempt from Inheritance Tax.

The estimated cost of the change is negligible.

NOTES FOR EDITORS

Threshold and rates of tax

1. The IHT rate scales rise in line with the RPI increase for the year to the previous December unless Parliament decides otherwise. An increase in line with the RPI (3.7 per cent) would take the threshold from £90,000 to £94,000. However, the Chancellor proposes a six-fold increase to the RPI factor, which raises the threshold from £90,000 to £110,000.

2. This will reduce the number of estates that would have paid IHT from [27,000 to 20,000] - a reduction of over [25] per cent. In addition to removing 7,000 estates out of tax altogether, the revised scale gives valuable reductions to all estates above the threshold.

Gifts to political parties

3. At present most outright transfers of any amount to qualifying political parties are exempt if made one year or more before the donor's death. However, where the total of the gifts to qualifying political parties on or within one year of death exceeds £100,000, only £100,000 is exempt. This latter limit is to be abolished. A political party is eligible for the exemption if, at the last general election before the gift, two members were elected to the House of Commons or one member was so elected and at least 150,000 votes were given to candidates who were members of the party.

4. The change will restore the equality of treatment between charities and political parties. From 1894 to 1972 political parties enjoyed the same status as charities for Estate Duty. Gifts made one year or more before death were exempt, but gifts within a year of death were taxable. When capital transfer tax was introduced in 1975, charities and political parties were given the same exemption limit of £100,000 for gifts within a year of death. Thereafter, the exemption limit for charities was raised progressively and finally abolished in 1983, while the limit for political parties remained at its 1975 level. This anomaly will now be removed.

BUDGET CONFIDENTIAL

PWP

FROM: ROSIE CHADWICK
DATE: 7 March 1988

MR J H REED - INLAND REVENUE

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Sir Peter Middleton
Sir Geoffrey Littler
Mr Scholar
Mr Culpin
Mr Pickford
Mr R I G Allen
Miss Sinclair
Mr Riley
Mr Michie
Miss Hay
Miss Evans
Mr Betenson
Mr Cropper
Mr Tyrie
Mr Call
PS/Inland Revenue
Mr McGivern - IR

BUDGET PRESENTATION - PRIVATE RENTED HOUSING

The Paymaster General was grateful for your minute of 4 March. He would like the responses referred to in paragraph 12 to be added to the Budget Brief.

REC

ROSIE CHADWICK
Assistant Private Secretary

BUDGET CONFIDENTIAL

PMP

FROM: J M G TAYLOR
DATE: 7 March 1988

MR RILEY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Sir A Wilson
Mr Byatt
Mr Monck
Mr Scholar
Mr Culpin
Mr Odling-Smee
Mr Sedgwick
Miss Sinclair
Mr Bredenkamp
Mr Courtney
Miss C Evans
Mr Hughes
Mr Munro
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Lewis - IR
Mr I Stewart - IR
Mr Unwin - C&E
Mr Knox - C&E

CARS AND HOUSES: BEHAVIOURAL EFFECTS

The Chancellor was grateful for your minute of 4 March.

J M G TAYLOR

FROM: MISS M P WALLACE
DATE: 14 March 1988

MR T J BURR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Scholar
Mr Culpin
Mr Isaac - IR
Mr Corlett - IR
Mr Stewart - IR
PS/IR

STUDENTS AND COVENANTS: PRESS NOTICES

This is just to confirm that the Chancellor was content with the Press Notices submitted with your minute of 11 March, although he asked that the last sentence of paragraph 3 of the DES Notice, and the corresponding sentences in the SED version, should be redrafted in a more user-friendly style. We discussed this and concluded that the best we could come up with was:

> "Where students would previously have received any mandatory maintenance grant under the existing scale, the contribution reduction will be X per cent."

MPW.

MOIRA WALLACE

BUDGET PRESENTATION: BRIEFING QUESTIONS

CHIEF SECRETARY

Cars and other perks

1. Why are you reneging on 1988-89 car scales announced last year?
2. Exactly how will the changes be made - will people feel the effect at the same time as the income tax cuts? How many losers?
3. Why not go all the way and tax cars fully?
4. Won't the package cripple the car industry?
5. Why tax luncheon vouchers but not canteens?
6. Why increase P11D threshold only to freeze it - why not index it or abolish altogether?
7. If you're going to tax cars fully why are some perks still exempt from tax?

MIR: Home Improvement Loans

1. Won't abolition of relief on home improvement loans lead to sharp fall in restoration of derelict housing stock? How is this consistent with your housing policy?
2. Won't many people get round this by taking out loans before 6 April? Why not make change effective from Budget Day?
3. What do you have to do before 6 April to qualify for relief under existing rules? How will Building Societies know? Is there a MIRAS complication?
4. Isn't this an attack on the poor and first time buyers who buy inferior housing stock?
5. How will landlords be affected?

Forestry

1. What does exemption mean - why not keep forestry within tax system without special reliefs?
2. How do you justify the fact that the net effect of the tax and spending measures is more support for forestry? Why give any Exchequer subsidy to forestry?
3. Won't forestry still be an attractive tax shelter?
4. How will the change affect the balance of conifers and broad leaved trees?

5. Will the change crack down on beneficiaries of the existing regime?

Maintenance and Covenants

1. Won't deserted unmarried mothers get lower maintenance awards if fathers lose tax relief? Why no compensation?
2. Why are you discriminating against unmarried fathers?
3. If payments tax free why should payer get any relief?
4. What will be the tax position of a maintenance settlement that is re-opened?
5. If maintenance payments are going to be tax free to future recipients, why are you taxing existing recipients?
6. Can a man with two ex-wives get double tax relief on maintenance payments?
7. If Budget about revenue not expenditure, why are there spending measures on students and forestry?
8. If this is a simplification why does the Exchequer gain?
9. For how long will two-tier student grant system run?
10. How will the change affect:
    - (a) student already on course whose parent was planning to covenant?
    - (b) parent who pays full contribution, but student gets no grant?
    - (c) student currently benefitting from covenant but not on approved course?
    - (d) parents covenanting/planning to covenant sums above mandatory grant level?
11. Why spend money to compensate students but not to help lone parents?
12. Has Government always seen relief for covenants as integral part of student support? Then why penalise existing students without covenants - they won't benefit from grant improvements?
13. Should we take credit for the fact that high earners lose on maintenance and covenants?

Minor Allowances: MIR/CGT Relief for Dependent Relatives

1. How many losers - who are they? Why no compensation?
2. Why are you penalising dependent relatives by removing minor allowances, as well as MIR and CGT relief on property bought for dependent relative/divorced/separated spouses?

Top Slicing

1. What is it, what is wrong with it?
2. Surely steep jump from 25p to 40p - steeper than in 1979 - means case for top-slicing remains?
3. What about the other top-slicing reliefs? Why not abolish them, particularly life assurance top-slicing?

FINANCIAL SECRETARY

Income Tax

1. Why keep a higher rate at all?
2. To what extent will cuts in higher rates pay for themselves and over what period?
3. Why not restrict allowances to basic rate to balance cuts in higher rates?
4. Why no upper limit on pension contributions?
5. Is not 25 per cent to 40 per cent a large jump. (15 percentage points compared with 7 percentage points in 1978-79.) If you go down to 20 per cent, it will be larger still, does this matter?
6. Why are you tolerating such a big shift between progressive IT and regressive NICs?
7. Why have we still got such an odd schedule of marginal rates?
8. Why no relief for private health care?

Independent Taxation

1. Why keep married man's allowance (renamed) when everyone agrees it should go?
2. Will the MCA be kept at half the single allowance?

3. Why aren't you even phasing it out for those on higher incomes who had previously opted to give it up?
4. Why not doing anything for the one-earner couples you wanted to help?
5. Why not introduce partially transferable allowances?
6. Why only one CGT residence exemption per couple?
7. How many people will be affected by new APA rules? Why no compensation?
8. Why have you dropped idea of converting APA into benefit? Will it take Revenue snoopers to police new rules?
9. How do you justify massive revenue and staff cost of a measure which does so little and affects so few?

Lloyd's

1. Why not meet Lloyd's proposals on the Special Reserve Fund?
2. Is the concession on early leavers a further handout to Lloyd's?

PAYMASTER GENERAL

Corporation Tax

1. Why no cut in CT rate when revenues highest ever in real terms?
2. Aren't taxes on business paying for personal tax cuts?
3. Why nothing to redress CT bias against investment?

BES

1. Why do you need a ceiling? How will it work?
2. Do we say the BES measures will be revenue neutral - what does this assume about success of measure?
3. Why [no] special treatment for shipping?
4. Will this ceiling hamper business start-ups?

Private Rented Sector

1. Why subsidise both renting and home ownership?
2. Why are you using it for private rented sector when previously bricks-and-mortar investments had been excluded?

3. Will the private rented sector schemes crowd out other BES schemes?
4. What is the evidence that the scheme will help labour mobility?
5. What is to stop the scheme being used for expensive Mayfair flats or rich exploiting landlords?
6. Why have a higher limit for housing?
7. What will this do for homeless?
8. Why this contrived measure rather than straightforward grants?
9. Cost effective? How many houses - cost per house?
10. Does this show deregulation/market solution won't work without subsidy?

Business Entertainment

1. Won't the loss of relief inhibit export effort?
2. Why different start date for the VAT and CT measures?

Section 482

1. Why make such a major change without consultation?
2. Why not wait for the European Court's decision - won't the proposal prejudice the outcome?
3. Won't the new rules stop companies incorporating in the UK?
4. Will UK incorporated companies now be subject to a two tier capital gains charge - on shareholders and on the company - because they have to liquidate in order to migrate?

ESOPs

1. Why not meet representations calling for exclusion of management buyouts from the avoidance provisions?
2. Why apply the new provisions to shares acquired before changes were announced - is this not retrospective?

CGT Retirement Relief

1. Isn't the increase much too generous? What evidence that present ceiling deters enterprise?
2. Why not extend retirement relief to landlords?

Mortgage Interest Relief: Residence Basis

1. Aren't you breaking manifesto pledge?
2. Won't buying a flat now be impossible for many in S E England who would otherwise have shared? Doesn't this run counter to your policy of improving labour mobility?
3. What does one have to do by 6 April/1 August to qualify for tax relief on home improvement loan/shared mortgage?
4. Why different dates for abolishing relief on home improvement loans and introduction of residence basis?
5. How will relief be shared within couples or between sharers?
6. Why not increase ceiling to help first time buyers?

Importers' Details

1. What do companies think - can they opt out? IBM claim that disclosure of importers' details could increase their UK costs and disclose information of strategic importance to competitors.

ECONOMIC SECRETARY

Excise Duties

1. Will concession for unleaded petrol eventually be removed (as in Germany) and, if so, why should people switch?
2. Why no increase in duty on spirits?
3. Why not higher increases in alcohol/tobacco duties on health grounds?
4. Why no extension of duty deferment period?
5. VED frozen for all time?
6. Why not abolish VED and raise fuel duties?
7. Why charge less VED on coaches than on cars?
8. Why no action to help UK commercial operators who pay the highest motoring taxes in EC?
9. Why not abolish car tax?

Keith etc

1. Why not extend legal professional privilege as recommended by Keith?
2. Why such slow progress in implementing Keith?
3. 'Unnamed taxpayer' provisions - a snoopers' Charter designed to allow Revenue fishing expeditions?

Capital Gains Tax

1. What about 1986 commitment not to change taxation of savings without Green Paper?
2. Is rebasing a hand out to the rich?
3. Why exempt real gains before 1982?
4. Aren't you going to create turmoil in markets before 6 April - why not make changes from Budget Day?
5. Why not abolish CGT altogether? Failing that why not distinguish between short-term and long-term gains?
6. If capital gains are like income why index one but not the other?
7. And why keep the £6,600 exemption? Is it frozen for all time?
8. If capital gains to be taxed at income tax rates, why not abolish CGT?
9. Why raise CGT rate for some, causing them to lock-in to existing investments?
10. If capital gains are like income, why can't losses be charged against ordinary income?
11. Why keep indexation if inflation to decline and eg stock relief abolished?
12. What have you assumed about forestalling before 6 April and before introduction of independent taxation in 1990?
13. If increasing effective CGT rate, why not permit wider rollover reliefs for eg shares?
14. Why not have a flat rate withholding tax on savings?
15. Does alignment of rates mean that you no longer need low coupon gilts?
16. Isn't this the third time you've said capital taxes are on sustainable basis?
17. Why no tougher policing of CGT - how many gains go unassessed?

Building Societies

1. Why give generous CGT concession?

Inheritance Tax

1. Can we expect the burden of inheritance tax to be cut every year?
2. Why cut IHT when revenue could be more effectively used to stimulate incentives/enterprise by cutting income tax?
3. Is the idea now to keep the IHT rate in line with the top income tax rate?
4. Allowing for business relief, inheritance tax is only [20 per cent] where a business is passed on. How does this compare with other countries' rates, allowing for their consanguinity rules?
5. Why should main benefit of IHT changes go to biggest estates?
6. Your main concern in lightening the burden of IHT seems to be to avoid taxing estates in which the principal asset is the family home. How do you justify the fact that house purchase gets tax relief, rates are about to be abolished, house disposal is free of CGT and now, it seems, of IHT?
7. Will the burden be lower for all than Healey revalorised?

Oil

1. The Southern Basin restructuring will hit existing post 1982 fields reducing profitability in some cases - why rob Peter to pay Paul?
2. Fields developed in expectation of current regime now hit retrospectively?
3. Why no help for incremental investment important for optimal exploitation of UK continental shelf?

General

1. How does the Budget affect total tax expenditures?
2. What proportion of cost of Budget is going to higher rate taxpayers? How is it justified when their incomes are already rising most rapidly?
3. What evidence is there that massive cuts in top tax rates will boost incentives?
4. Aren't the incentive effects of tax cuts most powerful at the lower end of the income distribution? Burden higher than 78-79?
5. Why does it take the Revenue so long to collect the revenue from capital gains tax and higher rates of income tax? How do you defend it?
6. Are the start dates for all these reforms consistent and defensible?

Other

1. Why no increase in stamp duty threshold?
2. Why no spending measures on health?
3. Why no VAT measures to anticipate/pre-empt EC judgements?
4. Why nothing to bolster flagging enthusiasm for PEPs?
5. Does negligible cost of increase in payroll giving threshold imply low take up?
6. Why not change tax treatment of disaster funds?
7. Are the new Customs' search powers an infringement of women's rights?
8. When are you going to act on the life assurance review?

NICs

1. Why have you missed golden opportunity to abolish UEL?
2. Why not integrate income tax and NICs entirely?
3. Why no action to reduce adverse effect on incentives/employment of NIC steps?

BUDGET SECRET
BUDGET LIST ONLY

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MAIN TAX BRIEF: SKELETON

1. <u>GENERAL RATIONALE</u>

- <u>Tax cuts</u> go hand in hand with <u>successful economy</u>. Previous reforms have contributed to underlying strength of economy now, giving unparalleled opportunity for reform. Tax reform in this Budget will further strengthen economy.

- <u>Corporate</u> taxes radically reformed. Results clearly show benefits of new structure.

- So this Budget concentrates on reforming <u>income</u> tax and <u>capital</u> taxes.

<u>Themes and objectives:</u>

- Reducing <u>burden</u> of tax encourages economic efficiency and improves incentives.

  : income tax basic rate cut to 25 per cent and allowances raised;
  : all higher rates above 40 per cent abolished;

  Reforms mean no tax rate (except PRT) above 40 per cent.

- Aim to make system <u>fairer</u>, in particular fair treatment for women.

  : independent taxation
  : separate CGT exemption for wives

- <u>Simplifying</u> tax system benefits taxpayer.

  : inheritance tax rates cut from 4 to 1;
  : maintenance and covenants.

<u>Defensive</u>

- Why all changes benefit rich? (And other questions on distribution).

- Why overall burden of taxation/NICs not cut more?

- How is system simpler when [ ] more staff needed?

- Wasted opportunity for more radical reform?

- Why no tax measures for NHS? (eg private insurance relief, health stamp)?

2. **INDEPENDENT TAXATION AND MARRIAGE** (FST)

Main measures:

- Independent taxation for husband and wife of all income (including investment income, capital gains).

- Married couple's allowance.

- Individual CGT exemptions for husband and wife.

- Mortgage relief restricted to residence.

Rationale:

- Present tax system, dating from 1805, out-moded - not consistent with facts of life at end of twentieth century. Also imposes penalties on marriage.

- Reforms give real privacy and independence to women.

- New system recognises marriage through married couples allowance.

- Reforms all in place by 1990.

- Removes tax penalties on marriage - restricting mortgage relief to residence; one APA for unmarried couples.

Defensives:

- Why not go to transferable allowances?

- Why no half-way house?

- Why benefit rich by reducing marginal rates on investment income and giving MCA to people who previously opted for independent assessment?

- Why not use money to improve child benefits?

- Why no help for one earner couples?

- What about manifesto pledge on mortgage relief?

- Why hurt single parent families by restricting APA?

- Won't changes require IR to snoop on couples?

3. **INCOME TAX** (FST/CST)

Main measures:

- only two rates of tax, 25p and 40p.

- Main allowances double indexed.

- Unjustified "perks" tackled: forestry, car benefits, mortgage relief for home improvements, top slicing relief, [directors' dining rooms].

- Simplifications to system of maintenance and covenants.

[- Improved adminstration of tax system: Keith, including unnamed persons.]

Rationale:

- Cutting marginal rates boosts incentives and enterprise; makes tax system more neutral by reducing value of allowances.

- Raising allowances takes X million out of tax.

- Getting rid of unjustified "perks" makes system fairer for all taxpayers, and helps finance lower marginal rates.

- System greatly simplified by slashing number of higher tax rates from 5 to 1, and changing treatment of maintenance and covenants.

Defensive:

- Only the rich benefit?

- Why not end mortgage relief altogether, or restrict to basic rate?
- Why no assault on pensions?
- Maintenance and covenants only reformed to increase tax take?
- Ending home loan improvement relief inconsistent with energy conservation?
- Onslaught on motorist/effect on British car industry?
- Why continue to subsidise forestry at all?

4. **CAPITAL TAXES** (EST)

Main measures:

- CGT: abolished on all gains before 1982.

  : Aligned with income tax.

  : Retirement relief increased.

- Inheritance tax exemption limit increased to £107,000 and single rate of tax at 40 per cent.

Rationale:

- Clearly unfair to tax paper gains. Now not taxed at all.
- Taxing gains in the same way as income makes tax system more neutral - taxpayers' behaviour will no longer be dominated by vagaries of tax system.
- Extending retirement relief gives more help for small businesses.
- Reform of inheritance tax reduces burden on small estates, including small family businesses, and achieves massive simplification of system.

Defensives:

- More help for the rich: rebasing completely frees them from CGT, inheritance tax changes increase wealth inequality.

- Unfair on taxpayers to change CGT regime without warning?

- Why no Green Paper as promised?

- Why not make IHT into true inheritance tax?

5. **SPENDING TAXES** (EST)

Main measures:

- No change to VAT rate.

- Duties generally revalorised, but restructuring in favour of low alcohol drinks, pipe tobacco.

- Wider differential for unleaded petrol.

Rationale:

- Changes to alcoholic drinks regime aimed at curbing alcohol abuse.

[- Additional health benefits from switch in tobacco regime.]

- Environment helped by differential in favour of unleaded petrol and extra VED on large lorries.

- Shift from VED to petrol taxes road users more effectively.

Defensives:

- Why no increase in duties on spirits, fortified wines?

- Why not tax tobacco more heavily?

- VAT coverage being widened by backdoor (infraction proceedings, tax approximation).

6. BUSINESS TAXES

(PMG)

Main measures:

- Corporation tax rate unchanged.
- North Sea royalties abolished (southern basin relief).
- Some tidying up: building societies incorporation, Lloyd's.
- Supply side measures: disclosure of importers' details, employee share schemes, private renting.
- Removing anomalies (business entertainment) and blocking potential abuse (section 482).
- More help for small businesses: BES, VAT threshold raised.

Rationale:

- No change to main corporation tax regime. Stability important for companies. Corporation tax already lowest in [world]. Worth of 1984 reforms proved by business thriving.
- Useful minor simplifications.
- Extra supply side measures which encourage enterprise.
- Bring companies' residence into line with other countries, but at the same time must protect tax revenue from abuse (section 482).

[- Oil.]

Defensives:

- Why no important measures for companies?
- Tax burden on companies too high?
- No encouragement for enterprise? (Why restrict BES?)
- Charter for property speculators?
- Why no more supply side measures?

CARS: BEHAVIOURAL EFFECTS AND IMPLICATIONS FOR REVENUE

Introduction

This paper assesses the likely behavioural responses to the proposed doubling of the car scales in 1988-89. It follows up the work reported by Mr Monck in his minute of 28 January, and examines the likely effect on the demand for cars, the implications for pay, and the overall effect on revenues.

The present position

2. The Revenue estimate that in the absence of any behavioural changes, there would be roughly 1.2 million company cars provided in 1988-89 for the private use of directors and employees above the proposed £10,000 P11D threshold. Before assessing the likely effects of increasing the car scales, it is as well to discuss briefly the incentive which presently exists for employees to take remuneration in the form of company cars rather than pay, and what this implies for take-up.

3. There is at present a strong fiscal incentive to provide company cars rather than pay of the same value because:

- neither employer nor employee NICs are payable on cars;
- income tax is applied to less than the (estimated) full value of the car.

Given these incentives, it makes sense to have a company car rather than equivalent pay even if the employee's valuation of the car is less than 100% of the gross cost of providing it. As long as the employee's valuation exceeds 65-75% of the cost, depending on his tax status, it is generally worth having a car rather than pay given the present car scales. Further details are set out in Table 1 below.

Table 1: Valuation of company cars, as a percent of gross cost, above which it is worthwhile to have a car rather than pay

	Non-perk Cars (90%)		Perk Cars** (10%)	
	Present Scales*	Proposed Scales	Present Scales*	Proposed Scales
Basic rate taxpayer				
below UEL	66	72	70	78
above UEL	74	80	78	86
Higher rate taxpayer	65	74	70	83

* The figures for "present scales" relate to the position in 1988-89 assuming post-budget tax rates and only a 10% increase in scale charges.

** "Perk cars" are those company cars used for less than 2500 business miles per year, or second company cars.

4. The figures in the table take no formal account of the value which employers attach to their employees having a company car. Insofar as they do attach a value to it, and are thus prepared to spend more on providing a car than paying cash, the valuation threshold for the employee would be reduced. In a sense, therefore, the figures in the table should be taken to refer to the <u>joint</u> valuation of the car by employers and employees.

Increasing the car scales

5. The proposed doubling of the car scales in 1988-89 will raise the valuation thresholds, as indicated in Table 1. For non-perk cars the threshold will rise by 6-9 percentage points; the increase in scale charges is equivalent to roughly a quarter of the employee's marginal tax rate. This means that in some cases it will no longer be worthwhile for the employee to have a company car rather than pay. However many employers may not be willing to allow their employees to take cash instead of a car if the latter is required for business use.

6. The impact of increasing the car scales will be felt in the first instance by employees. There is no direct incentive on employers to change the way in which they remunerate their

employees, because their tax liability is unaffected. But employees have an incentive to urge changes on their employers, because they do face additional tax liability.

7. In essence there are three main options for the employee:

(i) keep the company car and absorb the higher tax liability;

(ii) keep the company car, but obtain extra pay or allowances from the employer to finance at least part of the extra tax liability;

(iii) cash out the company car to obtain higher pay.

8. The extent of <u>cashing out</u> will depend on the proportion of those with company cars whose valuation of them lies above the present threshold (see table 1) but below the threshold under the proposed new scales - ie between 66% and 72% of the gross cost of the car for basic rate taxpayers below the UEL. It is difficult to judge what this proportion might be. But on the assumption that most employees value their cars at close to or even above 100% of the cost, we would expect the proportion to be quite low - perhaps around 10%.*

9. On this basis, the number of company cars for private use might be reduced by around 100 thousand, out of the present total of 1.2 million. (This is somewhat below the estimate put forward in Mr Monck's note.) There would be a compensating increase in pay and allowances which is taken into account in the revenue calculations given below.

10. For those who keep their company cars, the issue is how much <u>compensation</u> for the extra tax companies will be prepared to provide. The Treasury macroeconomists generally assume that companies compensate employees for about half of any rise in income

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* If the valuations were spread evenly between the old threshold (66%) and 100%, the rise in car scales would reduce the number of company cars by (72-66) ÷ (100-66) - ie by 17½%. But with some valuations likely to be higher than 100%, taking the employee and the company together, the percentage would be lower than this.

tax, but we would expect somewhat higher compensation in this case for two reasons:

- companies can finance some of the increase in pay by giving employees cheaper cars - ie trading down;

- employers may be willing to take on a greater share of the extra burden because of the benefit they themselves get from company cars.

Our tentative view is therefore that about threequarters of the extra tax payments will ultimately be compensated by higher cash payments.

11. The increase in car scales will provide both employers and employees with an incentive to <u>trade down</u>. For employers the incentive arises because their employees will be seeking higher pay or allowances. Companies can finance some of the extra pay by buying a less expensive car, even though this may not involve any change in the employee's tax liability. Employees have an incentive to trade down <u>only</u> insofar as they can obtain a car with a lower scale charge.

12. We have very little to go on in assessing the extent of trading down. Attempts to model this depend crucially on how the employee's valuation varies with the size of car. We have assumed fairly arbitrarily that about a half of those who retain company cars trade down to some extent, perhaps by about 10% in value terms. Employees who obtain no cash compensation from their employers are likely to trade down more than the average in order to move to a lower scale.

13. The overall effect on the <u>demand for cars</u> will reflect three separate influences:

- the reduction in company cars as a result of cashing out;

- an offsetting increase in pool and hire cars for use by company employees;

- an increase in demand for private cars by those who have cashed out.

In addition, the average purchase price will be reduced as a result of trading down. Our assessment of the scale of these effects is extremely tentative.

14. It seems unlikely that the increase in pool and hire cars will be a very high proportion of the reduction in company cars due to cashing out; cashing out will affect those cars which are least highly valued by employees and employers. The offset might perhaps be of the order of 25%. The same argument applies to the increase in demand for private cars; again we think that 25% is a plausible figure. So in total we would expect no more than a half of the reduction in company cars to be reflected in increased company and private demand. This suggests a net reduction in car demand of about 50,000.

15. Changes in the value of car sales will reflect both the change in numbers and the degree of trading down. If trading down proceeds as we have suggested in paragraph 12, the average price of company cars is likely to be about 5% lower under the proposed 1988-89 scales than it otherwise would have been - say £9,500 compared with £10,000. The additional private and company demand will also be at a lower price. The overall effect on the value of car sales might be as follows:

	£million
reduction in company cars	-1,000
increase in private and company demand	+ 500
reduction in value of existing company cars	- 600
Total	-1,100

16. These figures for car demand all relate to the stock of cars. Adjustment will be spread over a number of years - we have assumed three, given the average frequency with which company cars are replaced - so the effect on car sales in any one year will be rather less. Even after the adjustment period is complete, however, car sales will remain lower because a lower car stock implies lower annual turnover. Our estimates are summarised in Table 2 below.

Table 2: Effects on Car Sales

	1988-89	1989-90	1990-91	Later Years
thousands	- 15	- 20	- 15	- 10
£million	- 350	- 450	- 400	- 300
% of current value	2.2	2.6	2.2	1.7

Implications for revenue

17. These behavioural responses will lead to indirect effects on revenue which are not currently allowed for in the scorecard. The scale of these effects will depend on the way in which employers choose to compensate their employees - eg whether by increased pay or by an annual allowance which would largely avoid employee NICs. We have assumed some combination of the two. The overall effects are set out in Table 3 below.

Table 3: Effects on Revenue

£million	1988-89	1989-90	1990-91	1991-92
Direct effect (no behavioural change)	+ 230	+ 280	+ 290	+ 290
Indirect effects of which:	+ 35	+ 50	+ 95	+ 70
Income Tax	+ 35	+ 60	+ 85	+ 90
Employee NICs	+ 10	+ 20	+ 35	+ 35
Employer NICs	+ 20	+ 35	+ 55	+ 55
Corporation Tax	-	- 20	- 35	- 60
Indirect Taxes	- 30	- 45	- 45	- 50
Total revenue effect	**+ 265**	**+ 330**	**+ 385**	**+ 360**
Memo items:				
Increase in pay/allowances	+ 200	+ 425	+ 675	+ 700
Net effect on company expenditure (including taxes/NICs)	+ 25	+ 50	+ 100	+ 125

18. It can be seen from the table that the behavioural responses add to the gain in revenue which occurs directly as a result of the increase in car scales. It is worth commenting on this result since we would usually argue that behavioural responses tend to reduce tax payments rather than increase them. The rationale is as follows:

- raising the car scales reduces the incentive to exploit the tax/NIC loophole;
- employees substitute pay and allowances for company cars, which raises revenue because some tax/NIC advantage for cars still remains;
- because the employees who give up their cars value them at less than 100% of the gross cost, they can be better off at the same time as paying extra tax/NIC.

19. Our estimates imply that the indirect revenue effects are likely to be quite large in relation to the direct effects, rising to about a third - nearly £100 million - in 1990-91. But they are very uncertain. And we do not discuss here the appropriate treatment in the FSBR.

Effects on the UK car industry

20. Since UK badges dominate company car sales (87% in 1986), the brunt of the 75,000 net reduction in company car purchases is likely to fall on manufacturers with UK facilities. However the impact on UK production will depend upon the sourcing decisions of these manufacturers and, fundamentally, on the cost and quality performance of their UK plants. Using 1987 estimates of the UK-produced proportion of UK-badged company cars suggests that about 50,000 of the net reduction in company car sales would be at the expense of UK production (currently around 1 million units).

21. But this downward effect on UK production is likely to be offset partially by the effects of trading down and extra private car purchases. Private car purchases are mainly for foreign badged cars (about 70%) but UK-badges dominate the lower price

bracket of UK domestic sales. The scale of the overall offset could therefore be quite large. Given our assumption that the effects will be spread over three years, the net effect on UK production might therefore be only around 1%.

22. Little concrete can be said about the impact of the proposed changes on particular manufacturers; the uncertainties are too large. But:

- Austin Rover Group accounted for 12% of company cars in the 1986 survey. Its share of the fall in company cars is less than 2% of 1987 Group output (of cars, vans and land rovers). spread over 3 years, with trading down and private car purchase offsets, the net impact is likely to be very small.

- Jaguar are heavily export oriented and have a queue of unsatisfied customers. They are unlikely to be significantly affected.

Conclusion

23. The increase in car scales should not pose undue problems for the UK car industry, though some small downward effect is likely. The background is of rising production and sales, and this picture should not be materially affected.

24. The direct effects on revenue are likely to be augmented by further increases in revenue as some employees cash out their company cars and others seek compensation from their employers.

HOUSING: EFFECTS OF CHANGES IN MIR

This note summarises the main effects on revenue, the construction industry and the housing market of the withdrawal of Mortgage Interest Relief (MIR) on home improvement loans. It also considers very briefly the effects of moving to the residence basis.

The Current Position on Improvement Loans

2. It is expected that about 1½ million home improvement loans will have been taken out in 1987-88. About a half are for more than £3000, and about a sixth for more than £6000. The value of tax relief on all home improvement loans eligible for MIR in 1987-88 is estimated at £500 million.

3. A Revenue survey of MIRAS loan applications indicated that about 7½ percent of loans involved providing additional living accommodation, and of these about a quarter were for more than £6000. 87 per cent of loans did not involve any extensions (including garages, conservatories etc); of these the majority were for works such as double glazing or central heating.

4. The Revenue estimate that about 20 percent of loans are used to buy goods and services other than home improvements.

The Change

5. Relief will be withdrawn with effect from 6 April 1988. The three week delay reflects the need to allow pre-Budget commitments to be finalised and to allow lenders a short time to change their systems. Landlords will continue to be eligible for relief for improvements against rental income.

Revenue Effects

6. If relief had remained available, we would have expected the future growth of eligible loans to be increasingly constrained as more people hit the £30,000 ceiling on relief. The average

outstanding mortgage is already £22,000. To reflect this, the scorecard costings assume that, in the absence of action, the total value of MIR would remain constant (at about £450 million at Budget tax rates) over the next four years, ie the value of new loans just offsets the value of expired loans. On this basis the direct revenue savings from withdrawal of relief are:

	1988-89	1989-90	1990-91	1991-92
£million	80	200	300	400

These figures include no allowance for forestalling or other behavioural effects.

Forestalling

7. Some people with plans to take out loans in 1988-89 will try to beat the 6 April deadline. Their propensity to do so will depend on how well advanced their plans are, and their success will largely depend on lenders' procedures - eg whether they require estimates - and their ability to process applications. Assuming that lenders will try to be accommodating, some degree of forestalling seems probable.

8. We have very little idea what the scale of forestalling might be. But we guess that perhaps an eighth of new loans might be brought forward from 1988-89 into 1987-88 - ie about six weeks worth of loans. In this case, the profile of revenue savings would be:

	1987-88	1988-89	1989-90	1990-91	1991-92
£million	0	60	180	280	380

Other Behavioural Effects

9. To some degree, purchasers of unimproved homes will be able to compensate for the loss of MIR on improvement loans by increasing their house purchase loans to cover the cost of improvements. The scope for this will be constrained by whether the loan would then exceed 100 per cent of the price (though the average new purchase loan is for only 70 per cent). Many lenders apply special conditions - eg higher interest rates or higher insurance cover - for loans over 75 per cent of value. The scope for increasing house purchase loans will also be constrained by how frequently unimproved homes change hands, and the proportion of improvements carried out within a few years of purchase.

10. We can only guess at what the combined effects of these considerations will be; especially as equity withdrawal - where people borrow more than they need - already occurs to a degree at present. It seems unlikely that more than a few per cent of the savings identified above for 1988-89 will be offset by an increase in MIR for house purchase, though the figure might rise to say 10 percent by 1991-92, as more unimproved homes change hands. The profile of savings, including also the effects of forestalling, would then be as shown below:

£ million	**1987-88**	**1988-89**	**1989-90**	**1990-91**	**1991-92**
After behavioural effects	0	60	170	260	340
Before behavioural effects	0	80	200	300	400

Effects on the construction industry

11. Withdrawal of relief will raise interest costs, and thus have a direct effect on the level of investment in home improvements. The evidence we have suggests an interest elasticity of investment of around -1.75: for each 1 percentage point increase in interest costs, investment eventually falls by 1.75%.

12. With an interest rate of 10%, withdrawal of MIR raises interest costs by 2.5 percentage points. Allowing for lags and the proportion of improvements which are not usually financed by eligible loans, we estimate that private sector investment in home improvements will be reduced by about 1½% in 1988-89, and 2% in subsequent years, compared with what it would otherwise have been. The long run effect represents a reduction of about 1% in total private sector domestic construction (including new building); and a reduction of about $^1/_3$% in total construction output. Any indirect revenue effects associated with this (eg through VAT receipts) are likely to be negligible.

13. These calculations assume that 80% of loans actually finance home improvements. Similar calculations have been made to estimate the effect of withdrawal of relief for the 20% that might have been spent on consumer durables; our estimates suggest that any effect would be a negligible proportion, say 0.1%, of total investment in consumer durables.

Effects on the housing market

14. Much of the investment discouraged by the withdrawal of relief would probably have been in central heating, double glazing etc. So while the quality of the housing stock will be affected, it seems unlikely that the withdrawal of relief will significantly affect the number of houses in poor condition. The worst cases will continue to be eligible for home improvement grants.

15. The effect on house prices is also likely to be negligible. New improvement loans apply to only about 10 per cent of the owner-occupied stock annually; and Mr Riley's paper of 17 December concluded that the effects of much larger changes in the MIR ceiling would be very small. The price of unimproved houses might decline very slightly relative to the price of new or improved houses; but on a 10 year loan for £3000, the present value of the relief withdrawn is less than £500; and the scope to increase purchase mortgages to cover the cost of improvements will mean that actual relief withdrawn is less than this.

16. Withdrawal of relief might encourage some people to move to larger or improved accommodation, rather than carry out extensions/ improvements on their current homes. But since the costs of moving are generally at least £2000, the gain in MIR will only justify moving where the improvement loan would have been large - probably over £12,000. In 1987-88 only about 4% of loans were above this level.

Change to the Residence Basis for MIR

17. The change to the residence basis for MIR will produce a small increase in revenue:

	1988-89	**1989-90**	**1990-91**	**1991-92**
£million	5	20	40	50

This is due to the reduced relief available to unmarried sharers - about 5% of all new borrowers, or 80,000 new loans, in 1988-89.

18. The change to the residence basis may stimulate the subdivision of properties to create separate "residences". It is impossible to quantify this effect; but given the small proportion of people for whom this will be an attractive proposition, the effects on the revenue figures above and on the construction industry are considered to be very small.

Conclusions

19. Our conclusions on the main effects of withdrawing MIR for home improvement loans are:

- behavioural effects (forestalling and increased house purchase loans) may reduce the revenue gains shown in the scorecard, by about £20 million in 1988-89 and possibly up to £60 million by 1991-92;

- investment in home improvements may be reduced by about 2% in the longer term, and total investment in private dwellings by about 1%;

- the effects on house prices and the condition of the housing stock will be negligible.

These changes are against a background of expected growth in private sector investment in housing of around 2½-3% per annum; and longer term growth of house prices broadly in line with incomes.

20. The effects of moving to the residence basis for MIR are likely to be negligible.

BUDGET CONFIDENTIAL

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8 March 1988

PS/FST

POST BUDGET PRESS BRIEFINGS

1. This note is to seek agreement to proposals for Revenue press briefings after the Budget.

2. For the past two years, with Ministers agreement, we have held a Budget Press Briefing and lunch on the Thursday of Budget week for Personal Finance Editors and sundry other journalists with whom we have regular dealings. This has given journalists a direct opportunity to question specialists on more technical aspects of the Budget in time for weekend features.

3. This year the FST will be briefing the Personal Finance Editors at 11.30 on Thursday of Budget week. We think it would still be useful to give the Personal Finance Editors, the opportunity of putting questions to a full range of Revenue specialists, at a separate event, after the FST's briefing. Indeed Margaret Dibben on behalf of the PFEA has already rung me to ask that there should still be a Revenue briefing to enable them to put detailed technical queries to the full range of specialists. She thinks that Personal Finance Editors would be happy to move from the FST's briefing direct to the Revenue briefing. We would guess that most of the questions would be to Mr Lewis, Mr Mace, Mr Corlett, Mr Cayley and Mr Johns.

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cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Allen IDT
Mr Gunton IDT

Chairman
Mr Isaac
Mr Painter
Mr Lewis
Mr Corlett
Mr Pitts
Mr McGivern
Mr Houghton
Mr Johns
Mr Beighton
Mr Walker
Miss McFarlane

4. Because of the emphasis on reform of personal taxation in this years Budget, we think that this year non specialist journalists would also welcome a briefing on the major changes affecting individuals. We would like to invite journalists from the magazines and periodicals which are principally aimed at women to a briefing, also on the Thursday of Budget week. Many of these publications cover tax matters occasionally, or have expressed views on the taxation of husband and wife in the past. Many will be writing about the changes immediately, or at some time in the future. An early briefing would help them. The briefing would cover Independent Taxation in the main, but mention could also be made of covenants, maintenance payments and capital gains tax. Little previous knowledge of the subject would be assumed.

5. Are you content that we should

a. arrange a post Budget briefing for Personal Finance Editors and other journalists with whom we have regular dealings on Thursday 17 March, after the FST's briefing, at (say) 1pm

b. arrange a post Budget briefing for non specialist journalists from magazines and periodicals on Thursday 17 March at, say, 3.30pm. Some of our officials will need to be involved in all 3 briefings.

FIONA McFARLANE

BUDGET CONFIDENTIAL FROM: R B WILLIS

Inland Revenue

Policy Division
Somerset House

8 March 1988

1. MR CORLETT 8/3
2. ECONOMIC SECRETARY

BUDGET DAY PRESS RELEASE: ABOLITION OF CAPITAL DUTY AND UTID

I attach a revised draft of the Inland Revenue press release on the abolition of capital duty and unit trust instrument duty. The changes to reflect your comments, and those of the Chancellor and Financial Secretary, are sidelined.

2. The third paragraph of the press release is in line with what I understand the Chancellor proposes to say in his Budget statement. I have added to the first paragraph of the notes for editors examples of other imposts which have been abolished.

3. May we have authority please to print the press release?

R B WILLIS

---

cc Chancellor
CST
PMG
FST
Mrs Lomax
Mr Culpin
Mr Ilett
Mr R I G Allen
Mr Pickford
Miss Sinclair
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Mr Isaac
Mr Corlett
Mr Beighton
Mr Gonzalez
Mr Pipe
Mr Adderley
Mr Walker
Miss McFarlane
PS/IR
Mr Willis

INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x] 15 March 1988

ABOLITION OF CAPITAL DUTY AND UNIT TRUST INSTRUMENT DUTY

The Chancellor proposes in his Budget to abolish capital duty and unit trust instrument duty (UTID) from today (15 March 1988).

Abolition of capital duty will remove a tax on companies when they are formed or when they increase their capital, for example by selling new shares to the public. Abolition of UTID will reduce the costs of unit trust and should benefit investors.

The abolition of capital duty brings the total number of sizeable taxes abolished by the Chancellor to five.

DETAILS

Capital duty

1. Capital duty is a 1 per cent tax on assets contributed to a company. An EEC Directive which was in force when the UK joined the Community required the introduction of this tax in 1973.

2. Duty is payable on

- the formation of a company
- an increase in a company's capital, eg by an offer of shares for public subscription or a rights issue.

3. Abolition of capital duty will:

- help companies when they are being formed and when they need new capital to expand
- remove a bias against issuing shares as compared with borrowing and debt finance.

4. The Chancellor's proposals will apply to transactions on or after 16 March.

/Unit trust

Unit trust instrument duty (UTID)

5. UTID is a tax of 0.25 per cent on all property put into a unit trust.

6. Abolition of UTID will reduce the cost of creating or expanding a unit trust. Investors should benefit from this reduction.

7. The Chancellor's proposals will apply to property which becomes trust property on or after 16 March.

Effects of abolishing these two duties

8. These changes will:

a. lower costs for companies issuing shares

b. lower costs for unit trusts (and hence for their investors)

c. simplify the tax system for companies, unit trusts, their advisers and the Inland Revenue

9. The cost of these proposals is estimated to be about £100 million a year.

/NOTES FOR EDITORS

NOTES FOR EDITORS

1. The Chancellor has already abolished eg the National Insurance Surcharge (1984), the Investment Income Surcharge (1984), Development Land Tax (1985) and the tax on lifetime gifts (1986) as well as other imposts - eg stamp duty on gifts in 1985 and the Customs and Excise duty on on-course betting in 1987. Abolition of capital duty and UTID continues this process of reform and simplification.

CAPITAL DUTY

Origins

2. On joining the EEC the UK was obliged to implement an existing Directive to tax the raising of capital. The necessary legislation was included in the 1973 Finance Act. It replaced stamp duty at 0.5 per cent on nominal share capital and loan capital by a new stamp duty charge-capital duty.

3. A change to the Directive in 1985 allowed reductions in the rate of duty or its abolition. The UK will be the first member state to abolish this duty.

When capital duty is paid

4. The main transactions which can give rise to capital duty are:

- the formation of a company
- sales of new shares to the public;
- rights issues
- some takeovers

5. When a transaction is chargeable the amount of duty is 1 per cent of the assets contributed to the company. For example a company which raises £10 million from a public offer would pay £100,000.

How capital duty will be abolished

6. The Chancellor's proposal is to abolish capital duty for all transactions occurring on or after 16 March. This applies to:

- chargeable transactions, on which duty would have been payable within one month
- events which would cause a company to lose an exemption from capital duty for a transaction on or before 15 March. Exemption from capital duty is available in various circumstances, including for a share-for-share takeover. That exemption can be lost as a result of

/changes in

changes in the 5 years following the transaction - eg if the acquiring company sells the shares it acquired. Duty is then payable. No transaction or change occurring after 15 March will give rise to a charge of this kind.

- contributions of assets in fulfilment of undertakings made on or before 15 March. An example is where a company has issued partly paid-up shares. Capital duty is not charged on the full price at the time of issue. It is charged as and when calls are actually made.

What companies should do after the Budget

7. Statements and payments in respect of transactions on or before 15 March should continue to be sent to the Registrar of Companies or the Inland Revenue as appropriate. Transactions on or after 16 March will not give rise to capital duty. This will however not affect other statutory requirements to make returns to the Registrar of Companies. Companies should continue to send these returns to the Registrar of Companies, but without payment of the capital duty which would previously have been required. A further announcement on these returns will be made shortly.

UNIT TRUST INSTRUMENT DUTY (UTID)

Origins

8. Until 1962 there was stamp duty at 0.25 per cent on settlements of money, stock or securities generally. This duty was abolished in 1962, except in the case of unit trusts.

When UTID is paid

9. UTID is payable, at the rate of 0.25 per cent, on the value of property which

- is subject to the trust instrument which creates the unit trust, or

- becomes trust property represented by units under the scheme.

How UTID will be abolished

10. The Chancellor's proposals will abolish UTID for property which becomes trust property on or after 16 March.

/What unit

What unit trusts should do after the Budget

11. Unit trusts should make returns and payments to the Inland Revenue in respect of property acquired by a unit trust on or before 15 March. No UTID will be payable on property acquired on or after 16 March. From that date there will be a fixed stamp duty of 50 pence on a trust deed or other instrument creating or recording a unit trust (as a declaration of trust).

Transfers of assets and units

12. The Chancellor's proposals do not affect stamp duty and reserve tax on transfers of property to a unit trust or on transfers and agreements to transfer units in a unit trust.

COMPLIANCE COST ASSESSMENT

Assessments of the compliance costs of proposals affecting businesses are available. A copy of the Compliance Cost Assessment for this proposal can be obtained from:

Inland Revenue
Deregulation Unit
Room 77
New Wing
Somerset House
London, WC2R 1LB

RESOLUTIONS

Temporary statutory effect will be given to these proposals by Resolutions to be moved at the end of the debate on the Budget Statement.

PWP

FINANCIAL SECRETARY TO THE TREASURY

FROM: J J HEYWOOD
DATE: 8 March 1988

MR HUDSON

cc PS/Chief Secretary
Sir P Middleton
PS/IR

TREASURY PRESS RELEASE: MAINTENANCE AND COVENANTS

The Financial Secretary has seen your minute of 4 March and Mr Sargent's of 7 March.

2. He has commented that most of his comments on the 3 March draft still stand.

3. He also strongly agrees with Sir P Middleton that it would be better to have two separate press releases.

J J HEYWOOD
Private Secretary

ps4/23H

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET

REF NO. APH/37

COPY NO. 13 OF 13.

FROM: A P HUDSON
DATE: 8 March 1988

MR CULPIN

cc Mr Scholar
Mr R I G Allen
Mr Pickford
Mr Riley
Miss Sinclair
Miss C Evans
Mrs Burnhams

Mr Walker - IR
Mr P R H Allen - C&E

SECRET

BUDGET DAY PRESS NOTICES

I only have a few comments on the list attached to your 7 March minute.

2. I assume Independent Taxation comes first because people will look for the Income Tax Press Notices anyway. But if Independent Taxation were to move to second place, I suggest promoting Tax Penalties on Marriage to follow it (provided that this still exists as a separate Press Notice).

3. I cannot see any easy way of sub-dividing the Business Tax section. But some Press Notices could be moved elsewhere. Artificial loss devices and Intra-Group share exchanges could go under the capital taxes. VAT registration threshold, voluntary registration and self-billing could go with the Indirect Taxes, as Mrs Burnhams suggests. However, it would be odd to have the Customs' Notice on Business Entertainment separate from the Revenue one. Indeed, it is pretty odd to have two separate notices at all. Is it too late to combine them?

B.L.O. SECRET

APH

A P HUDSON

BUDGET SECRET
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ps3/12T

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET

REF NO. JMGT/36
COPY NO. 13 OF 24.

FROM: J M G TAYLOR
DATE: 8 March 1988

MR A J WALKER - Inland Revenue

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr R I G Allen
Mr Pickford
Miss Sinclair
Mr Hudson
Miss Evans
Mr Cropper
Mr Tyrie
Mr Call

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Beighton - IR
PS/IR

SECRET

B.L.O.

BUDGET DAY PRESS RELEASES

The Chancellor considered the latest drafts of the Press Releases over the weekend. He had a number of comments, which I have passed on to you. For the record, these are set out below.

Budget 1988: Income Tax

Paragraph 1: reorder indented sentences to match the order of the tables.

Paragraph 2: use married man on average earnings as example.

Paragraph 5: recast to read "The Chancellor also proposes to increase the basic rate limit by twice the amount indicated by the indexation formula, ie by £14,000-£19,300 of taxable income.

Paragraph 7: place "abolition of minor personal allowances" line second in the table of costs.

SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

Independent Taxation: IR Press Release

Retain paragraphs 1.5 and 1.9 of the draft. Amend 1.9 to read "Some wives may prefer their husbands to fill in their tax return for them. That would still, of course, be possible but husband and wife would have to sign, and take responsibility for, their own return."

Paragraph 1.12: amend last sentence to read "The new personal allowance will be equal in size to the single person's allowance under the old system."

Paragraph 1.13: recast first sentence to read "There will also be a married couple's allowance equivalent to the difference under the old system between the married allowance and the single allowance."

Independent Taxation: Distributional Effects (Mr Eason's submission of 4 March). He thinks this is well worth including in the Budget Day Press Release on Independent Taxation. The table in paragraph 2 of Mr Eason's note is also interesting, and can be published via an arranged PQ the day after Budget Day. He has commented that there is, however, a slight problem in reconciling the £682 million with the figures at the end of paragraph 2. (He has commented, further, that these figures will need to be incorporated wherever necessary - for example, the £500 million will probably need to replace the £700 million figure in the Budget Speech.)

He had two specific comments on the tables. First, in the last line of the "Notes to Tables", the word "sells" should be replaced by "groups". He has also noted that the penultimate column of table 2 adds up to 490, while the total is given as 500.

Benefits in kind

2. He confirms:

(i) that he does not intend to announce the car fuel benefit scales for 1989-90; and

(ii) that no firm decision on car fuel scales for 1989-90 has yet been taken.

Payroll Giving Scheme for Charities

Paragraph 1: to read "The Chancellor proposes in his Budget to double the limit on charitable donations qualifying for tax relief under the Payroll Giving Scheme from £120 a year (£10 a month) to £240 a year (£20 a month). Delete third paragraph.

Removing Tax Penalties on Marriage

The Chancellor is considering further whether to retain this notice.

Inheritance Tax

Paragraph 3 in the "Notes for Editors" should be expanded to include an explanation that gifts to political parties are being changed as a consequential of abolishing the limit for gifts to charities.

Taxation of capital gains: general changes

First indent to read: "Only gains or losses accrued since 31 March 1982 will be brought into account. This will remove all liability to CGT on inflationary gains."

Paragraph 6, Example 5: last line to read "Accordingly, the gains will be chargeable to capital gains tax at a rate equivalent to the basic rate of income tax (ie 25 per cent)."

Paragraph 6, Example 6: last line to read "... chargeable at a rate equivalent to the higher rate of income tax (ie 40 per cent)."

Capital gains tax: dependent relatives' residence relief

This should be dropped as a separate Press Release.

Business Expansion Scheme: general and

New Business Expansion Scheme relief for private rented housing

Both of these should be shortened very considerably. There is a case for one combined BES [release], which should start with rented housing. Some mention should also be made of ship chartering.

BUDGET SECRET B.L.O. SECRET

Lloyds taxation of reinsurance to close (RIC) - relief for Lloyds' members who leave syndicates

Paragraph 4: delete.

New company residence and migration rules

This should make clear that these changes bring the UK into line with other countries.

Abolition of relief on home improvement loans

Paragraph 1 of Notes for Editors: recast first sentence to read "On a recent sample, over 85 per cent of home improvement loans for which relief is currently claimed are for improvements which do not involve any extension to a property ...".

Mortgage interest relief:- residence basis and minor changes

Paragraph 1 of Notes for Editors: delete third sentence.

Forestry

Paragraph 2, line 2: to read "... provide a substantial and indiscriminate subsidy ...".

Paragraph 7 (tax yield), line 4: to read "... amount to over £10 million.".

Paragraph 9, middle section: to read "the Forestry Commission will be announcing details next week: see the Forestry Commission Press Release."

Paragraph 10, fourth sub-paragraph: to read "Better for the environment because the delivery of incentives through grants will enable them to be better targeted.".

Abolition of capital duty and unit trust instrument duty

Third sentence: to read "The abolition of capital duty brings to five the total number of significant taxes abolished by the Chancellor.".

The Chancellor is otherwise content with the Press Releases.

J M G TAYLOR

mjd 4/88An

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

REF APH/39

COPY NO. 14 OF 14

FROM: A P HUDSON
DATE: 8 March 1988

MR TURNBULL

cc PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Sedgwick
Mr Odling-Smee
Mr Culpin
Mr Mowl
Mr R I G Allen
Mr Pickford
Mr Tyrie

BUDGET SECRET

BUDGET BROADCAST: SPENDING AND BORROWING

The Chancellor proposes to open this year's Budget Broadcast with a passage on the virtues on the balanced budget.

2. He thinks that one telling statistic would be to point out the proportion of public spending which had to be financed by borrowing when borrowing was at its height. My own quick calculations suggest that the PSBR in 1975-76 was 19.2 per cent of GGE.

3. Please could you ask somebody to work out the figures for the key years? The Chancellor would also be grateful to know if there are any points to watch out for in the Conservative period in Government.

4. Please could I have this information by close tomorrow (Wednesday 9 March).

B.L.O. SECRET

APH

A P HUDSON

BUDGET CONFIDENTIAL FROM: R B WILLIS

Inland Revenue

Policy Division
Somerset House

Ch/ Infuriatingly, IR have changed "major" in the third para. to "sizeable", not "significant", as you requested. I have told them to put it right.

8 March 1988

1. MR CORLETT 8/3

2. ECONOMIC SECRETARY ~~It must be~~

Yes; but in words + conform with latest draft of the Budget Speech (G30 of whom para). N.

BUDGET DAY PRESS RELEASE: ABOLITION OF CAPITAL DUTY AND UTID

I attach a revised draft of the Inland Revenue press release on the abolition of capital duty and unit trust instrument duty. The changes to reflect your comments, and those of the Chancellor and Financial Secretary, are sidelined.

2. The third paragraph of the press release is in line with what I understand the Chancellor proposes to say in his Budget statement. I have added to the first paragraph of the notes for editors examples of other imposts which have been abolished.

3. May we have authority please to print the press release?

R B WILLIS

---

cc Chancellor
CST
PMG
FST
Mrs Lomax
Mr Culpin
Mr Ilett
Mr R I G Allen
Mr Pickford
Miss Sinclair
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Mr Isaac
Mr Corlett
Mr Beighton
Mr Gonzalez
Mr Pipe
Mr Adderley
Mr Walker
Miss McFarlane
PS/IR
Mr Willis

INLAND REVENUE
Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x] 15 March 1988

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The abolition of capital duty brings the total number of sizeable taxes abolished by the Chancellor to five.

No! "Significant".

DETAILS

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/What unit

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Deregulation Unit
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Somerset House
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RESOLUTIONS

Temporary statutory effect will be given to these proposals by Resolutions to be moved at the end of the debate on the Budget Statement.

COPY NO 1 OF 15

976/19

BUDGET SECRET: TASK FORCE LIST

FROM: T J BURR
11 March 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Scholar
Mr Culpin
Mr Isaac -IR
Mr Corlett -IR
Mr Stewart -IR

Ch/ X is terribly stilted But otherwise OK?

MPW 11/3

OK, subject to your (MPW's) comments.

STUDENTS AND COVENANTS: PRESS NOTICES

You agreed (Miss Wallace's minute of 8 March) that DES and the Scottish Education Department should issue press notices on the day after the Budget dealing with the arrangements for students following the ending of tax relief on covenants.

2. I now attach drafts of both press notices, which I think are self-explanatory. They do not yet include the new parental contribution scales, since they will depend on the basic rate of tax and will be inserted immediately after the Budget statement.

3. I would be grateful for your approval of these drafts.

T J Burr

T J BURR

976/16

BUDGET SECRET: TASK FORCE LIST

DRAFT PRESS NOTICE

STUDENTS, COVENANTS, AND THE PARENTAL CONTRIBUTION

Education Secretary Kenneth Baker explained today how the ending of tax relief on covenants between individuals will affect students.

All covenants made before Budget Day by parents for the benefit of their student children will continue to attract tax relief for their full duration. But no new covenents for the benefit of students made on or after Budget Day will attract tax relief.

From the beginning of academic year 1988/89, all students first entering higher education will have their grant assessed on a new parental contribution scale which takes account of the ending of tax relief on covenanted contributions. Under the new scale parents will pay only [x%] of the contribution previously applicable [at their residual income level], so long as they would previously have been assessed to pay a contribution of less than the full value of the appropriate rate of grant for their child or children.

must be a simpler way of putting this?

'Yes NJeN

Students already on full-time courses of higher education will have their grant next year assessed on the parental contribution scale announced last December, whether or not their parents have covenanted contributions in their favour. The exception is students who entered higher education before the age of 18 and had not reached that age before Budget Day. Their grant

Because they will not now be able to enter into covenants and obtain tax relief as they might have expected to, will be assessed on the new scale.

Separate contribution scales for 'old' and 'new' students will continue to operate side by side for the next four academic years. During that period students already in higher education will continue to have their grant assessed under the old scale even if they proceed to a different course of study, unless their full-time studies have been interrupted by a break of at least two years.

NOTE TO EDITORS

1. The rates of grant effective from 1 September 1988 are as follows:

2. The present (Scale 1) and new (Scale 2) parental contribution scales are attached.

976/20

BUDGET SECRET: TASK FORCE LIST

DRAFT PRESS NOTICE

STUDENTS' ALLOWANCES

TAX TREATMENT OF COVENANTS

The Rt Hon Malcolm Rifkind QC MP, Secretary of State for Scotland, today explained how the ending of tax relief on covenants made between individuals would affect students and their allowances.

Mr Rifkind said

"We recognise that a substantial number of parents with children in higher education make their parental contributions by means of covenants, taking advantage of the tax benefits thereby available.

In recognition of the change in the tax treatment of covenants made between individuals, we propose to introduce a revised scale of parental contributions for students first entering higher education during or after session 1988-89. Under the new scale parents will pay only [x %] of the contribution previously applicable at their residual income level so long as they would previously have been assessed to pay a contribution of less than the appropriate rate of grant for their child or children.

Covenants made before Budget Day will continue to attract tax relief for the remainder of their term. Students already in higher education will therefore continue to have their parental contribution assessed according to the scale announced last December, whether or not parents have actually covenanted contributions in their favour.

There will be two exceptions to this arrangement. Students already in higher education who had not attained the age of 18 before Budget Day will be treated as though they were new entrants to higher education in session 1988-89 and will thus benefit from the revised contribution scale. Similarly, students who first enter higher education in the Summer Term 1988 will, from their first award in academic session 1988-89, be assessed in terms of the revised scale.

Students whose contributions are to be assessed against the existing scale, announced in December 1987, will continue to be assessed against a contribution scale drawn up on the same basis throughout their current period of higher education even if, in the meantime, they proceed to a different course of study unless there is a break of at least two years between periods of full-time study. The 'existing' and 'revised' contribution scales will continue to operate side by side for the next 4 academic sessions, although the actual rates of contribution will be subject to review annually."

NOTES FOR EDITORS

1. The main rates of grant for session 1988-89, and the associated parental contribution scale, were announced on 17 December 1987 (Press Notice No 1812/87).

2. The revised parental contribution scale for new entrants to higher education during or after session 1988-89 is set out below. It has been drawn up on the same basis as the scale announced in December 1987, but with the contribution at each point reduced by an amount equivalent to the basic rate of tax.

BUDGET CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House

PMP

FROM: S S WILCOX
14 MARCH 1988

MISS FEEST - APS/FINANCIAL SECRETARY

EMPLOYERS TERMINAL PAYMENTS: LETTER FROM MR MAXWELL-HYSLOP MP

1. In your minute of 22 February you asked for a draft letter for the Financial Secretary to send after the budget in response to Mr Maxwell-Hyslop's of 9 February.

2. A draft is attached. My apologies for the delay, but I had not realised that the Financial Secretary wished to write on Budget Day itself.

S S WILCOX

PS/Chancellor	Mr Isaac
PS/Paymaster General	Mr Lewis
Mr Culpin	Miss Rhodes
Mr De Berker	Mr Wilcox
Mr Cropper	Mr Hinton
Mr Tyrie	PS/IR

FINANCIAL SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

15 March 1988

Robin Maxwell-Hyslop Esq MP
House of Commons
LONDON
SW1A OAA

You wrote to Nigel Lawson on 9 February. In your letter you suggested that the Chancellor should include in his budget an increase in the percentage of final salary permitted for pensions tax relief and a higher threshold before employees' termination payments - redundancy payments and the like - became taxable.

On the first point, we have no plans to increase the current percentage of final salary. In practice, I think your fears about the effect of inflation on the value of pensions is largely offset by the provision in most pension schemes for some degree of index-linking. There is nothing in the present tax rules which prevent such adjustments provided that annual increases do not exceed movements in the Retail Price Index.

Turning to the relief for termination payments, you will know that the Chancellor announced in his budget statement this afternoon that he proposes to increase the tax exempt limit from £25,000 to £30,000. He also proposes to remove the additional relief currently available for payments which exceed the limit since we believe this is no longer necessary given both the increased limit and the proposed reduction in the rates of income tax.

I appreciate that this increase may not go quite as far as you might wish. But since the vast majority of termination payments are considerably less than £30,000 it would be difficult to justify a larger increase. This will of course, mean that members' resettlement grants may continue to be paid entirely tax free while they remain under £30,000. It seems unlikely that maximum grants will rise to beyond that point within the lifetime of this Parliament.

NORMAN LAMONT

mjd 4/97An

Copy 23 of 27
Ref No: APH/52

FROM: A P HUDSON

DATE: 14 March 1988

MR PICKFORD

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Odling-Smee
Mr Sedgwick
Mr R I G Allen
Mr A C S Allan
Miss C Evans
Mr Flitton
Mr Cropper
Mr Tyrie
Mr Call
Mr MacManus IR

BUDGET BROADCAST: FINAL DRAFT

I attach the final draft of the Budget Broadcast.

2. As you know, the Economic Section is to be recorded this morning. But if anybody has any comments on the opening or the Measures Section, I shall pass them on to the Chancellor.

APH

A P HUDSON

Draft of 14 March

BUDGET BROADCAST: DRAFT OPENING SECTION

Once upon a time, governments used to believe that it was their job to balance the budget: not to spend any more than they could raise from taxes. But taxes aren't popular. So governments found a clever way out. They borrowed.

Obviously a small amount of borrowing doesn't matter much. The trouble is, it's addictive. By the mid-'seventies, nearly one pound in every five the Labour Government spent was being paid for out of borrowed money. And we've all had to foot the bill in heavy interest payments ever since.

For nine years this government has fought to free Britain from that terrible inheritance. And the result is that tonight, for only the second time since the early 'fifties, I can tell you, as Chancellor, that once again Britain has a balanced budget. Last year the Government didn't need to borrow at all. And I mean to keep it that way.

Balancing the budget hasn't been easy and it hasn't always been popular. But it means that we won't be loading a burden of debt on to future generations. And meanwhile, along with all our measures to liberate initiative and reward enterprise, it's produced outstanding results for Britain.

 Draft of 11 March

CHANCELLOR'S BUDGET BROADCAST: MARCH 15 1988

[Opening Section]

CAPTION 1. Bar chart
GDP from 1970.
Reveal bars progressively
from left as indicated
by narration.

The best, single measure of any country's economic achievement is its total national output. If you go back to 1970, you see how Britain's output rose to a peak in 1973, then it dropped back, then it rose to another peak in 1979,and then it dropped again. But since 1981 we've had seven successive years of uninterrupted economic growth.

That's an astonishing record in itself. But there's something that makes it even more astonishing. Because side by side with this remarkable growth in output there's been a dramatic fall in inflation.

CAPTION 2. Graph.
Inflation from 1970.
Reveal as for caption 1.

Again, you have to go back to 1970 to see the full picture. It rose to a terrible peak - nearly 25% - in 1975, then it fell back, then it rose to another peak in 1980. But since then it's fallen dramatically, down to the lowest levels for 20 years.

Those two charts are tremendously significant. But you only see their real significance when you put the two of them side by side.

CAPTION 3.
GDP plus inflation.
GDP bars appear first,
inflation graph animates
alongside
as indicated by narration.

Then you see that inflation was always the spectre at the feast. The peak in 1973 was paid for by the inflation of 1974 and 1975. The peak of 1979 was paid for by the inflation that surged again up to 1980. In other words the growth couldn't last. Inflation always killed it.

In fact, that had been the story of what was called the British disease for many years before 1970. But look at the story in the 1980s.

CAPTION 3 cont'd.
Animate as before.

Year after year of steadily rising output. But for the first time, inflation falling, falling dramatically, and staying low, while output rose. And that's the picture that really tells the story of Britain's new-found success.

There's no mystery about how we've done it. It's the result of a consistent economic policy over nine years. A commitment to controlling inflation, removing the shackles on business enterprise, and liberating the creative energy of the British people. It means letting people keep as much as possible of what they earn. And if you look at what that means for a married man on average earnings with two children, you can see the result.

CAPTION 4. Graph. Real take home pay. Reveal from left with narration.	Take home pay, corrected for inflation, bumped up and down through the stop-go years. But since 1981 it's risen year after year, until now living standards are way above what they've ever been before.

And unemployment is coming down fast, in every region of the country. Last year, it fell faster than in any other major nation.

There's still a long way to go, but it's now clear to everyone that we're going in the right direction. And today's measures will help us further along the road.

BUDGET MEASURES SEQUENCE

What I've been able to tell you this evening is a story of success. The story of a transformation of Britain's fortunes which has also transformed our standing in the world. If you look at the European economic growth league you can see how.

CAPTION 5. European growth league. Reveal with narration.	In the nineteen-sixties we were right at the bottom of the league table. In the 1970s we were still bottom of the table. But in the 1980s we've been right at the top of the league.

All the same, it doesn't mean we can sit back and relax. We don't control the world economy, but we're very much a part of it. So we have to be prepared for storms ahead. That's why we have to keep the British economy strong and sound. If it hadn't been so strong, the oil price collapse, or the coal strike, or the stock market collapse, any one of them could have caused us terrible damage. Instead, we sailed through them all, virtually unscathed.

That's why we have to hold to our course and keep a firm hand on the reins. But so long as we stick with the policies that have served us so well these past nine years, we can look forward to a level of security and prosperity for ourselves and our children far higher than any of us has ever known.

Draft of 14 March

BUDGET BROADCAST: MEASURES SECTION

In my Budget today, I've once again been able to cut income tax, bringing the basic rate down to 25 pence in the £, just as we promised we would in the Election. And people will be able to earn more before they start paying tax in the first place. As a result of this Budget, a married man on average earnings will take home almost £5 a week extra.

I've brought down the higher rates of tax, too. We've seen what happens if you tax top managers and engineers too heavily. Too many either opt for the quiet life, or go abroad where tax rates are lower. So what I've done will mean better-managed businesses and more jobs - and, at the end of the day, <u>higher</u> tax revenues as a result.

But at the same time, I've doubled the tax on company cars. It won't be popular, I know; but I believe it's right that those who have company cars should pay their fair share of tax.

And I've made this a tax reform Budget, too. In particular, I'm changing the income tax system to give married women a fair deal, for the first time ever. Instead of their income being taxed as if it belonged to their husband, as it has been for the past 200 years, it will at long last be truly their own.

So this Budget brings not only lower taxes, to encourage people to give of their best, but better taxes, too. That's an essential ingredient in Britain's continuing economic success. And it's only by having a more successful economy that we can afford better public services.

That's why, last Autumn, I was able to announce big increases in Government spending for the coming year, especially on priority areas like education, law and order, and the health service.

So it's been a hat-trick: higher Government spending, lower taxes, and the complete elimination of Government borrowing.

MINISTERIAL ALLOCATIONS

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Chief Secretary

Cleaning up personal taxes: base broadening and simplification

- Cars and other perks
- Home improvement loans
- Forestry
- Maintenance and covenants
- Minor allowances
- Top slicing

Financial Secretary

Income Tax rates and consequentials

- Main personal allowances
- basic and higher rates
- LAPR, trusts

Independent taxation

- Penalties on marriage

Lloyd's

Paymaster General

Business

- CT rates
- BES
- Business entertainment
- Section 482
- ESOPs
- Private rented sector/assured tenancies
- PRP
- CGT retirement relief
- Inheritance tax

Housing

- Private rented
- Mortgages: residence basis
- Home improvement loans

BUDGET SECRET B.L.O. SECRET

BUDGET SECRET
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Budget Income Tax Changes:

Illustrative Tables

TABLE 1

SINGLE PERSONS - ANNUAL FIGURES

	Charge for 1986-87		Proposed charge for 1987-88		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
3,000	193	*6.4*	155	*5.2*	38	*1.3*
4,000	483	*12.1*	425	*10.6*	58	*1.4*
5,000	773	*15.5*	695	*13.9*	78	*1.6*
6,000	1,063	*17.7*	965	*16.1*	98	*1.6*
7,000	1,353	*19.3*	1,235	*17.6*	118	*1.7*
8,000	1,643	*20.5*	1,505	*18.8*	138	*1.7*
9,000	1,933	*21.5*	1,775	*19.7*	158	*1.8*
10,000	2,223	*22.2*	2,045	*20.4*	178	*1.8*
12,000	2,803	*23.4*	2,585	*21.5*	218	*1.8*
14,000	3,383	*24.2*	3,125	*22.3*	258	*1.8*
16,000	3,963	*24.8*	3,665	*22.9*	298	*1.9*
18,000	4,543	*25.2*	4,205	*23.4*	338	*1.9*
20,000	5,174	*25.9*	4,745	*23.7*	429	*2.1*
25,000	7,298	*29.2*	6,812	*27.2*	486	*1.9*
30,000	9,660	*32.2*	9,170	*30.6*	490	*1.6*
40,000	14,878	*37.2*	14,384	*36.0*	494	*1.2*
50,000	20,702	*41.4*	20,203	*40.4*	499	*1.0*
60,000	26,702	*44.5*	26,203	*43.7*	499	*0.8*
70,000	32,702	*46.7*	32,203	*46.0*	499	*0.7*

TABLE 2

MARRIED COUPLES - ANNUAL FIGURES

	Charge for 1986-87		Proposed charge for 1987-88		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
4,000	100	*2.5*	55	*1.4*	45	*1.1*
5,000	390	*7.8*	325	*6.5*	65	*1.3*
6,000	680	*11.3*	595	*9.9*	85	*1.4*
7,000	970	*13.9*	865	*12.4*	105	*1.5*
8,000	1,260	*15.8*	1,135	*14.2*	125	*1.6*
9,000	1,550	*17.2*	1,405	*15.6*	145	*1.6*
10,000	1,840	*18.4*	1,675	*16.8*	165	*1.6*
12,000	2,420	*20.2*	2,215	*18.5*	205	*1.7*
14,000	3,000	*21.4*	2,755	*19.7*	245	*1.8*
16,000	3,580	*22.4*	3,295	*20.6*	285	*1.8*
18,000	4,160	*23.1*	3,835	*21.3*	325	*1.8*
20,000	4,740	*23.7*	4,375	*21.9*	365	*1.8*
25,000	6,703	*26.8*	6,195	*24.8*	508	*2.0*
30,000	9,001	*30.0*	8,486	*28.3*	515	*1.7*
40,000	14,153	*35.4*	13,631	*34.1*	522	*1.3*
50,000	19,910	*39.8*	19,381	*38.8*	529	*1.1*
60,000	25,910	*43.2*	25,381	*42.3*	529	*0.9*
70,000	31,910	*45.6*	31,381	*44.8*	529	*0.8*

Calculations assume that only the husband has earned income.

TABLE 3

SINGLE PERSONS AND MARRIED COUPLES - ANNUAL FIGURES

COMPARISON BETWEEN INDEXATION FOR 1987-88 AND PROPOSED CHARGE FOR 1987-88

	Charge under Indexation[1]		Proposed charge for 1987-88		Reduction in tax over Indexation	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
3,000	167	*5.6*	155	*5.2*	12	*0.4*
4,000	457	*11.4*	425	*10.6*	32	*0.8*
6,000	1,037	*17.3*	965	*16.1*	72	*1.2*
8,000	1,617	*20.2*	1,505	*18.8*	112	*1.4*
10,000	2,197	*22.0*	2,045	*20.4*	152	*1.5*
12,000	2,777	*23.1*	2,585	*21.5*	192	*1.6*
15,000	3,647	*24.3*	3,395	*22.6*	252	*1.7*
20,000	5,097	*25.5*	4,745	*23.7*	352	*1.8*
25,000	7,135	*28.5*	6,812	*27.2*	323	*1.3*
30,000	9,438	*31.5*	9,170	*30.6*	268	*0.9*
40,000	14,582	*36.5*	14,384	*36.0*	198	*0.5*
50,000	20,316	*40.6*	20,203	*40.4*	113	*0.2*
60,000	26,316	*43.9*	26,203	*43.7*	113	*0.2*
70,000	32,316	*46.2*	32,203	*46.0*	113	*0.2*
MARRIED COUPLES						
4,000	59	*1.5*	55	*1.4*	4	*0.1*
6,000	639	*10.6*	595	*9.9*	44	*0.7*
8,000	1,219	*15.2*	1,135	*14.2*	84	*1.0*
10,000	1,799	*18.0*	1,675	*16.8*	124	*1.2*
12,000	2,379	*19.8*	2,215	*18.5*	164	*1.4*
15,000	3,249	*21.7*	3,025	*20.2*	224	*1.5*
20,000	4,699	*23.5*	4,375	*21.9*	324	*1.6*
25,000	6,518	*26.1*	6,195	*24.8*	323	*1.3*
30,000	8,769	*29.2*	8,486	*28.3*	283	*0.9*
40,000	13,829	*34.6*	13,631	*34.1*	198	*0.5*
50,000	19,494	*39.0*	19,381	*38.8*	113	*0.2*
60,000	25,494	*42.5*	25,381	*42.3*	113	*0.2*
70,000	31,494	*45.0*	31,381	*44.8*	113	*0.2*

[1] Assuming allowances and thresholds are indexed in accordance with Section 24, Finance Act 1980.

[2] Calculations assume that only the husband has earned income.

TABLE 4A

SINGLE PERSONS AND MARRIED COUPLES AGED 65-79 - ANNUAL FIGURES

	Charge for 1986-87		Proposed charge for 1987-88		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
3,000	44	*1.5*	11	*0.4*	33	*1.1*
4,000	334	*8.4*	281	*7.0*	53	*1.3*
5,000	624	*12.5*	551	*11.0*	73	*1.5*
6,000	914	*15.2*	821	*13.7*	93	*1.6*
7,000	1,204	*17.2*	1,091	*15.6*	113	*1.6*
8,000	1,494	*18.7*	1,361	*17.0*	133	*1.7*
9,000	1,784	*19.8*	1,631	*18.1*	153	*1.7*
10,000	2,190	*21.9*	1,937	*19.4*	253	*2.5*
11,000	2,513	*22.8*	2,315	*21.0*	198	*1.8*
12,000	2,803	*23.4*	2,585	*21.5*	218	*1.8*
MARRIED COUPLES[1]						
5,000	144	*2.9*	88	*1.8*	56	*1.1*
6,000	434	*7.2*	358	*6.0*	76	*1.3*
7,000	724	*10.3*	628	*9.0*	96	*1.4*
8,000	1,014	*12.7*	898	*11.2*	116	*1.4*
9,000	1,304	*14.5*	1,168	*13.0*	136	*1.5*
10,000	1,710	*17.1*	1,474	*14.7*	236	*2.4*
11,000	2,130	*19.4*	1,924	*17.5*	206	*1.9*
12,000	2,420	*20.2*	2,215	*18.5*	205	*1.7*

[1] Calculations assume that only the husband has earned income.

For incomes above these levels, the figures are the same as those in Tables 1 and 2.

TABLE 4B

SINGLE PERSONS AND MARRIED COUPLES AGED 80 AND OVER - ANNUAL FIGURES

	Charge for 1986-87		Proposed charge for 1987-88		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
3,000	44	*1.5*	0	*0.0*	44	*1.5*
4,000	334	*8.4*	251	*6.3*	83	*2.1*
5,000	624	*12.5*	521	*10.4*	103	*2.1*
6,000	914	*15.2*	791	*13.2*	123	*2.0*
7,000	1,204	*17.2*	1,061	*15.2*	143	*2.0*
8,000	1,494	*18.7*	1,331	*16.6*	163	*2.0*
9,000	1,784	*19.8*	1,601	*17.8*	183	*2.0*
10,000	2,190	*21.9*	1,907	*19.1*	283	*2.8*
11,000	2,513	*22.8*	2,315	*21.0*	198	*1.8*
12,000	2,803	*23.4*	2,585	*21.5*	218	*1.8*
MARRIED COUPLES[1]						
5,000	144	*2.9*	42	*0.8*	102	*2.0*
6,000	434	*7.2*	312	*5.2*	122	*2.0*
7,000	724	*10.3*	582	*8.3*	142	*2.0*
8,000	1,014	*12.7*	852	*10.6*	162	*2.0*
9,000	1,304	*14.5*	1,122	*12.5*	182	*2.0*
10,000	1,710	*17.1*	1,428	*14.3*	282	*2.8*
11,000	2,130	*19.4*	1,878	*17.1*	252	*2.3*
12,000	2,420	*20.2*	2,215	*18.5*	205	*1.7*

[1] Calculations assume that only the husband has earned income.

For incomes above these levels, the figures are the same as those in Tables 1 and 2.

TABLE 5

SINGLE PERSONS AND MARRIED COUPLES - WEEKLY FIGURES

	Charge for 1986-87		Proposed charge for 1987-88		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
50.00	1.48	*3.0*	0.91	*1.8*	0.57	*1.1*
60.00	4.38	*7.3*	3.61	*6.0*	0.77	*1.3*
65.00	5.83	*9.0*	4.96	*7.6*	0.87	*1.3*
70.00	7.28	*10.4*	6.31	*9.0*	0.97	*1.4*
80.00	10.18	*12.7*	9.01	*11.3*	1.17	*1.5*
90.00	13.08	*14.5*	11.71	*13.0*	1.37	*1.5*
95.00	14.53	*15.3*	13.06	*13.7*	1.47	*1.5*
100.00	15.98	*16.0*	14.41	*14.4*	1.57	*1.6*
120.00	21.78	*18.2*	19.81	*16.5*	1.97	*1.6*
140.00	27.58	*19.7*	25.21	*18.0*	2.37	*1.7*
160.00	33.38	*20.9*	30.61	*19.1*	2.77	*1.7*
180.00	39.18	*21.8*	36.01	*20.0*	3.17	*1.8*
200.00	44.98	*22.5*	41.41	*20.7*	3.57	*1.8*
250.00	59.48	*23.8*	54.91	*22.0*	4.57	*1.8*
295.00	72.53	*24.6*	67.06	*22.7*	5.47	*1.9*
300.00	73.98	*24.7*	68.41	*22.8*	5.57	*1.9*
350.00	88.48	*25.3*	81.91	*23.4*	6.57	*1.9*
400.00	105.66	*26.4*	96.60	*24.2*	9.06	*2.3*
500.00	148.99	*29.8*	139.65	*27.9*	9.34	*1.9*
600.00	197.31	*32.9*	187.89	*31.3*	9.42	*1.6*
MARRIED COUPLES[1]						
75.00	1.37	*1.8*	0.55	*0.7*	0.82	*1.1*
80.00	2.82	*3.5*	1.90	*2.4*	0.92	*1.2*
90.00	5.72	*6.4*	4.60	*5.1*	1.12	*1.2*
95.00	7.17	*7.5*	5.95	*6.3*	1.22	*1.3*
100.00	8.62	*8.6*	7.30	*7.3*	1.32	*1.3*
120.00	14.42	*12.0*	12.70	*10.6*	1.72	*1.4*
140.00	20.22	*14.4*	18.10	*12.9*	2.12	*1.5*
160.00	26.02	*16.3*	23.50	*14.7*	2.52	*1.6*
180.00	31.82	*17.7*	28.90	*16.1*	2.92	*1.6*
200.00	37.62	*18.8*	34.30	*17.2*	3.32	*1.7*
250.00	52.12	*20.8*	47.80	*19.1*	4.32	*1.7*
295.00	65.17	*22.1*	59.95	*20.3*	5.22	*1.8*
300.00	66.62	*22.2*	61.30	*20.4*	5.32	*1.8*
350.00	81.12	*23.2*	74.80	*21.4*	6.32	*1.8*
400.00	95.62	*23.9*	88.30	*22.1*	7.32	*1.8*
500.00	137.56	*27.5*	127.79	*25.6*	9.77	*2.0*
600.00	184.62	*30.8*	174.72	*29.1*	9.90	*1.6*

[1] Calculations assume that only the husband has earned income.

TABLE 6A

SINGLE PERSONS AND MARRIED COUPLES AGED 65-79 - WEEKLY FIGURES

	Charge for 1986-87		Proposed charge for 1987-88		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
55.00	0.06	*0.1*	0.00	*0.0*	0.06	*0.1*
60.00	1.51	*2.5*	0.83	*1.4*	0.68	*1.1*
80.00	7.31	*9.1*	6.23	*7.8*	1.08	*1.4*
100.00	13.11	*13.1*	11.63	*11.6*	1.48	*1.5*
120.00	18.91	*15.8*	17.03	*14.2*	1.88	*1.6*
140.00	24.71	*17.6*	22.43	*16.0*	2.28	*1.6*
160.00	30.51	*19.1*	27.83	*17.4*	2.68	*1.7*
180.00	36.31	*20.2*	33.23	*18.5*	3.08	*1.7*
200.00	44.98	*22.5*	40.71	*20.4*	4.27	*2.1*
220.00	50.78	*23.1*	46.81	*21.3*	3.97	*1.8*
MARRIED COUPLES[1]						
90.00	0.98	*1.1*	0.03	*0.0*	0.95	*1.1*
100.00	3.88	*3.9*	2.73	*2.7*	1.15	*1.2*
120.00	9.68	*8.1*	8.13	*6.8*	1.55	*1.3*
140.00	15.48	*11.1*	13.53	*9.7*	1.95	*1.4*
160.00	21.28	*13.3*	18.93	*11.8*	2.35	*1.5*
180.00	27.08	*15.0*	24.33	*13.5*	2.75	*1.5*
200.00	36.59	*18.3*	31.80	*15.9*	4.79	*2.4*
220.00	43.42	*19.7*	39.70	*18.0*	3.72	*1.7*

[1] Calculations assume that only the husband has earned income.

For incomes above these levels, the figures are the same as those in Table 5.

TABLE 6B

SINGLE PERSONS AND MARRIED COUPLES AGED 80 AND OVER - WEEKLY FIGURES

	Charge for 1986-87		Proposed charge for 1987-88		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
55.00	0.06	*0.1*	0.00	*0.0*	0.06	*0.1*
60.00	1.51	*2.5*	0.26	*0.4*	1.25	*2.1*
80.00	7.31	*9.1*	5.66	*7.1*	1.65	*2.1*
100.00	13.11	*13.1*	11.06	*11.1*	2.05	*2.0*
120.00	18.91	*15.8*	16.46	*13.7*	2.45	*2.0*
140.00	24.71	*17.6*	21.86	*15.6*	2.85	*2.0*
160.00	30.51	*19.1*	27.26	*17.0*	3.25	*2.0*
180.00	36.31	*20.2*	32.66	*18.1*	3.65	*2.0*
200.00	44.98	*22.5*	40.14	*20.1*	4.84	*2.4*
220.00	50.78	*23.1*	46.81	*21.3*	3.97	*1.8*
MARRIED COUPLES[1]						
90.00	0.98	*1.1*	0.00	*0.0*	0.98	*1.1*
100.00	3.88	*3.9*	1.84	*1.8*	2.04	*2.0*
120.00	9.68	*8.1*	7.24	*6.0*	2.44	*2.0*
140.00	15.48	*11.1*	12.64	*9.0*	2.84	*2.0*
160.00	21.28	*13.3*	18.04	*11.3*	3.24	*2.0*
180.00	27.08	*15.0*	23.44	*13.0*	3.64	*2.0*
200.00	36.59	*18.3*	30.92	*15.5*	5.67	*2.8*
220.00	43.42	*19.7*	39.70	*18.0*	3.72	*1.7*

[1] Calculations assume that only the husband has earned income.

For incomes above these levels, the figures are the same as those in Table 5.

TABLE 7

SINGLE PERSONS AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES

INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS

	Charge for 1986-87			Proposed charge for 1987-88			Reduction in tax and NIC after proposed change	
Income £	Income tax £	NIC[1] £	Net income after tax and NIC £	Income tax £	NIC[1] £	Net income after tax and NIC £	Income tax and NIC £	As percentage of total income per cent
SINGLE PERSONS								
50.00	1.48	2.50	46.02	0.91	2.50	46.59	0.57	*1.1*
60.00	4.38	4.20	51.42	3.61	3.00	53.39	1.97	*3.3*
65.00	5.83	4.55	54.62	4.96	4.55	55.49	0.87	*1.3*
70.00	7.28	4.90	57.82	6.31	4.90	58.79	0.97	*1.4*
80.00	10.18	5.60	64.22	9.01	5.60	65.39	1.17	*1.5*
90.00	13.08	6.30	70.62	11.71	6.30	71.99	1.37	*1.5*
95.00	14.53	8.55	71.92	13.06	6.65	75.29	3.37	*3.5*
100.00	15.98	9.00	75.02	14.41	9.00	76.59	1.57	*1.6*
120.00	21.78	10.80	87.42	19.81	10.80	89.39	1.97	*1.6*
140.00	27.58	12.60	99.82	25.21	12.60	102.19	2.37	*1.7*
160.00	33.38	14.40	112.22	30.61	14.40	114.99	2.77	*1.7*
180.00	39.18	16.20	124.62	36.01	16.20	127.79	3.17	*1.8*
200.00	44.98	18.00	137.02	41.41	18.00	140.59	3.57	*1.8*
250.00	59.48	22.50	168.02	54.91	22.50	172.59	4.57	*1.8*
295.00	72.53	25.65	196.82	67.06	26.55	201.39	4.57	*1.5*
300.00	73.98	25.65	200.37	68.41	26.55	205.04	4.67	*1.6*
350.00	88.48	25.65	235.87	81.91	26.55	241.54	5.67	*1.6*
400.00	105.66	25.65	268.69	96.60	26.55	276.85	8.16	*2.0*
500.00	148.99	25.65	325.36	139.65	26.55	333.80	8.44	*1.7*
600.00	197.31	25.65	377.04	187.89	26.55	385.56	8.52	*1.4*
MARRIED COUPLES[2]								
75.00	1.37	5.25	68.38	0.55	5.25	69.20	0.82	*1.1*
80.00	2.82	5.60	71.58	1.90	5.60	72.50	0.92	*1.2*
90.00	5.72	6.30	77.98	4.60	6.30	79.10	1.12	*1.2*
95.00	7.17	8.55	79.28	5.95	6.65	82.40	3.12	*3.3*
100.00	8.62	9.00	82.38	7.30	9.00	83.70	1.32	*1.3*
120.00	14.42	10.80	94.78	12.70	10.80	96.50	1.72	*1.4*
140.00	20.22	12.60	107.18	18.10	12.60	109.30	2.12	*1.5*
160.00	26.02	14.40	119.58	23.50	14.40	122.10	2.52	*1.6*
180.00	31.82	16.20	131.98	28.90	16.20	134.90	2.92	*1.6*
200.00	37.62	18.00	144.38	34.30	18.00	147.70	3.32	*1.7*
250.00	52.12	22.50	175.38	47.80	22.50	179.70	4.32	*1.7*
295.00	65.17	25.65	204.18	59.95	26.55	208.50	4.32	*1.5*
300.00	66.62	25.65	207.73	61.30	26.55	212.15	4.42	*1.5*
350.00	81.12	25.65	243.23	74.80	26.55	248.65	5.42	*1.5*
400.00	95.62	25.65	278.73	88.30	26.55	285.15	6.42	*1.6*
500.00	137.56	25.65	336.79	127.79	26.55	345.66	8.87	*1.8*
600.00	184.62	25.65	389.73	174.72	26.55	398.73	9.00	*1.5*

[1] National Insurance Contributions are at the standard Class 1 rate for employment contracted in to the State additional (earnings related) pension scheme.

[2] Calculations assume that only the husband has earned income.

TABLE 8

MARRIED COUPLE WITH TWO CHILDREN - NET WEEKLY INCOME

INCOME TAX, NATIONAL INSURANCE CONTRIBUTIONS AND CHILD BENEFIT

Weekly income in 1986-87					Weekly income in 1987-88				Increase in income after tax, NIC and child benefit	
Income[1]	Child benefit[2]	Income tax	NIC[3]	Net income[4]	Child benefit	Income tax	NIC[3]	Net income[4]	Increase in income	As percentage of total income
£	£	£	£	£	£	£	£	£	£	per cent
75.00	14.20	1.37	5.25	82.58	14.50	0.55	5.25	83.70	1.12	*1.5*
80.00	14.20	2.82	5.60	85.78	14.50	1.90	5.60	87.00	1.22	*1.5*
90.00	14.20	5.72	6.30	92.18	14.50	4.60	6.30	93.60	1.42	*1.6*
95.00	14.20	7.17	8.55	93.48	14.50	5.95	6.65	96.90	3.42	*3.6*
100.00	14.20	8.62	9.00	96.58	14.50	7.30	9.00	98.20	1.62	*1.6*
120.00	14.20	14.42	10.80	108.98	14.50	12.70	10.80	111.00	2.02	*1.7*
140.00	14.20	20.22	12.60	121.38	14.50	18.10	12.60	123.80	2.42	*1.7*
160.00	14.20	26.02	14.40	133.78	14.50	23.50	14.40	136.60	2.82	*1.8*
180.00	14.20	31.82	16.20	146.18	14.50	28.90	16.20	149.40	3.22	*1.8*
200.00	14.20	37.62	18.00	158.58	14.50	34.30	18.00	162.20	3.62	*1.8*
250.00	14.20	52.12	22.50	189.58	14.50	47.80	22.50	194.20	4.62	*1.8*
295.00	14.20	65.17	25.65	218.38	14.50	59.95	26.55	223.00	4.62	*1.6*
300.00	14.20	66.62	25.65	221.93	14.50	61.30	26.55	226.65	4.72	*1.6*
350.00	14.20	81.12	25.65	257.43	14.50	74.80	26.55	263.15	5.72	*1.6*
400.00	14.20	95.62	25.65	292.93	14.50	88.30	26.55	299.65	6.72	*1.7*
500.00	14.20	137.56	25.65	350.99	14.50	127.79	26.55	360.16	9.17	*1.8*
600.00	14.20	184.62	25.65	403.93	14.50	174.72	26.55	413.23	9.30	*1.6*

[1] Calculations assume that only the husband has earned income.

[2] Post July 1986.

[3] National Insurance Contributions are at the standard Class 1 rate for employment contracted in to the State additional (earnings related) pension scheme.

[4] Net income is earnings, less tax and national insurance contributions, plus child benefit. It does not include any means tested benefit.

TABLE 9

SINGLE PERSONS AND MARRIED COUPLES - COMPARISON WITH 1986-87 WHERE EARNINGS INCREASE BY 6½ PER CENT BETWEEN 1986-87 AND 1987-88

Charge for 1986-87			Proposed charge for 1987-88			
Income	Income tax	Percentage of total income taken in tax	Adjusted income[1]	Income tax	Percentage of total income taken in tax	Percentage change in net income
£	£	per cent	£	£	per cent	per cent
SINGLE PERSONS						
3,000	193	*6.4*	**3,195**	208	*6.5*	*6.4*
4,000	483	*12.1*	**4,260**	495	*11.6*	*7.1*
6,000	1,063	*17.7*	**6,390**	1,071	*16.8*	*7.7*
8,000	1,643	*20.5*	**8,520**	1,646	*19.3*	*8.1*
10,000	2,223	*22.2*	**10,650**	2,221	*20.9*	*8.4*
12,000	2,803	*23.4*	**12,780**	2,796	*21.9*	*8.6*
15,000	3,673	*24.5*	**15,975**	3,658	*22.9*	*8.7*
20,000	5,174	*25.9*	**21,300**	5,223	*24.5*	*8.4*
25,000	7,298	*29.2*	**26,625**	7,543	*28.3*	*7.8*
30,000	9,660	*32.2*	**31,950**	10,146	*31.8*	*7.2*
40,000	14,878	*37.2*	**42,600**	15,814	*37.1*	*6.6*
50,000	20,702	*41.4*	**53,250**	22,153	*41.6*	*6.1*
60,000	26,702	*44.5*	**63,900**	28,543	*44.7*	*6.2*
70,000	32,702	*46.7*	**74,550**	34,933	*46.9*	*6.2*
MARRIED COUPLES[2]						
4,000	100	*2.5*	**4,260**	126	*3.0*	*6.0*
6,000	680	*11.3*	**6,390**	701	*11.0*	*6.9*
8,000	1,260	*15.8*	**8,520**	1,276	*15.0*	*7.5*
10,000	1,840	*18.4*	**10,650**	1,851	*17.4*	*7.8*
12,000	2,420	*20.2*	**12,780**	2,426	*19.0*	*8.1*
15,000	3,290	*21.9*	**15,975**	3,289	*20.6*	*8.3*
20,000	4,740	*23.7*	**21,300**	4,726	*22.2*	*8.6*
25,000	6,703	*26.8*	**26,625**	6,926	*26.0*	*7.7*
30,000	9,001	*30.0*	**31,950**	9,460	*29.6*	*7.1*
40,000	14,153	*35.4*	**42,600**	15,061	*35.4*	*6.5*
50,000	19,910	*39.8*	**53,250**	21,331	*40.1*	*6.1*
60,000	25,910	*43.2*	**63,900**	27,721	*43.4*	*6.1*
70,000	31,910	*45.6*	**74,550**	34,111	*45.8*	*6.2*

[1] The adjusted incomes shown for 1987-88 are for illustration. They have been obtained by increasing the corresponding incomes in 1986-87 by 6½ per cent.

[2] Calculations assume that only the husband has earned income.

TABLE 10

SINGLE PERSONS AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES

COMPARISON WITH 1986-87 WHERE EARNINGS INCREASE BY 6½ PER CENT BETWEEN 1986-87 AND 1987-88

INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS

Charge for 1986-87				Proposed charge for 1987-88				
Income	Income tax	NIC[1]	Percentage of total income taken in tax and NIC	Adjusted income[2]	Income tax	NIC[1]	Percentage of total income taken in tax and NIC	Percentage change in income after tax and NIC
£	£	£	per cent	£	£	£	per cent	per cent
SINGLE PERSONS								
50.00	1.48	2.50	*8.0*	**53.25**	1.79	2.66	*8.4*	*6.0*
60.00	4.38	4.20	*14.3*	**63.90**	4.66	3.19	*12.3*	*9.0*
65.00	5.83	4.55	*16.0*	**69.22**	6.10	4.84	*15.8*	*6.7*
70.00	7.28	4.90	*17.4*	**74.55**	7.54	5.21	*17.1*	*6.9*
80.00	10.18	5.60	*19.7*	**85.20**	10.41	5.96	*19.2*	*7.2*
90.00	13.08	6.30	*21.5*	**95.85**	13.29	6.70	*20.9*	*7.4*
95.00	14.53	8.55	*24.3*	**101.18**	14.73	9.10	*23.6*	*7.6*
100.00	15.98	9.00	*25.0*	**106.50**	16.16	9.58	*24.2*	*7.7*
120.00	21.78	10.80	*27.2*	**127.80**	21.91	11.50	*26.1*	*8.0*
140.00	27.58	12.60	*28.7*	**149.10**	27.67	13.41	*27.6*	*8.2*
160.00	33.38	14.40	*29.9*	**170.40**	33.42	15.33	*28.6*	*8.4*
180.00	39.18	16.20	*30.8*	**191.70**	39.17	17.25	*29.4*	*8.6*
200.00	44.98	18.00	*31.5*	**213.00**	44.92	19.17	*30.1*	*8.7*
250.00	59.48	22.50	*32.8*	**266.25**	59.30	23.96	*31.3*	*8.9*
295.00	72.53	25.65	*33.3*	**314.18**	72.24	26.55	*31.4*	*9.4*
300.00	73.98	25.65	*33.2*	**319.50**	73.67	26.55	*31.4*	*9.4*
350.00	88.48	25.65	*32.6*	**372.75**	88.05	26.55	*30.7*	*9.4*
400.00	105.66	25.65	*32.8*	**426.00**	107.00	26.55	*31.3*	*8.8*
500.00	148.99	25.65	*34.9*	**532.50**	154.27	26.55	*34.0*	*8.1*
600.00	197.31	25.65	*37.2*	**639.00**	207.39	26.55	*36.6*	*7.4*
MARRIED COUPLES[3]								
75.00	1.37	5.25	*8.8*	**79.88**	1.86	5.59	*9.3*	*5.9*
80.00	2.82	5.60	*10.5*	**85.20**	3.30	5.96	*10.9*	*6.1*
90.00	5.72	6.30	*13.4*	**95.85**	6.17	6.70	*13.4*	*6.4*
95.00	7.17	8.55	*16.5*	**101.18**	7.61	9.10	*16.5*	*6.5*
100.00	8.62	9.00	*17.6*	**106.50**	9.05	9.58	*17.5*	*6.7*
120.00	14.42	10.80	*21.0*	**127.80**	14.80	11.50	*20.6*	*7.1*
140.00	20.22	12.60	*23.4*	**149.10**	20.55	13.41	*22.8*	*7.4*
160.00	26.02	14.40	*25.3*	**170.40**	26.30	15.33	*24.4*	*7.7*
180.00	31.82	16.20	*26.7*	**191.70**	32.05	17.25	*25.7*	*7.9*
200.00	37.62	18.00	*27.8*	**213.00**	37.81	19.17	*26.8*	*8.1*
250.00	52.12	22.50	*29.8*	**266.25**	52.18	23.96	*28.6*	*8.4*
295.00	65.17	25.65	*30.8*	**314.18**	65.12	26.55	*29.2*	*9.0*
300.00	66.62	25.65	*30.8*	**319.50**	66.56	26.55	*29.1*	*9.0*
350.00	81.12	25.65	*30.5*	**372.75**	80.94	26.55	*28.8*	*9.1*
400.00	95.62	25.65	*30.3*	**426.00**	96.46	26.55	*28.9*	*8.7*
500.00	137.56	25.65	*32.6*	**532.50**	142.42	26.55	*31.7*	*7.9*
600.00	184.62	25.65	*35.0*	**639.00**	194.22	26.55	*34.5*	*7.3*

[1] National Insurance Contributions are at the standard Class 1 rate for employment contracted in to the State additional (earnings related) pension scheme.

[2] The adjusted incomes shown for 1987-88 are for illustration. They have been obtained by increasing the corresponding incomes in 1986-87 by 6½ per cent.

[3] Calculations assume that only the husband has earned income.

TABLE 11

MARRIED COUPLE WITH TWO CHILDREN - INCOME ALL EARNED - WEEKLY FIGURES

COMPARISON WITH 1986-87 WHERE EARNINGS INCREASE BY 6½ PER CENT BETWEEN 1986-87 AND 1987-88

INCOME TAX, NATIONAL INSURANCE CONTRIBUTIONS AND CHILD BENEFIT

1986-87					1987-88					
Income[1]	Child Benefit[2]	Income tax	NIC[3]	Net income[4]	Adjusted income[5]	Child benefit	Income tax	NIC[3]	Net income[4]	Percentage change in net income
£	£	£	£	£	£	£	£	£	£	per cent
75.00	14.20	1.37	5.25	82.58	**79.88**	14.50	1.86	5.59	86.93	*5.3*
80.00	14.20	2.82	5.60	85.78	**85.20**	14.50	3.30	5.96	90.44	*5.4*
90.00	14.20	5.72	6.30	92.18	**95.85**	14.50	6.17	6.70	97.48	*5.7*
95.00	14.20	7.17	8.55	93.48	**101.18**	14.50	7.61	9.10	98.97	*5.9*
100.00	14.20	8.62	9.00	96.58	**106.50**	14.50	9.05	9.58	102.37	*6.0*
120.00	14.20	14.42	10.80	108.98	**127.80**	14.50	14.80	11.50	116.00	*6.4*
140.00	14.20	20.22	12.60	121.38	**149.10**	14.50	20.55	13.41	129.64	*6.8*
160.00	14.20	26.02	14.40	133.78	**170.40**	14.50	26.30	15.33	143.27	*7.1*
180.00	14.20	31.82	16.20	146.18	**191.70**	14.50	32.05	17.25	156.90	*7.3*
200.00	14.20	37.62	18.00	158.58	**213.00**	14.50	37.81	19.17	170.52	*7.5*
250.00	14.20	52.12	22.50	189.58	**266.25**	14.50	52.18	23.96	204.61	*7.9*
295.00	14.20	65.17	25.65	218.38	**314.18**	14.50	65.12	26.55	237.01	*8.5*
300.00	14.20	66.62	25.65	221.93	**319.50**	14.50	66.56	26.55	240.89	*8.5*
350.00	14.20	81.12	25.65	257.43	**372.75**	14.50	80.94	26.55	279.76	*8.7*
400.00	14.20	95.62	25.65	292.93	**426.00**	14.50	96.46	26.55	317.49	*8.4*
500.00	14.20	137.56	25.65	350.99	**532.50**	14.50	142.42	26.55	378.03	*7.7*
600.00	14.20	184.62	25.65	403.93	**639.00**	14.50	194.22	26.55	432.73	*7.1*

[1] Calculations assume that only the husband has earned income.

[2] Post July 1986.

[3] National Insurance Contributions are at the standard Class 1 rate for employment contracted in to the State additional (earnings related) pension scheme.

[4] Net income is earnings, less tax and national insurance contributions, plus child benefit. It does not include any means tested benefit.

[5] The adjusted incomes shown for 1987-88 are for illustration. They have been obtained by increasing the corresponding incomes in 1986-87 by 6½ per cent.

TABLE 12

MARRIED COUPLES - HUSBAND AND WIFE BOTH WORKING

COMPARISON OF INCOME AFTER TAX IN 1986-87 AND 1987-88
WHERE EARNINGS INCREASE BY 6½ PER CENT

Weekly income in 1986-87		Charge in 1986-87			Adjusted weekly income in 1987-88[1]		Proposed charge in 1987-88			
Husband	Wife	Joint	Income tax	Percentage of income taken in tax	Husband	Wife	Joint	Income tax	Percentage of income taken in tax	Percentage change in income after tax
£	£	£	£	per cent	£	£	£	£	per cent	per cent
100.00	**50.00**	150.00	10.09	*6.7*	**106.50**	**53.25**	159.75	10.84	*6.8*	*6.4*
	100.00	200.00	24.59	*12.3*		**106.50**	213.00	25.21	*11.8*	*7.1*
	150.00	250.00	39.09	*15.6*		**159.75**	266.25	39.59	*14.9*	*7.5*
	200.00	300.00	53.59	*17.9*		**213.00**	319.50	53.97	*16.9*	*7.8*
	300.00	400.00	82.59	*20.6*		**319.50**	426.00	82.72	*19.4*	*8.2*
150.00	**50.00**	200.00	24.59	*12.3*	**159.75**	**53.25**	213.00	25.21	*11.8*	*7.1*
	100.00	250.00	39.09	*15.6*		**106.50**	266.25	39.59	*14.9*	*7.5*
	150.00	300.00	53.59	*17.9*		**159.75**	319.50	53.97	*16.9*	*7.8*
	200.00	350.00	68.09	*19.5*		**213.00**	372.75	68.35	*18.3*	*8.0*
	300.00	450.00	97.54	*21.7*		**319.50**	479.25	99.10	*20.7*	*7.9*
200.00	**50.00**	250.00	39.09	*15.6*	**213.00**	**53.25**	266.25	39.59	*14.9*	*7.5*
	100.00	300.00	53.59	*17.9*		**106.50**	319.50	53.97	*16.9*	*7.8*
	150.00	350.00	68.09	*19.5*		**159.75**	372.75	68.35	*18.3*	*8.0*
	200.00	400.00	82.59	*20.6*		**213.00**	426.00	82.72	*19.4*	*8.2*
	300.00	500.00	117.54	*23.5*		**319.50**	532.50	118.59[2]	*22.3*	*8.2*
300.00	**50.00**	350.00	68.09	*19.5*	**319.50**	**53.25**	372.75	68.35	*18.3*	*8.0*
	100.00	400.00	82.59	*20.6*		**106.50**	426.00	82.72	*19.4*	*8.2*
	150.00	450.00	97.54	*21.7*		**159.75**	479.25	99.10	*20.7*	*7.9*
	200.00	500.00	117.54	*23.5*		**213.00**	532.50	118.59[2]	*22.3*	*8.2*
	300.00	600.00	147.96[2]	*24.7*		**319.50**	639.00	147.35[2]	*23.1*	*8.8*
400.00	**50.00**	450.00	97.54	*21.7*	**426.00**	**53.25**	479.25	99.10	*20.7*	*7.9*
	100.00	500.00	117.54	*23.5*		**106.50**	532.50	121.43	*22.8*	*7.5*
	150.00	550.00	136.13[2]	*24.8*		**159.75**	585.75	137.54[2]	*23.5*	*8.3*
	200.00	600.00	150.63[2]	*25.1*		**213.00**	639.00	151.91[2]	*23.8*	*8.4*
	300.00	700.00	179.63[2]	*25.7*		**319.50**	745.50	180.67[2]	*24.2*	*8.5*

[1] The adjusted incomes shown for 1987-88 are for illustration. They have been obtained by increasing the corresponding incomes in 1986-87 by 6½ per cent.

[2] Denotes wife's earnings election beneficial.

INLAND REVENUE
Press Release

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17 March 1987

[3x]

THE BUDGET 1987: INCOME TAX

1. In his Budget today, the Chancellor of the Exchequer announced a reduction in the basic rate of income tax from 29 per cent to 27 per cent and increases in the main personal allowances in line with the statutory indexation provisions. He also announced a new, higher level of age allowance for people aged 80 and over and a substantial increase in the blind person's allowance.

2. The changes will mean that most taxpayers will pay between 1½ and 2 per cent less of their income in tax. For example, a single person earning £140 per week will pay £2.37 per week less in tax; and a married man earning £200 per week will pay £3.32 per week less. The tax reductions, including any tax overpaid from 6 April, will be in pay packets on the first pay day after 17 May.

3. The increases in personal allowances are based on the increase in the Retail Price Index of 3.7 per cent in the year to December 1986, rounded in accordance with the statutory provisions. The married man's allowance is increased by £140 to £3,795 and the single person's allowance and wife's earned income allowance are increased by £90 to £2,425. The additional personal allowance (mainly for single parents) and the widow's bereavement allowance - which are automatically equal to the difference between the married and single allowances - increase by £50 to £1,370.

4. Age allowances are also increased: by £110 to £2,960 for the single and by £170 to £4,675 for married couples. The income limit for the age allowances rises to £9,800. The Chancellor also proposes to introduce a higher level of age allowance for single people aged 80 and over and for married couples where one or both partners are aged 80 and over. For single people this will be £3,070 and for married couples it will be £4,845. The Budget changes mean that a married couple aged 65-79 with income of £160 per week will pay £2.35 less tax and a couple aged 80 or over with the same income will pay £3.24 less.

5. The Chancellor proposes to increase the blind person's allowance by £180 to £540. Where a husband and wife are both blind, the allowance for the couple rises by £360 to £1,080.

6. The Chancellor also proposes to increase the thresholds for the 40 per cent and 45 per cent higher rates of tax. The upper limit of the basic rate band is to be increased by £700 to £17,900 in line with statutory indexation. The cut in the basic rate is therefore worth a maximum of £358 per year or £6.88 per week to any taxpayer. The threshold for the 45 per cent rate will go up by £200 to £20,400. The thresholds for the 50 per cent, 55 per cent, and 60 per cent rates will remain at their 1986-87 levels.

/7. The Chancellor's

7. The Chancellor's proposals in detail are as follows:

(1) Personal Allowances

	1986-87	Proposed increase		1987-88 Proposed level
	£	£	per cent	£
Single person's allowance and wife's earned income allowance	2,335	90	*3.9*	2,425
Married man's allowance	3,655	140	*3.8*	3,795
Additional personal allowance and widow's bereavement allowance	1,320	50	*3.8*	1,370
Blind person's allowance	360	180	*50.0*	540
Single age allowance (age 65-79)	2,850	110	*3.9*	2,960
Married age allowance (age 65-79)	4,505	170	*3.8*	4,675
Single age allowance (age 80 and over)	2,850	220	*7.7*	3,070
Married age allowance (age 80 and over)	4,505	340	*7.5*	4,845
Age allowance income limit	9,400	400	*4.3*	9,800

(2) Rates and Rate bands

Rate of tax	1986-87 taxable income	Proposed increase in starting point		1987-88 proposed taxable income
per cent	£	£	per cent	£
27	-	-	-	0-17,900
29	0-17,200	-	-	-
40	17,201-20,200	700	4.1	17,901-20,400
45	20,201-25,400	200	1.0	20,401-25,400
50	25,401-33,300	-	-	25,401-33,300
55	33,301-41,200	-	-	33,301-41,200
60	Over 41,200	-	-	Over 41,200

/8. The total

8. The total direct revenue costs of these proposals will be about £2.7 billion in 1987-88, some £1.9 billion more than the cost of statutory indexation of allowances and thresholds. The details are in the following table.

Costs (£million)	**1987-88**		**1988-89**
	total costs	costs above indexation	costs above indexation
Personal allowances	705	10	10
Basic rate limit	60	-	-
Reduction of 2p in basic rate*	1,910	1,910	2,690
Increase in further higher rate thresholds	5	-40	-80
Totals	2,680	1,880	2,620

* Excluding costs of £290 million in 1987-88 and £110 million in 1988-89 for the consequential reduction in the rate of Advance Corporation Tax.

Illustrative changes

9. The effects of the changes on individual taxpayers at various levels of income are illustrated in the attached tables, which assume that the taxpayer has no reliefs other than his or her personal allowance. Tables 1 and 2 show the effects of the changes in income tax proposed in the Budget for 1987-88 for single and married taxpayers compared with 1986-87. Table 3 shows the effects of the proposals for 1987-88 compared with statutory indexation. Table 4A shows the effects compared with 1986-87 for people aged 65 to 79 and Table 4B for those aged 80 and over. Tables 5, 6A and 6B give information in weekly, instead of annual, terms for levels of income up to £600 a week.

10. Tables 7 and 8 show the effects on weekly net income of single and married taxpayers and families with two children, after taking account of national insurance contributions and child benefit.

11. The remaining tables illustrate the effect of the income tax and NIC changes after taking account of the effects of increases in earnings. For illustration, an increase in earnings of 6.5 per cent has been assumed. This is the rate of increase between 1986-87 and 1987-88 taken by the Government Actuary as a working assumption for his annual review of national insurance contributions (see paragraph 3.02 of the Autumn Statement 1986). Table 11 includes the effect of child benefit for a married couple with two children. Finally, Table 12 shows changes in the weekly income after tax of a married couple where both partners are working.

Note for Editors

The indexed figures for allowances and thresholds are set out in the Annex to this notice and also in an Order made today by the Treasury as required by Section 24(9) of the Finance Act 1980.

/ANNEX

ANNEX

THE BUDGET 1987: INCOME TAX

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

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

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

2. Higher rate thresholds and bands

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

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

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

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

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