

PO-CH/NL/0361

PART I

**SECRET**

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PO -CH /NL/0361



PART F

1988 BUDGET SPEECH AND  
STATEMENT

PO -CH /NL/0361

PART F

PART F

DD's 25 years NAGS 24-11-95

10-3-88

CLOSED

CONTINUED ON:-



CONFIDENTIAL

FROM: P J CROPPER  
DATE: 8 March 1988

CHANCELLOR

cc Financial Secretary


SIR D WOLFSON

The attached papers have been sent to me by David Wolfson, with the message "I look forward to hearing from you", and a telephone number.

2. I should like to be able to say "I cannot possibly discuss such a matter outside the Treasury". But that would confirm to him that something is up.

3. I wonder whether something the Greek shipowners have picked up has led them to attribute excessive significance to the Anglo-Scottish harmonisation. About which I heard nothing at the time.

4. Guidance, please.

  
P J CROPPER

*When you cannot discuss tax matters with Sir D or anyone else before the Budget. We will need to have a meeting all over the business & domestic (the work of March)*

*Meanwhile, we better have a talk - viz a RS - or the Scottish people, who were from.*

*A. N. C. Embiricos*

*Telephone: 01-930 7561*

*19, St. James's Square*  
*London SW1Y 4HR*

15th February 1988

T Gibson Esq  
Thomas Gibson Fine Art Ltd  
9a New Bond Street  
London W1Y 9PE

*Dear Thomas*

I enclose the memorandum as discussed. I have tried to keep it as short as possible.

Other parties have approached Mr Lawson via Mr Rhodes James and the Treasury Minister Mr Brooke via Anthony Nelson. Additionally I know that industry representations have been made to the Lord Chancellor's office by the Baltic Exchange, Chartered Accountants and other interested bodies.

There will of course have been representations made by international businesses and others affected by the proposed changes, that I do not know about.

Do let me know your opinion.

With many thanks

*Yours*  
*A. H.*

M E M O R A N D U M

1. On 3rd September 1987, the Lord Chancellor and the Lord Advocate submitted a Joint Report to Parliament with proposals for revising the law of domicile with a view to removing certain defects and anomalies and bringing English and Scottish law more into line.
2. The recommended changes have been the subject of consultation and there is one proposal which, if adopted, could have far-reaching adverse effects which appear to have been seriously under-estimated.
3. Under the existing law, a man's domicile is that of his country of origin and that "domicile of origin" is not easily changed. It would have to be clearly established that he had left his home country to live in another indefinitely with no intention of returning. His children would take their father's domicile. The Commissions propose that the concept of the domicile of origin should disappear from the laws of the United Kingdom. In future, a person would be domiciled in the country simply where he had settled indefinitely. His child would be domiciled in the country with which he was most connected (possibly, but by no means necessarily, the same country of domicile as his father).
4. Apart from replacing a tried and tested concept by a new one which introduces uncertainty with undefined terms such as "settle" and "most connected with", the change would have two serious and undesirable consequences.
  - a. Those who have come with their dependants to live in this country on a long-term ("indefinite") basis would be cut off from the valued heritage of their homeland, its culture, customs and laws, and would be subjected in important matters to laws that may be alien to their cultural background.
  - b. Many such residents are businessmen who are here (albeit indefinitely) only because of their work. If the principle of the domicile of origin is abolished, they will more easily lose their foreign domicile and thus be exposed to U.K. tax liability on all their income world-wide. This is not the objective of the proposed law reform but it is a side-effect which has important ramifications. It would certainly not encourage the future establishment of foreign businesses in

the U.K. and could drive away many of those already here, together with the valuable contribution they make to our invisible earnings.

5. This threat to the foreign business community was well recognised when similar proposals were put forward in 1958, 1959 and 1963 and for that reason they were quashed. The threat is as important today, but is being minimised as affecting "relatively few" and not a "significant issue". This is unfounded.
6. The foreign business community is an important presence throughout the City of London, in banking, insurance, shipping and other markets. For example, on the Baltic Exchange some 30 per cent of its corporate members represent foreign shipping interests. One of the largest shipowners mutual insurance associations in London covers some 100 million tons of shipping of which 92% is owned by foreign interests. As a major shipping centre, London attracts foreign shipping organisations and when they are here they tend to use our markets not only for chartering but also for insuring and buying and selling ships, to purchase technical equipment, and to raise finance.
7. However, it must be recognised that there are other shipping centres to which these activities can easily be transferred, and we have seen in the past how quickly London can become unattractive to certain groups of businessmen, with serious consequential losses to our economy.
8. Such repercussions are too important to risk in the interests of "tidying up" the law and there is much concern in the City that the long-established concept of the domicile of origin should not be interfered with.

8th February 1988

FROM: P J CROPPER  
 DATE: 8 March 1988

PS/CHANCELLOR

cc PS/Financial Secretary  
 Mr Culpin  
 Mr Byatt  
 Miss Sinclair  
 Mr R I G Allen  
 Mr McPherson  
 Miss Hay

*Now.*

Mr Isaac  
 Mr Corlett  
 Mr Beighton  
 Mr Lusk  
 Mr Kuczys  
 Miss McFarlane  
 Mr Hinton  
 Mr Willmer  
 PS/IR

BUDGET WARNING OVER PENSIONS

One reason why there is probably no need, yet, to cap the lump sum for personal pensions is that it would be very difficult to have an entitlement to £150,000 at the present time.

2. A £150,000 lump sum implies a £600,000 fund at retirement.
3. From 1971 to 1976 the limit on self-employed retirement annuity contributions was £1,500 a year. It crept up to £3,000. In 1980, it was set at 17½% of "relevant earnings", with no cap.
4. Even with "relevant earnings" of £200,000 a year the contribution limit would be £35,000. It will be some years before many self-employed people reach a fund of £600,000.
5. What this does do, once again, is to illustrate the disparity between tax relief available under the occupational and the self-employed regimes.

  
 P J CROPPER



FROM: J M G TAYLOR

DATE: 8 March 1988

*pmf*

MR A W KUCZYS

cc PS/Financial Secretary  
Mr Culpin  
Mr R I G Allen  
Miss Sinclair  
Miss Hay  
Mr Cropper  
Mr Isaac - IR  
Mr Corlett - IR  
PS/IR

**BUDGET WARNING OVER PENSIONS**

The Chancellor was grateful for your minute of 7 March.

2. He is content to leave things as they are for the time being. He has commented, however, that we will need to keep this under review.

*JMG*

J M G TAYLOR



CONFIDENTIAL

FROM: R I G ALLEN  
DATE: 8 MARCH 1988

SIR P MIDDLETON

- cc PS/Chancellor
- PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Mr Pickford
- Mr Cropper
- Mr Tyrie
- Mr Call

PRE-BUDGET ANNOUNCEMENTS

I attach a list of anticipated announcements and other events involving other departments that are likely to attract public attention in the run-up to the Budget, and which could have a bearing on the Budget or Budget related matters.

2. I doubt whether there is anything in the list to cause us great alarm. But it is worth noting that:

i. The NHS will remain in the news.

X ii. The Standing Committee Debate (9 March) on the Social Security Order could be awkward because its purpose is to ratify the Autumn Statement proposals on NICs and it may be interpreted as ruling out any substantive proposals in the Budget on LELs, UELs and other NIC changes. The view taken, however, was that to attempt to change the date of the Debate would be both difficult and could give rise to even greater and more unhelpful speculation on what the Budget might or might not contain.

iii. The consideration of Lords' amendments to the Social Security Bill on 14 March is unhelpfully timed, particularly in relation to child benefit.

R I G ALLEN

*Handwritten notes in red ink:*  
 I see no problem on X, which is a warning + warning matter - a consequence of the AS. Even if there were to be a change in NICs in the Autumn, it would be expected to be handled in AS. No problem to change April - Nov.

Mon	7 March	Inner Cities document
Tues	8 March	Green Paper on Restrictive Trade Practices
Tues	8 March	DHSS First Orders
Tues	8 March	Estimates Day, including re storm damage recovery scheme
Tues	8 March	DHSS officials appear before Parliamentary Commission for Administration
Tues	8 March	(Possibly) Griffiths Review of Community care
Wed	9 March	Debate on draft Social Security [w. Planning Act] (Contributions, Re-rating) Order 1988
Wed	9 March	Unions lobby Parliament on NHS
Wed	9 March	Mr Parkinson gives evidence to the Energy Committee on electricity privatisation
Thurs	10 March	TCSC report on EC tax harmonisation
Thurs	10 March	Remaining Stages of the Regional Development Grants (Termination) Bill
Thurs	10 March	Consolidated Fund Bill
Fri	11 March	Demise of £1 note (already announced)
Mon	14 March	COHSE protest march for NHS
Mon	14 March	RCN day of protest for NHS
Mon	14 March	Progress on Remaining Stages of Housing (Scotland) Bill
Mon	14 March	Consideration of Lords Amendments to Social Security Bill, including on child benefit

Pre-Budget

Inland Revenue rebuttal of Times articles

2(111)



THE MINISTER OF STATE

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ECONOMIC SECRETARY	
REC'D	08 MAR 1988
BY	Mr M Williams
COPIES TO	Ps/CHX 2
	Ps/FST
	Mr Scholer
	Miss Healey

9 March 1988

Dear John.

PS/IR.

Thank you for your letter of 17 February 1988 in which you convey Conoco's strong support for the representations which the UK Offshore Operators' Association has made for fiscal changes in this month's budget. It is very helpful for me to be aware of your views although I am sure that you will appreciate that I am unable to respond in substance at this stage.

You also drew specific attention to the Columba project. My Department gave very careful consideration to the issue of separate field status but reluctantly concluded, as you are aware, that this was not warranted on the basis of the geological evidence. We have made clear to the Columba partners that it is open to them to consider asking the Secretary of State to use his discretionary powers under the Petroleum and Submarine Pipelines Act 1975 to make a royalty repayment for development purposes. I understand that such a request has now been made and that discussions with my Department are expected to begin soon.

I am copying this letter to Peter Lilley. Thank you once again for writing.

*[Handwritten signature]*

PETER MORRISON

Reeds  
alone

POLITICS Tax

(EMBARGOED to 1030 Tuesday March 8)

cc:  
PPS ✓  
PS/CSF  
PS/ISS  
Mr [unclear]  
Mr [unclear]  
Mr [unclear]  
RA  
HB  
RE

LABOUR DEMANDS BUDGET CLAMPDOWN ON TAX 'DODGES'

By Chris Moncrieff, Press Association Chief Political Correspondent

Britain's tax system is so riddled with loopholes that a man earning £1 million a year could avoid paying any income tax, a Labour front bench spokesman said today.

Mr Gordon Brown, Shadow spokesman on Treasury affairs, has called on the Chancellor, Mr Nigel Lawson, to use  
7+ More 4 Headlines 6+ 00+ < >

[Handwritten signature]

Press Association

next week's Budget to close fivholes tax loopholes, which he says, co: of Exchequer millions of pounds a yeathe  
Mr Brown said someone with a £1 million annual income could exploit n the loopholes to avoid paying income tax.

"Tax avoidance has become such a big industry that it is costing the country at least £1,000 million a year - money that could be better spent on the National Health Service or reducing taxes for the ordinary citizen stuck with PAYE," he told a press conference at Labour's south London headquarters.

7+ More 4 Headlines 6+ 00+ < 7 >

Press Association

Mr Brown listed the major loopholes "that are making our country one of the most lucrative tax havens for the very rich":

:: Up to £900 million was involved in a system called bed and breakfasting under which shares or unit trusts were sold late one night and bought back the next morning, creating a book loss to wipe out any capital gains tax liability.

:: Executive share option schemes for 10,000 of the best-paid directors meant £100 million a year was being squandered.

:: Up to £85 million a year was  
7+ More 4 Headlines 6+ 00+ < ■ >

Press Association

UK File

on 08-03-88 at 10:30

handed out to top-rate taxpayers who could avoid paying £24,000 in tax by putting money into buying hotels for the homeless, private hospitals, nursing homes and even private schools.

:: Pop stars and businessmen who used Britain's most depressed areas in Enterprise Zones as tax shelters received £60 million a year.

:: Forestry tax relief to celebrities, politicians, judges and industrialists cost £35 million a year and meant the wrong trees were being planted in the wrong place by the wrong people for the wrong reasons.

7+ More 4 Headlines 6+ 00+ <■7>

Press Association

UK File

on 08-03-88

0 .3

Mr Brown: "The Chancellor must use his budget to close down these tax avoidance dodges which do for the efficiency of our economy which make Britain an increasingly polarised society."  
end jc

7+ More 4 Headlines 6+ 00+ >

From : D L C Peretz  
Date : 8 March 1988

MR HUDSON

cc Sir P Middleton  
Sir T Burns  
Mr Scholar  
Mr Odling-Smee

**BUDGET STATEMENT : FOURTH DRAFT**

One or two comments.

2. At the end of paragraph B16, the 8% should now be 9% (and by Budget Day might be different again). This caused me to wonder whether it is in any event such a strong point. An alternative would be to say that the Louvre agreement was followed by a period of six months of broad stability between the world's major currencies; and despite the period of dollar turbulence that followed in the wake of the stock market collapse, there has now been a further period of broad stability since the beginning of 1988.

3. On Section C, Mr Scholar is going to let you have a comment on the last sentence of C5. We both felt its a little heavy-handed, given that there will be a reference in the Red Book.

4. My only other comment is to wonder whether it might be possible very slightly to strengthen the exchange rate reference by expanding the last sentence of C4 to read "... inherent in maintaining this policy in future." This formulation would also be more accurate, since the discipline will come from sticking to the policy over a prolonged period, and through episodes of downward pressure on the exchange rate as well as upward pressure.

*DLCP*

D L C PERETZ

## BUDGET SECRET: TASK FORCE LIST

Copy No 1 of **A**

FROM: A G TYRIE

DATE: 8 MARCH 1988

**MR HUDSON**

cc PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Mr Odling-Smee  
Mr Turnbull  
Mr Scholar  
Mr Culpin  
Mr Cropper  
Mr Call

## BUDGET STATEMENT FOURTH DRAFT

Here are a few further, pretty minor, suggestions:

✓ A2. I would add a line: 'These policies were overwhelmingly endorsed a third time by the electorate'. It will get an early murmur of approval from our side.

x B2. I would say when reliable figures were first collected.

x B4. I suggest delete: 'While inflation averaged a shade over 4½%'.  
✓

D2. I would add a sentence at the end in layman's language along the lines: 'In other words, Labour paid for X% of their spending by borrowing the money'.  
✓

D11. I prefer Mr Odling-Smee's wording for this in his note today. I don't think its juxtaposition with D10 is a major flaw, as Mr Turnbull suggests. The first line makes clear

that reduced debt interest is helping finance increases in public expenditure already announced, not possible new increases. But I would delete the last sentence of the D11 altogether. It could be misinterpreted (deliberately) by spending ministers and it is not essential.

E5. This reads well but the second sentence will provoke the question from interviewers: 'What should have been done that hasn't been?'

E6. 'Taxation of marriage' stretches the meaning a little. Taxation treatment is more accurate.

F4. I would delete 'that can arise' (line 5).

F7. (Penultimate line.) I would suggest: '... be able to transfer any or all of it to his wife, ...'.

F10. I would turn the last sentence into two: 'This historic reform for the first time ever gives a fair deal to married women. It will cost a little under £700 million in 1990-91'.

F12. (Line 3.) Do you mean 'tax rate' or 'top rate'?

G11. There are two 'Lloyd's' in the last sentence. It could end with 'their special features'.

G20. BES relief is not available for the old/existing assured tenancy scheme. So I suggest a change in the third line: '... residential property on the new assured tenancy basis'.



✓ G28 to G30. The word 'impost' crops up rather a lot.

X H1. Is it worth adding a line on the origins of covenance and maintenance, its arbitrariness etc?

✓ J6. The penultimate sentence is a bit odd. If the duty is to rise again I don't see the value in putting the £1,600 figure into circulation.

✓ K1. Rather than say that home ownership is at 62% of all households I would either say: 'Bringing the total to almost two-thirds', or state the increase since 1979.

✓ K3. I would delete 'if anything' (line 5). Slight amendment to the last sentence: 'This illustrates in a quite remarkable fashion how the habit of share ownership is now taking root'.

X K17. I would add at the end: 'own exempt slice of £5,000'.

✓ K19. I presume 'loan' (line 3) should be 'lower'.

✓ L16. As I think I have mentioned before, I don't see any point in including this paragraph. I doubt that it will be politically possible to increase car scales much further in this Parliament. This threat would merely provoke even more opposition at Committee stage.

L29. John Smith advocated some action on the thresholds in his 'Woman's Own' interview. It will be interesting to see

whether Neil Kinnock manages to say the same thing or opposes the doubling of threshold increases.

L43. Rather than 'satisfactory' (line 1) I suggest 'acceptable'. 'Acceptable' carries a double-edged implication, that it is acceptable both to those who would like to see it higher and to those that would like to see it lower. But 'satisfactory' sounds too final.

AGT.

A G TYRIE

## BUDGET CONFIDENTIAL

From: J ODLING-SMEE  
8th March 1988

MR TURNBULL

cc Mr Sedgwick  
Mr S Davies  
Mr Mowl  
Ms Turk  
Mr Hudson  
Mr Tyrie

**BUDGET STATEMENT: DEBT INTEREST**

You have pointed out the problems with paragraph D.11 arising from the fact that it juxtaposes very large figures for debt interest savings against paragraph D.10 about public expenditure increases.

2. There seem to be two possible solutions: move it forward so that it comes near the discussion of the PSBR, or delete it altogether. I suggest that we put both options to the Chancellor.

3. If it were to be moved forward, the only sensible place seems to be after paragraph D.6. (If it came after D.9 the flow up to that point would be very smooth. But the problem of juxtaposing it with D.10 would still remain.) A possible draft of a paragraph to follow D.6 is:

"The large reductions in borrowing in recent years have greatly reduced the cost of servicing the national debt. Debt interest now accounts for more than  $\frac{1}{2}$  a percentage point less of GDP than it did only three years ago. This may not sound very much, but it implies a saving of almost £3 billion a year. This sum of money has been available to reduce the burden of taxation and pay for extra spending on public services."

4. I have reverted here to net debt interest rather than gross debt interest since I have linked it to reductions in taxation as

BUDGET CONFIDENTIAL

will as increases in spending. I have also omitted the reference to further savings up to 1991-92, mainly because the medium-term budget balance is not announced until paragraph D.8.

5. If this approach were adopted, a few consequential changes would be required:

D.7, 1st line: replace "this" by "the"

D.11: some reference to debt interest payments in future could replace this paragraph:

"The balanced budget path I have set out in this year's MTFs will help to reduce debt interest payments even more. This means that, within a given total of public expenditure, more can be devoted to priority programmes."

6. Any further comments by lunchtime tomorrow, please.

DA

J ODLING-SMEE

FROM: A TURNBULL  
DATE: 8 MARCH 1988

MR ODLING-SMEE

cc Mr Sedgwick  
Mr S Davies  
Mr Mowl  
Ms Turk  
Mr. Hudson  
Mr Tyrie

#### DEBT INTEREST

I see a significant difficulty in the way D11 is drafted which was already inherent but is exacerbated by your proposed recalculation of the interest saving.

2. The reader is led to the conclusion that as a result of setting a balanced budget £5 billion is being saved and can be devoted to priority programmes within a given public expenditure total. This is not only misleading but also highly prejudicial to the Treasury's position in the coming Survey.

3. I say misleading because a statement of what debt interest would have been had it stayed at the 1985-86 proportion of GDP is being set alongside a statement about changes in expenditure plans in successive Surveys. Even by last year's FSBR, debt interest in 1987-88 was projected to be  $\frac{1}{2}$  percentage point below 1985-86 and in 1990-91 a further  $\frac{1}{2}$  percentage point below that. By the Autumn Statement/PEWP the decline was even greater. Thus in the latest expenditure plans we have already allowed for most of the improvement.

4. Thus the improvement for the future over previous policy statements which is relevant when talking about "a given level of public expenditure" is that between the AS/PEWP and the 1988 FSBR, which is of the order of  $\frac{1}{4}$  per cent of GDP or about £1 billion - see attached table.

5. I would not want this smaller figure juxtaposed against paragraph D10 as this would signal to departments more clearly than we would wish that, even within the previous GGE figures (to say nothing of the higher GDP/lower ratios) there is this amount going begging.

6. If you want to maintain the existing framework, ie looking at the debt interest saving in a wider context, there are two changes you can make:

i. move the paragraph away from paragraph D10;

ii. expand the final sentence to read:

"What all this means is that we can make faster progress in reducing public spending as a proportion of national income or, within a given total of public spending, devote more to priority programmes."

The second change is necessary because the ratio of public spending to GDP is falling, implying that not all the benefit of the interest savings is staying within GGE.

Done ✓  
7. If you do retain the opening sentence "public expenditure", which is measured cum debt interest, should be replaced by "spending programmes" which is measured ex debt interest.

AS

A TURNBULL

GROSS DEBT INTEREST PAYMENTS AS % OF GDP

	FSBR 00	AS/PEWP 87	FSBR 87
1985-86	4.88	4.89	4.88
1986-87	4.54	4.56	4.45
1987-88	4.09	4.26	4.38
1988-89	3.71	4.06	4.11
1989-90	3.48	3.77	4.09
1990-91	3.28	3.49	3.88
1991-92	2.90	-	

jc7

**BUDGET CONFIDENTIAL**

From: J ODLING-SMEE  
8th March 1988

MR MOWL

cc Mr Sedgwick  
Mr Turnbull  
Mr S Davies  
Ms Turk  
Mr Hudson  
Mr Tyrie

**BUDGET STATEMENT: DEBT INTEREST**

We spoke the other day, and you persuaded me that the reference to the amount of debt interest saving should relate to gross debt interest payments rather than net debt interest. The figures I have used for the calculation are as follows:

Gross debt interest payments

	% of GDP
1981-82	5.11
1982-83	4.87
1983-84	4.72
1984-85	4.87
1985-86	4.88
1986-87	4.54
1987-88	4.09
1991-92	2.90

**Changes:**

1985-86 to 1987-88	-0.79 (£3.4 billion in 1987-88 terms*)
1987-88 to 1991-92	-1.19 (£5.1 billion in 1987-88 terms*)

\*Change (in % points) multiplied by 1987-88 GDP (£426 billion)

2. I suggest that paragraph D11 in the fourth draft of the Budget Statement should be amended as follows:



**BUDGET CONFIDENTIAL**

"These large increases in public expenditure for the coming year will be financed partly from the saving in debt interest as a result of the reduction in government borrowing. Debt interest payments now account for three-quarters of a percentage point less of GDP than they did only two years ago. This may not sound very much, but it implies a saving of over £3 billion a year. And the balanced budget path I have set out in this year's MTFS should bring a further saving of £5 billion a year by 1991-92. What all this means is that, within a given total of public expenditure, more can be devoted to priority programmes."

3. I would be grateful for any comments on this by lunchtime tomorrow, so as to meet Mr Hudson's deadline.

*Jo-s*

**J ODLING-SMEE**

BUDGET SECRET: TASK FORCE LIST



COPY No SPJ/17/ | OF 3

FROM: S P JUDGE  
DATE: 8 March 1988

MR A P HUDSON

BUDGET SPEECH

Here are my personal comments on the draft you circulated yesterday. Please feel free to ignore them.

B17, line 3: countries (no ')

D3, line 4: "now" should surely be "then" (1976) or maybe "then and now"

D6, line 4 doesn't mean what it seems to. "lowest since the early '50s, [apart from only one year]/[with one exception]"?

D10, line 10: "... Health Service between 1987-88 and 1988-89 is not £700m but £1100m."

D11, line 2: "... interest resulting from the reduction ..."

F10, penultimate line, ",", after "women"

G10: "Third,"; delete comma on line 2

G24, last line: "completely" is overdoing it a bit!

H9, line 6: "fact when the": at the moment this reads as though this is always the case

K19, line 3: "lower -";

L8, line 8: insert "- more quickly than the trees, I might add -" after "grown up" if you need another joke

L24: are we really saying these are unjustified this year?

L28: "basic rate band" appears too early? A hint of the higher rate?

M1, line 7: insert "major" before "tax".

S P JUDGE  
Private Secretary



Copy No 1 of 16

MR HUDSON

FROM: J J HEYWOOD  
DATE: 8 March 1988cc PS/Chief Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Monck  
Mr Scholar  
Mr Culpin  
Mr Cropper  
Mr Tyrie  
Mr Call  
PS/IR  
PS/Customs**BUDGET STATEMENT : FOURTH DRAFT**

The Financial Secretary has seen the fourth draft which in general he thought was very good. The Financial Secretary does, however, have serious reservations about Section H. He has made the following more detailed comments:

- (i) B3: "even more in" makes no sense grammatically;
- (ii) B4: perhaps a reference to the fact that we outpaced both Japan and Germany, the traditionally strong economies could be included;
- (iii) E6: the proposals do not fall into these three categories
- (iv) F15: does the last sentence need to take into account the fact that in later sections of the speech further tax penalties are mentioned?
- (v) H2: is unnecessary
- (vi) H9: The Financial Secretary did not like "very similar considerations apply". He thinks that maintenance payments are not a tax shelter.

(vii) H9: also in this section the Financial Secretary thinks it would be worth restating the present position - full tax relief for payer; payments taxed in hands of recipient - in order to draw out more clearly the extent to which the proposed regime will be a simplification. He liked the John Isaac formulation: "It would be difficult to devise a more convoluted system ...." (although this was originally used to describe the covenants regime, I think).

Yes.

✓ (viii) H11: before "equivalent" insert "again"

(ix) H13: the Financial Secretary does not think that the current maintenance payments regime for divorced/separated people can be sensibly described as producing a "tax penalty on marriage". He thinks that insofar as there is a genuine point here it concerns the use of affiliation orders etc by unmarried people - not by divorced and separated people. The Financial Secretary does not think we should have to defend the implication that people separate for tax reasons.

He decided against.  
✓ (x) K6: does the Chancellor not wish to mention the forthcoming consultation on employee share scheme linkage in this context?

✓ (xi) L11: perhaps insert the additional sentence: "These proposals will make environmentally desirable investment in forestry attractive not just to higher rate taxpayers".

✓ (xii) L21: delete

✓ (xiii) L24: delete "major" from line 4.

✓ (xiv) L30: last sentence, reverse the ordering of the two clauses.

9.12

J J HEYWOOD  
Private Secretary

## BUDGET SECRET : TASK FORCE LIST

COPY 1 OF 4  
FROM: R G MICHIE

DATE: 8 March 1988

MR HUDSON  
CHANCELLOR'S OFFICE

cc Miss Sinclair  
Alison French (Customs)

## BUDGET SPEECH : TAXES ON SPENDING

Paragraph J5 still does not look right.

2. I would hesitate to describe many coolers as being "currently overtaxed", (why proffer a rod with which to be beaten) and feel uneasy too about saying that the introduction of the new duty band is intended "to encourage the young in particular to more drinks of a lower alcohol content": 'coolers' are still relatively high in alcoholic strength.

3. I rather liked the alternative paragraph offered by Customs last week and suggest that it be adopted viz:

" Drinks known as "coolers", which are typically mixtures of fruit juices, soda water and alcohol have grown in popularity in recent years. But the existing duty structure effectively limits them to UK products based on wine and made-wine. I do not wish to discourage a potential market for lower alcohol drinks. I propose, therefore, to introduce new duty bands for these products [related to the wine duty but reduced in proportion to alcoholic strength. They will apply irrespective of the nature of the alcohol ingredients.] For the same reason, I propose to abolish the minimum duty charge on beer, which inhibits the product of beers with a reduced alcohol content. "

4. I am happy to discuss if you like.

P.S. Customs will argue for the inclusion of the words enclosed in brackets, but they are rather technical, and if you prefer we could omit them

R G MICHIE

## BUDGET SECRET: TASK FORCE LIST

Copy No 2 of 14

MR HUDSON

FROM: A G TYRIE

DATE: 8 MARCH 1988

cc PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Mr Odling-Smee  
Mr Turnbull  
Mr Scholar  
Mr Culpin  
Mr Cropper  
Mr Call

## BUDGET STATEMENT FOURTH DRAFT

Here are a few further, pretty minor, suggestions:

A2. I would add a line: 'These policies were overwhelmingly endorsed a third time by the electorate'. It will get an early murmur of approval from our side.

B2. I would say when reliable figures were first collected.

B4. I suggest delete: 'While inflation averaged a shade over 4¼%'.  
'

D2. I would add a sentence at the end in layman's language along the lines: 'In other words, Labour paid for X% of their spending by borrowing the money'.

D11. I prefer Mr Odling-Smee's wording for this in his note today. I don't think its juxtaposition with D10 is a major flaw, as Mr Turnbull suggests. The first line makes clear

that reduced debt interest ~~is~~ helping finance increases in public expenditure already announced, not possible new increases. But I would delete the last sentence of the D11 altogether. It could be misinterpreted (deliberately) by spending ministers and it is not essential.

E5. This reads well but the second sentence will provoke the question from interviewers: 'What should have been done that hasn't been?'

E6. 'Taxation of marriage' stretches the meaning a little. Taxation treatment is more accurate.

F4. I would delete 'that can arise' (line 5).

F7. (Penultimate line.) I would suggest: '... be able to transfer any or all of it to his wife, ...'.

F10. I would turn the last sentence into two: 'This historic reform for the first time ever gives a fair deal to married women. It will cost a little under £700 million in 1990-91'.

F12. (Line 3.) Do you mean 'tax rate' or 'top rate'?

G11. There are two 'Lloyd's' in the last sentence. It could end with 'their special features'.

G20. BES relief is not available for the old/existing assured tenancy scheme. So I suggest a change in the third line: '... residential property on the new assured tenancy basis'.



G28 to G30. The word 'impost' crops up rather a lot.

H1. Is it worth adding a line on the origins of covenant and maintenance, its arbitrariness etc?

J6. The penultimate sentence is a bit odd. If the duty is to rise again I don't see the value in putting the £1,600 figure into circulation.

K1. Rather than say that home ownership is at 62% of all households I would either say: 'Bringing the total to almost two-thirds', or state the increase since 1979.

K3. I would delete 'if anything' (line 5). Slight amendment to the last sentence: 'This illustrates in a quite remarkable fashion how the habit of share ownership is now taking root'.

K17. I would add at the end: 'own exempt slice of £5,000'.

K19. I presume 'loan' (line 3) should be 'lower'.

L16. As I think I have mentioned before, I don't see any point in including this paragraph. I doubt that it will be politically possible to increase car scales much further in this Parliament. This threat would merely provoke even more opposition at Committee stage.

L29. John Smith advocated some action on the thresholds in his 'Woman's Own' interview. It will be interesting to see

BUDGET SECRET: TASK FORCE LIST

whether Neil Kinnock manages to say the same thing or opposes the doubling of threshold increases.

L43. Rather than 'satisfactory' (line 1) I suggest 'acceptable'. 'Acceptable' carries a double-edged implication, that it is acceptable both to those who would like to see it higher and to those that would like to see it lower. But 'satisfactory' sounds too final.

AGT.

A G TYRIE

## BUDGET SECRET: TASK FORCE LIST



FROM: CHIEF SECRETARY  
DATE: 9 March 1988

CHANCELLOR

cc:  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir Peter Middleton  
Sir T Burns  
Sir G Littler  
Mr Anson  
Sir A Wilson  
Mr Byatt  
Mr Monck  
Mr Scholar  
Mr Sedgwick  
Mr Odling-Smee  
Mr Culpin  
Mr Turnbull  
Mr Peretz  
Mr A C S Allan  
Mr Pickford  
Mr R I G Allen  
Miss Sinclair  
Mr Riley  
Miss Simpson  
Miss C Evans  
Miss Hay  
Mr Michie  
Mr Cropper  
Mr Tyrie  
Mr Call  
Mr Battishill - IR  
Mr Isaac - IR  
Mr Painter - IR  
Mr Beighton - IR  
Mr McManus - IR  
Mr Unwin C&E  
Mr Knox C&E  
Mr P R H Allen C&E

**BUDGET SPEECH:**

The speech generally reads very well and is meaty. No-one will be bored by it. But I do have a few suggestions:-

1. 'reliably informed' is too coy. I would delete up to 'My Budget speech ...'

BUDGET SECRET: TASK FORCE LIST

A2 delete 'I find' in line 2 to 'Parliament, the British economy is stronger'.

B4 Add 'And it fell in every region of the country.'

B8 Delete 1.4 'as it did last year'; insert 'as it has done this year'

B15. 'problems lies elsewhere' sounds evasive. Perhaps - 'lies in the imbalances in world savings and investment.'

C5 A pedantic point but eradication is too violent a word to go with gradual (line 1). Perhaps either - delete 'gradual' or replace 'eradication' with 'elimination'. Thus it reads 'achieving the gradual elimination'.

D3 Labour's borrowing did add to debt interest but it is odd to say 'for generations to come' as we are reducing debt interest at present. Strictly speaking it is correct but it chimes oddly. I would amend to: - 'It added massively to the burden of debt interest, whereas our policies are reducing it.'

D6 Delete line 1. Insert 'That is partly the result of privatisation proceeds but, even without them, the .....

D10 Being replaced by Mr Turnbull, I think.

~~B6~~ Line 2. delete 'marriage'. Insert 'married couples'. (We don't tax the institution of marriage!)

F1 Delete 'taxation of'. Insert 'tax penalties on'.

F10 Should we expand on the cost of independent taxation? I think we can make more of spending £700 million on sex equality! There is a cheer line here.

F12 A full stop after 'them'. Then add 'These changes need not await the introduction of Independent Taxation'. No change

BUDGET SECRET: TASK FORCE LIST

of substance but a better emphasis!

F14 The change to Additional Personal Allowances needs to be better explained: Redraft " .... April 1989. An unmarried couple will only be able to claim one APA between them. They will thus no longer be able to get more tax relief than a married couple".

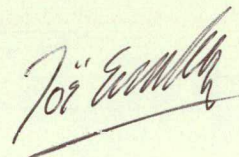
F15 The second sentence, which refers to eliminating all other tax penalties "for all practical purposes" is inconsistent with the statement in F12 that you are abolishing all tax penalties. Could it be safely deleted?

G7 I would add 'treated as' before 'resident' and 'for tax purposes' after 'UK'. (It is implied but sounds odd read aloud without these additions).

G19. G21, G22, (i) All include the phrase 'the early years' in respect of the BES proposal on housing.

(ii) The phrase invites the question - how long will the incentive be there? Do we need it?

H10 Line 3. I would replace 'should not' with 'will no longer. 'This makes it clearer that the tax impost goes.



PP JOHN MAJOR

( Approved by the Chief Secretary  
and signed in his absence )

## BUDGET SECRET: TASK FORCE LIST

18 of 40

Alex



FROM: CHIEF SECRETARY

DATE: 9 March 1988

CHANCELLOR

cc:  
 Financial Secretary  
 Paymaster General  
 Economic Secretary  
 Sir Peter Middleton  
 Sir T Burns  
 Sir G Littler  
 Mr Anson  
 Sir A Wilson  
 Mr Byatt  
 Mr Monck  
 Mr Scholar  
 Mr Sedgwick  
 Mr Odling-Smee  
 Mr Culpin  
 Mr Turnbull  
 Mr Peretz  
 Mr A C S Allan ✓  
 Mr Pickford  
 Mr R I G Allen  
 Miss Sinclair  
 Mr Riley  
 Miss Simpson  
 Miss C Evans  
 Miss Hay  
 Mr Michie  
 Mr Cropper  
 Mr Tyrie  
 Mr Call  
 Mr Battishill - IR  
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 Mr Unwin C&E  
 Mr Knox C&E  
 Mr P R H Allen C&E

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## BUDGET SECRET: TASK FORCE LIST

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BUDGET SECRET: TASK FORCE LIST

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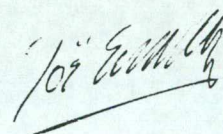
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PP JOHN MAJOR

( Approved by the Chief Secretary  
and signed in his absence )



BUDGET SECRET : TASK FORCE LIST



H.M. CUSTOMS AND EXCISE  
KING'S BEAM HOUSE, MARK LANE  
LONDON EC3R 7HE  
01-626 1515

Ref. RA 205/88

Copy no. 12/16

→ A.P. Hudson. See P.2.  
+ return.

Sorry to burden you  
with paper.

MR HUDSON

FROM: P R H ALLEN  
DATE: 9 March 1988

- cc Economic Secretary
- Mr Scholar
- Mr Culpin
- Mr A C S Allan
- Mr Pickford
- Mr R I G Allen
- Miss Sinclair
- Miss C Evans
- Mr Michie
- Mr Cropper
- Mr Tyrie
- Mr Call

Mr Tyrie  
Nor did the  
Chancellor.  
HHH

Andrew T. 9.iii.

BUDGET STATEMENT : FOURTH DRAFT

1. We have the following comments:-

J2 : line 8 - replace "cases appear to suggest" by "decisions mean".

J5 : second sentence - The current position is not that such drinks are overtaxed but that the present duty regime prevents production. We suggest replacing "means ....overtaxed" by "prevents development of this market".

J5 : third sentence - This would read more accurately as "..... to introduce new and lower duty bands ..."

Internal Circulation: Chairman, Mr Knox

J8 : final sentence - Although we accept that the draft no longer points a finger of criticism at the petrol companies, we still consider that it would be preferable to encourage the motor industry to do a great deal more than it has been doing to encourage unleaded petrol (in contrast to the efforts expended by the petrol companies). At a minimum, we would suggest adding "I am also looking to the motor industry to play a more active part in encouraging the use of unleaded petrol."

*These pleas to  
others sound  
pathetic. I  
don't support this one.*

L25 : final sentence - We wonder whether "of the" is necessary.

2. If I might be allowed to trespass on others' territory, could I mention two other points which have struck us:-

F14 : final sentence - Is it entirely clear what the net effect will be?

L28 : final sentence - Is there some reason why the increase in the basic rate threshold is played down in contrast to the treatment given earlier for the single and married allowances?

*RA.*

P R H ALLEN

## BUDGET SECRET - TASK FORCE LIST

COPY NO 1 OF 20

From: J ODLING-SMEE

9th March 1988

MR HUDSON

cc PPS  
PS/Chief Secretary  
Sir Peter Middleton  
Mr Anson  
Sir Terence Burns  
Mr Scholar  
Mr Culpin  
Mr Peretz  
Mr Sedgwick  
Mr Turnbull  
Mr S Davies  
Mr Mowl  
Mr Pickford  
Miss Evans  
Mr Cropper  
Mr Tyrie  
Mr Call

**BUDGET STATEMENT: FOURTH DRAFT**

My main comment relates to paragraph D.11, which could be misleading (if people think that the big savings in debt interest are attributable to the reduction in borrowing since the Autumn Statement or the last FSBR) and prejudicial to the Treasury's position in the coming Survey (because it juxtaposes debt interest savings of billions against paragraph D.10 which describes the increases in expenditure announced last autumn). Mr Turnbull and I think that the way to avoid these problems is to move that part of the paragraph relating to past savings in debt interest so that it follows paragraph D.6:

"The large reductions in borrowing in recent years have greatly reduced the cost of servicing the national debt. Debt interest now accounts for more than  $\frac{1}{2}$  a percentage point less of GDP than it did only three years ago. This may not sound very much, but it implies a saving of almost £3 billion a year. This sum of money has been available to reduce taxes and pay for extra spending on public services.:

It would be necessary to change "this" into "the" in the first line of D.7.

2. A shortened version of paragraph D.11 could remain, referring to future debt interest savings alone:

"The balanced budget path I have set out in this year's MTFS will help to reduce debt interest payments still further. This will help us in our task of reducing spending as a proportion of national income, and of finding room to devote more resources in total to priority programmes."

3. Sir Terence Burns would like to change "is the first that" into "exceptionally" in paragraph B.10 because we do not want to overplay the absence of a marked rise in inflation. It is, after all, early days yet. This change would also meet the Paymaster General's point.

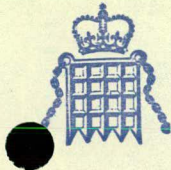
4. A few other minor points:

✓ Paragraph C.2: ".... now entering its ninth year ..." rather than ".... now in its ninth year ..", since the MTFS does not really apply until after Budget day, and perhaps not until the beginning of the next financial year;

Paragraph D.3: replace "generations" by "years", because the maturity of debt does not usually span generations.

J ODLING-SMEE

BUDGET SECRET : TASK FORCE LIST



H.M. CUSTOMS AND EXCISE Ref. RA 205/88  
KING'S BEAM HOUSE, MARK LANE Copy no. 1/16  
LONDON EC3R 7HE  
01-626 1515

FROM: P R H ALLEN  
DATE: 9 March 1988

MR HUDSON

cc Economic Secretary  
Mr Scholar  
Mr Culpin  
Mr A C S Allan  
Mr Pickford  
Mr R I G Allen  
Miss Sinclair  
Miss C Evans  
Mr Michie  
Mr Cropper  
Mr Tyrie  
Mr Call

BUDGET STATEMENT : FOURTH DRAFT

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RA.

P R H ALLEN

PS | Chancellor

PJP

D14. Maybe: "a constant burden of taxation is comparable with a reduction in tax rates" ?

? Q7. "In future companies will be <sup>freed</sup> regarded as residents in the UK if they are incorporated here." As it stands, residence is given too artificial a connotation.

Yes. Q9. Will this mean the end of all royalties, north and south?

✓ Q15. Is this now a £2m limit in any one year?

Q22. Ditto. The ceiling for this type of investment will be £5 milli a year per company. Or perhaps.

✓ H3. "Do the same for" is not quite right. Suggest "I propose, as far as is practicable, to take coverants and maintenance payments outside the system as well."

✓ K17. Suggest "Now that these gains are to be relieved from tax, I propose to reduce the exemption for 1988-89 to £5,000."

✓ K19. Line 3, first word: "lower"

✓ L37. Might we try and work it to 98 per cent? That was the really absurd one.

✓ L39. Last word: "less"

Otherwise excellent

PJK  
8 March.

*Handwritten initials*



FROM: A P HUDSON  
DATE: 9 March 1988

MR CULPIN

cc Sir P Middleton  
Sir T Burns  
Mr Scholar  
Mr R I G Allen  
Mr Pickford  
Mr A C S Allan  
Mr McManus IR  
Mr P R H Allen C&E

**BUDGET SPEECH: FOURTH DRAFT: WORD COUNT**

You may be interested to know that the fourth draft of the Budget Speech is about 10,500 words. This means a little over 1 hour 20 minutes.

2. The Chancellor thinks this is just the right length. He sees no need to make cuts, except where they make a positive improvement to the speech.

*Handwritten signature*

A P HUDSON





FROM: N G FRAY  
DATE: 13 MARCH 1987

CHANCELLOR

cc Mr Allan  
Mr Hudson

**1987 BUDGET STATEMENT: A RECORD BREAKER?**

I have double checked the league table of Budget statements and have discovered a few errors. A revised table is attached at Annex A. I must emphasize that the table gives only a selection of statements delivered by well known Chancellors this century and there is no guarantee, even though all of these statements are delivered in excess of one hour, that there are no shorter statements in existence. But, should you deliver your statement in an hour or under, I think you would be on safe ground to say that you had delivered one of the shortest Budget statements since 1900.

You may also be interested to see the introduction of Sir Geoffrey Howe's Budget speech in 1983 (Annex B). Sir Geoffrey said that this statement was to be the shortest that he had delivered, though his first statement, on 12 June 1979 lasted only 1 hour 10 minutes. Sir Geoffrey might have considered that the 1979 Budget was not a fully fledged statement, indeed, his statements from 1980 onwards did get shorter.

I hope this is useful.

*(As usual a  
Now that this  
so has been completed, have,  
you do Mr and Mrs Lane,  
for the book - of the Press,  
a list of the speech  
and you speak the  
century, with the show  
times (with the show  
times in the show).*

*Nigel Fray*  
NIGEL FRAY

## LENGTH AND DURATION OF BUDGET SPEECHES

69  
67

Listed below are a selection of the longest and shortest Budget speeches since 1853:

CHANCELLOR	APPROX NO OF WORDS	DURATION
Nigel Lawson		
18 March 1986	9,918	1hr 16
19 March 1985	9,786	1hr 15
13 March 1984	(Not counted)	1hr 20*
Sir Geoffrey Howe		
15 March 1983	(Not counted)	1hr 24*
9 March 1982	18,200	1hr 45
March 1981	14,500	1hr 30
26 March 1980	19,000	2hrs
12 June 1979	11,500	1hr 10
Denis Healey		
11 April 1978	9,500	1hr 4
24 March 1974	20,500	2hrs 20
Anthony Barber		
6 March 1973	18,000	2hrs
30 March 1971	15,500	1hr 50
Roy Jenkins		
14 April 1970	17,000	1hr 55
19 March 1968	20,000	2hrs 10
James Callaghan		
3 May 1966	13,000	1hr 20
6 April 1965	22,000	2hrs 20
Reginald Maudling		
14 April 1964	13,000	1hr 30
3 April 1963	17,000	1hr 50
Selwyn Lloyd		
9 April 1962	14,000	1hr 30
17 April 1961	13,000	1hr 20
Derick Heathcoat Amory		
4 April 1960	13,000	1hr 20

\* Time taken from Hansard.

CHANCELLOR

APPROX NO OF WORDS DURATION

Harold Macmillan		
17 April 1956	15,000	1hr 45
R A Butler		
19 April 1955	11,250	1hr 10
11 March 1952	13,850	1hr 25
Sir Stafford Cripps		
18 April 1950	18,000	2hrs
W S Churchill		
15 April 1929	15,500	1hr 45
28 April 1925	16,200	2hrs
D Lloyd George		
2 April 1912	8,993	1hr 30
30 June 1910	8,222	1hr 25
<hr/>		
Sir Mark Hicks Beach		
5 March 1900	-	35 mins
Benjamin Disraeli		
4 April 1867	6,500	45 mins
Sir William Gladstone		
18 April 1853	35,000	4hrs 45

no!

**BROADCASTING OF PARLIAMENT (ANNUAL REVIEW)**

Edmund Marshall accordingly presented a Bill to provide for the annual review of arrangements for the broadcasting of parliamentary proceedings: And the same was read the First time; and ordered to be read a Second time upon Friday 15 April and to be printed. [Bill 100.]

**WAYS AND MEANS**

**Budget Statement**

**Mr. Deputy Speaker (Mr. Bernard Weatherill):** Before I call the Chancellor of the Exchequer, it may be for the convenience of hon. Members if I remind them that, at the end of the Chancellor's speech, as in past years, copies of the Budget resolutions will not be handed around in the Chamber but will be available to hon. Members in the Vote Office.

3.38 pm

**INTRODUCTION**

**The Chancellor of the Exchequer (Sir Geoffrey Howe):** The longest Budget speech that I have been able to trace was given by Mr. Gladstone on 18 April 1953—*[Interruption.]*

**Mr. Deputy Speaker:** Order. Perhaps the Chancellor would like to start again.

**Sir Geoffrey Howe:** I am content, Mr. Deputy Speaker, to recognise that, although Liberals have long lives, they do not live that long. The date to which I refer, of course, was 1853. The speech lasted for about 4¾ hours. The then Leader of the Opposition said of the speech: ". . . it was so extensive that it is impossible, without consideration, to weigh its disadvantages and advantages". That could have its merits in certain circumstances. But I can assure the House that I shall not try to rival Mr. Gladstone. Instead, I shall try to follow Disraeli, who delivered a Budget speech in 1867 lasting only 45 minutes. I am afraid that I cannot quite match that; but at least this will be one of the shortest—perhaps the shortest—of my Budget speeches, or at any rate the shortest so far. And that will not be its only attractive feature.

I begin, as last year, by making it clear that I shall today be proposing further significant cuts in the taxes paid both by businesses and by individuals. These proposals will be consistent with our medium-term strategy for effective control of the money supply, for lower public borrowing, and for further progress on inflation.

The requirement we saw, and the country accepted, in 1979, was for resolve, for purpose and for continuity. My proposals in this Budget are rooted in that same resolve, and will maintain that purpose, and that continuity. They are designed to further the living standards and employment opportunities of all our people and to sustain and advance the recovery for which we have laid the foundations.

**WORLD ECONOMY**

In 1979 it was clear that the long-term decline of Britain's relative position in the world economy called for a fresh start, for a radical new beginning. And it soon became apparent, as the effects of the second oil price shock hit home, that that fresh start would have to be made in an international setting that was increasingly difficult.

Last year world output and trade were lower than generally expected. In the major industrial economies output fell; and more than 30 million of their people were unemployed.

Developing countries have faced similar difficulties. Weak markets for their products, high oil import costs and

### LENGTH AND DURATION OF BUDGET SPEECHES

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<b>Derick Heathcoat Amory</b>			
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76) 9916 / 130  
76  
271  
26.

6/950  
158

CHANCELLOR

APPROX NO OF WORDS

DURATION

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15,000

1hr 45

R A Butler

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15 April 1929

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28 April 1925

16,200

2hrs

D Lloyd George

2 April 1912

126  
107

7,750

1hr

30 June 1910

7,500

1hr 10

Sir Mark Hicks Beach

5 March 1900

-

35 mins

Benjamin Disraeli

4 April 1867

144

6,500

45 mins

Sir William Gladstone

18 April 1853

123

35,000

4hrs 45

NO



Thanks.  
 Good. Just a  
 high level  
 shd be no need  
 to cut keep  
 for positive  
 important.

C.

WORD COUNT

1. This draft is 10,503 words. At 135 wpm, that means 1 hr 18 mins. At 130 wpm (your rate in 1985 - 1986), 1 hr 21 mins.
2. I attach Nigel Fray's note on ~~recent~~ speeches length of past Budget speeches. Last year was 1 hr 1 minute. I can't put my hand on last year's word count tonight, but will let you have it tomorrow.

AMH

From: The Rt. Hon. Terence Higgins, M.P.



HOUSE OF COMMONS  
LONDON SW1A 0AA

*TH*

9th March 1988

*My dear Nigel.*

I thought I ought to let you know that I have been asked (and have accepted) to take part in a Debate on your Budget next week, to go out live immediately you have sat down. *(with Reliance Day)*

This means I am afraid that I will have to miss the usual meeting of the Conservative Finance Committee meeting, but I will of course get back to the House as soon as I can and if the meeting is still going on will of course join it.

*With all good wishes  
As ever*

*Jones*  
\_\_\_\_\_

The Rt. Hon. Nigel Lawson, MP.,  
Chancellor of the Exchequer,  
The Treasury,  
Parliament Street,  
London S.W.1.



FROM: MRS T C BURNHAMS

DATE: 9 March 1988

MISS WALLACE

12/2

cc Mr Culpin  
Miss Sinclair  
Mr R I G Allen  
Mr Pickford  
Miss Evans  
Miss Simpson

**POST BUDGET MINISTERIAL STATEMENTS**

As agreed, I attach a short draft which asks Private Secretaries to ensure that if any statements made by their Ministers do not follow the line provided in the Budget Brief, they will seek clearance from the Treasury.

2. I suggest the letter might go at the end of the week to the Private Secretaries of all Cabinet Ministers and the Minister of the Arts as before.



**TERESA BURNHAMS**

pse type final  
but leave date  
blank for me to  
fill in

DRAFT LETTER FROM MISS WALLACE TO PRIVATE SECRETARIES

**POST BUDGET MINISTERIAL STATEMENTS**

I wrote to you on 29 February about the arrangements for Budget Day press notices. This is a further reminder about Post Budget press conferences or other public statements. It would be very helpful if you would ensure that any statements which ~~depart from~~<sup>go beyond</sup> the Treasury's Budget brief are cleared with this office or with the Fiscal Policy or Economic Briefing units in the Treasury - contact points Carys Evans (270 5170) or Judith Simpson (270 5211)

I am copying this to the private secretaries to all Cabinet Ministers and to the Minister for the Arts.

Robert Cushman Esq MVO  
Private Secretary to the Foreign Secretary.

eh

now

ring Robert 4419

**DRAFT LETTER FROM MISS WALLACE TO PRIVATE SECRETARIES**

**POST BUDGET MINISTERIAL STATEMENTS**

<sup>NP</sup> // I wrote to you on 29 February about the arrangements for Budget Day press notices. // Copies of the full Budget brief will be available immediately after the Chancellor has completed his Budget Statement. -

The Chancellor hopes that this will help Ministers and their departments to take a common line in press conferences or when making other statements.

If for any reason this causes difficulty to your Minister, I should be grateful if officials would consult the Fiscal Policy or Economic Briefing units in the Treasury - contact points Carys Evans (270 5170) or Judith Simpson (270 5211)

The Chancellor is naturally concerned to avoid statements, answers to PQs etc which depart from the Treasury brief without prior consultation.

I am copying this to the private secretaries to all Cabinet Ministers and to the Minister for the Arts.

*Reas done*

POLITICS Tax

(EMBARGOED to 1030 Tuesday March 8)

LABOUR DEMANDS BUDGET CLAMPDOWN ON TAX 'DODGES'

By Chris Moncrieff, Press Association Chief Political Correspondent

Britain's tax system is so riddled with loopholes that a man earning £1 million a year could avoid paying any income tax, a Labour front bench spokesman said today.

Mr Gordon Brown, Shadow spokesman on Treasury affairs, has called on the Chancellor, Mr Nigel Lawson, to use  
7+ More 4 Headlines 6+ 00+ < >

*PH 87/2*

*cc:  
PPS  
PS/CSF  
PS/ISS  
Mr [unclear]  
Mr [unclear]  
Mr [unclear]  
RA  
HB  
RE*

Press Association

UK File

on 08-03-88 at 10:30

next week's Budget to close fivholes tax loopholes, which he says, cos of Exchequer millions of pounds a yeathe Mr Brown said someone with a £1 million annual income could exploit n the loopholes to avoid paying income tax.

"Tax avoidance has become such a big industry that it is costing the country at least £1,000 million a year - money that could be better spent on the National Health Service or reducing taxes for the ordinary citizen stuck with PAYE," he told a press conference at Labour's south London headquarters.

7+ More 4 Headlines 6+ 00+ < 7 >

Press Association

UK File

on 08-03-88 at 10:30

Mr Brown listed the major loopholes "that are making our country one of the most lucrative tax havens for the very rich":

:: Up to £900 million was involved in a system called bed and breakfasting under which shares or unit trusts were sold late one night and bought back the next morning, creating a book loss to wipe out any capital gains tax liability.

:: Executive share option schemes for 10,000 of the best-paid directors meant £100 million a year was being squandered.

:: Up to £85 million a year was

7+ More 4 Headlines 6+ 00+ < ■ >

Press Association

UK File

on 08-03-88 at 10:30

handed out to top-rate taxpayers who could avoid paying £24,000 in tax by putting money into buying hotels for the homeless, private hospitals, nursing homes and even private schools.

:: Pop stars and businessmen who used Britain's most depressed areas in Enterprise Zones as tax shelters received £60 million a year.

:: Forestry tax relief to celebrities, politicians, judges and industrialists cost £35 million a year and meant the wrong trees were being planted in the wrong place by the wrong people for the wrong reasons.

7+ More 4 Headlines 6+ 00+

<■7>

Press Association

UK File

on 08-03-88

0

3

Mr Brown: "The Chancellor must his budget to close down these tax avoidance dodges which do for the efficiency of our econ which make Britain an increasi polarised society."

end jc

7+ More 4 Headlines 6+ 00+

>

From: S D H SARGENT

Date: 9 March 1988

MR HUDSON

cc Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir T Burns  
Mr Scholar  
Mr Culpin  
Mr Pickford  
Mr R I G Allen  
Miss Sinclair

BUDGET STATEMENT: FOURTH DRAFT

Sir Peter Middleton had the following comments on the fourth draft of the Budget speech.

✓ Paragraph A4: revise beginning to read "As usual, the Financial Statement and Budget Report and a number of press releases ...".

✓ Paragraph C4 line 2: for "broad stability" substitute "greater stability".

✓ D11: the second sentence is not entirely clear. In the third sentence insert "in debt interest" after "a further saving".

✓ D13: revise "There will be no scope" to read "It will not be possible".

✓ E2: after first sentence insert "Indeed this has become one of the main ways in which Governments are seeking to give their people a sustained competitive position."

✓ E3: after "today" in the first line insert "in the first Budget of the new Parliament". This paragraph might be moved to come after E4 and E5.

BUDGET CONFIDENTIAL

✓ E4: the penultimate sentence "But stability should not mean immobility" was given in Tuesday's Times as the comment of a Treasury spokesman on the exchange rate, so it might be best not to repeat it here.

✓ E5: to cut down on the number of times the word "reform" is used, revise the beginning of the fourth sentence to read "But the radical proposals I shall be making ...".

✓ G8: some lead into the paragraph is required.

✓ G10: some lead into the paragraph is required.

✓ G11: begin "I also have two changes ...". There should be a pause between G11 and G12.

✓ G16: should be moved to come after G18 and should begin "So today I have one further proposal ...".

✓ G23: there should be a pause between G23 and G24.

*Su*

S D H SARGENT

Private Secretary

BUDGET CONFIDENTIAL



FROM: S P JUDGE

DATE: 9 March 1988

*PPJ (all this lot)*

MR A P HUDSON

cc PPS  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
Sir Peter Middleton  
Sir Terence Burns  
Sir Geoffrey Littler  
Mr Anson  
Dame Anne Mueller  
Sir Anthony Wilson  
Mr Byatt  
Mr Monck  
Mr Scholar  
Mr Sedgwick  
Mr Odling-Smee  
Mr Culpin  
Mr Turnbull  
Mr Peretz  
Mr Mowl  
Mr Pickford  
Mr R I G Allen  
Miss Sinclair  
Mr Riley  
Miss Simpson  
Miss C Evans  
Miss Hay  
Mr Michie  
Mr Cropper  
Mr Tyrie  
Mr Call  
Mr Battishill - IR  
Mr Isaac - IR  
Mr Painter - IR  
Mr Batton - IR  
Mr McManus - IR  
PS/Inland Revenue  
Mr Unwin - C&E  
Mr Knox - C&E  
Mr P R H Allen - C&E  
PS/Customs & Excise

**BUDGET STATEMENT: FOURTH DRAFT**

The Paymaster General has the following comments, in addition to those recorded in my minute of yesterday:

B10, line 4: the Paymaster wonders if the adjective "first" needs qualifying. First ever? If not, what?



BUDGET CONFIDENTIAL

✓  
✓  
D10, line 10: "... Health Service between this year and next is not £700m but £1,100m."

✓  
D11, line 3: "... debt interest resulting from the reduction in Government borrowing."

✓  
✓  
G18, line 3: the Paymaster thinks it would be worth inserting a sentence along of the lines of "I am pleased with the response so far [: schemes have now been registered covering over 80,000 employees]". The Revenue may have more up-to-date registration figures by the end of this week.

✓  
G22, line 2: insert a comma after "but".

✓  
G24, line 3: "but I believe it is necessary to do more to help the owner of a small business whose entire wealth is tied up in it, and who is faced with the disincentive of a heavy capital gains tax bill when selling up on retirement."

✓  
G30: on second thoughts the Paymaster thinks it would be more appropriate to describe the Chancellor's record as a bowling rather than a batting average.

✓  
H9, line 6: "fact when the ex-husband"

✓  
L8, penultimate line: if the Chancellor wants another joke then the Paymaster suggests inserting "- more quickly than the trees, I might add -" after "industry has grown up".

✓  
L11, line 3: "who have" rather than "with".

✓  
L28, last line: the Paymaster does not think this is too early to mention this new term.



S P JUDGE  
Private Secretary

SECRET

FROM: P N SEDGWICK  
DATE: 9 MARCH 1988

MR HUDSON

cc Sir T Burns  
Mr Scholar  
Mr Odling-Smee  
Mr Peretz  
Mr R I G Allen  
Mr Bottrill  
Mr Hibberd  
Mr Mowl  
Mr Pickford  
Ms C Evans  
Ms Simpson

**BUDGET SPEECH : ECONOMIC BACKGROUND**

I have a few suggestions for the draft of the speech that you circulated on March 7.

**Paragraph B2**

It may seem odd to juxtapose in the same paragraph the claim that the UK is entering its eighth year of sustained growth with a statement about growth in the last six years. You could in the third sentence refer to "the six full [or calendar] years" to 1987. Alternatively you could redraft the second sentence as follows to make clear that it does not refer to calendar years.

"The upturn in activity that began immediately after the 1981 budget still continues and we are about to enter..."

**Paragraph B3**

The UK's growth was further below that of the other major European economies in the 1960s than the 1970s. You should delete the words "and even more in" in the second sentence.

**Paragraph B7**

The figure for the deficit in the first sentence should be "a little over £1½b.". The growth of exports of manufactures referred to in the penultimate sentence should be 8½ per cent.

**Paragraph B9**

Chapter 3 of the FSBR will show a forecast rise in business investment in 1988 of 8½ per cent.

P.N.S.  
P N SEDGWICK

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REF. APH/46

COPY NO. 2 OF 10.

*PHF*

FROM: A P HUDSON

DATE: 10 March 1988

*Thanks  
Mr helpful.  
Prayis.  
Plus an early entry with  
AMZRC (prefix ASAP).  
M.*

CHANCELLOR

cc Mr Scholar  
Mr Culpin  
Mr Pickford  
Mr R I G Allen  
Mr A C S Allan  
Miss Simpson

*[Get word per Budgets - esp US - summary.]  
Maira to d/w*

**SPEECHES AFTER THE BUDGET**

I have been thinking about whether it is worth planning more specifically than in previous years how we use post-Budget speeches to put across the message of the Budget.

**Budget Debates**

2. The first opportunity to reinforce the message is in the Budget Debates. There are some points which we want to feature in all the speeches (strength of the economy, balanced budget, case for tax reform, benefits of cutting income tax, etc.). And there are other points which deserve one detailed explanation, but not necessarily more than one (for example, BES reform, private renting, and forestry).

3. The other Treasury Ministers' plans - all fairly provisional - are as follows:

- The Chief Secretary is planning to cover income tax, forestry, company cars, possibly CGT, Independent Taxation, and the balanced budget.
- The Financial Secretary is planning to cover some or all of wider share ownership, the higher rates, tax cuts versus public spending, covenants and maintenance, and the BES (especially renting). He will do more on Independent Taxation and CGT, if the Chief Secretary decides not to go into detail.

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- The Economic Secretary is thinking about doing PRP, importers' details, and funding policy.

*don't understand  
what funding?*

4. We have three opening speeches and two wind-ups to go at, with your wind-up speech on Monday covering the whole Budget. A possible division of labour might be as follows.

**Themes for all speeches**

Strong economy - the result of sound financial policies and supply-side reform, including tax reductions and tax reform

Balanced budget

Tax reform

Case for lower income tax.

**Wednesday 16th**

CST: full explanation on income tax, removal of tax shelters, CGT reform; few well chosen words on the NHS; balanced budget;

FST: Wider share ownership; capital taxes; Independent Taxation; Covenants and Maintenance.

**Thursday 17th**

Mr Fowler: rapid fall in unemployment; small business measures, BES reform, private renting;

EST: PRP; importers' details; funding policy(?); CGT (if not done by FST).

**Monday 21st**

Mr Clarke: performance of company sector; enterprise culture;

Ch Ex: Budget as a whole.

5. If you agree such a division of labour would be useful, I suggest we prepare a letter for Alex Allan to send to the Private Offices of Mr Fowler and Mr Clarke on Budget evening, to guide them in preparing their speeches. *You might also think about how far the subjects should be divided between Treasury Ministers. Prayers?*

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Other speeches

... 6. I attach lists of your speeches, and those of the other Treasury Ministers.

7. The question is whether we want to identify now any particular opportunities to talk about particular subjects. In some cases, the subject matter is clear: we cover PRP, Scotch whisky, and the BES by the end of June.

8. One obvious gap is Independent Taxation. Perhaps we should engineer a suitable motion for the Conservative Womens' Conference, on 24-25 May, you have an invitation to speak, which we have pencilled in.

9. One point about your own programme. We decided at Speech Committee to use the American Correspondents on 29 March for a full speech on tax reform. I spoke to Robert Culpin: although he thinks such a speech is a good idea, and is happy to help write it, he feels strongly that this is not the occasion. He says this is the time to get booming Britain into the American press. They only want a few remarks and then to ask questions. There isn't normally a press release. So they are not the best audience for a big speech on tax reform, and we would miss the chance to get some good stories about the economy in the US press. That said, there is no other obvious opportunity to speak about tax reform within the next few weeks.

*EMYCS?*

*no ref, other comb?*

*?*



A P HUDSON

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## RESTRICTED

## CHANCELLOR'S SPEECH PROGRAMME

DATE: 26 February 1988

DATE	ORGANISATION	OCCASION	VENUE	SUBJECT/NOTES
<b>MARCH</b>				
Monday 21	Budget Wind up			
Thursday 24	CPC Budget Seminar	Evening	London	
Saturday 26	East Midlands YCs	AGM		
Tuesday 29	Association of American correspondents in London	Lunch	London	
<b>APRIL</b>				
Friday 8	Konigswinter Conference	Government dinner	Cambridge	FCO to draft
Wednesday 13	International meetings		Washington	Usual world economy topics
Saturday 23	Western Area	Provincial Annual Meeting	Exeter	
Wednesday 27	Huntingdon CA	Dinner		(CST's constituency)
Friday 29	Worthing CA	Annual Dinner	Worthing	
<b>MAY</b>				
Friday 6	Royal Mint	Trial of the Pyx	London	
Wednesday 18	OECD	Ministerial meeting	Paris	
Tuesday 24	Wokingham CA	Portcullis Club (Drinks)	HoC	(John Redwood MP)
<b>JUNE</b>				
Thursday 2	National Union Executive Committee		London	
Friday 3	Leicestershire BMA	Annual Address	Leicestershire	
Friday 10	Oxford dons	Private meeting	Oxford	John Patten MP
Thursday 16	Royal Naval College	Armada Dinner	Greenwich	
Sunday 19	Summit		Toronto	
Monday 27	Adam Smith Institute	Privatisation seminar	London	

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DATE	ORGANISATION	OCCASION	VENUE	SUBJECT/NOTES
<b>JULY</b>				
Friday 1	East Midlands CA	Leicester Federation Business Lunch Club	Leicestershire	
Thursday 7	London & Westminster CA	Annual Luncheon	London	(PMG's constituency)
Tuesday 12	Conservative Industrial Fund	Lunch	HoC	
Thursday 21	Institute for Economic Affairs	Lecture	London	Economic thinkpiece
<b>SEPTEMBER</b>				
Friday 2	Leicester Grammar School	Group of A level Students	Leicestershire	
Monday 12	Conservative Board of Finance	Lunch	London	West Midlands Businessmen
Wednesday 14	Hornchurch CA	Lunch	Hornchurch	
Tuesday 27- Thursday 29	IMF/IBRD Annual Meetings		Washington	
<b>OCTOBER</b>				
Tuesday 11- Friday 14	Party Conference		Brighton	
<b>NOVEMBER</b>				
Thursday 24	CPC	Rally	Hertsmere	Cecil Parkinson MP
Friday 25	Tour of West Midlands			
<b>DECEMBER</b>				
[Tuesday 6]	Conference on debt		London	Bowen Wells MP

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**NOT TO BE COPIED**~~OTHER MINISTERS' SPEECH PROGRAMME~~

<u>MINISTER</u>	<u>DATE</u>	<u>FUNCTION</u>
CST	Friday 18 March	Conservative Central Council
CST	Saturday 26 March	Institute of Taxation Guest Night
FST	Monday 28 March	Bow Group Dinner
CST	Wednesday 30 March	HFC Trust Dinner
PMG	Tuesday 12 April	Institute of Civil Engineers Conference on Profit-Related Pay
FST	Wednesday 13 April	A.I.T.
CST	Wednesday 20 April	Personal Finance Editors Association Lunch
CST	Tuesday 26 April	Conservative Industrial Fund Lunch
EST	Wednesday 27 April	Scotch Whisky Association: AGM Luncheon
CST	Thursday 28 April	Delyn Conservative Association Dinner
CST	Wednesday 4 May	Conservative Board of Finance Lunch
FST	Wednesday 4 May	Electrical Engineering Association Dinner
CST	Wednesday 18 May	British Textile Corporation Lunch
EST	Thursday 26 May	Building Societies Association Annual Conference
FST	Monday 13 June	BES Investment Seminar
CST	Wednesday 15 June	Engineering Employers' Federation
CST	Thursday 16 June	CIPFA Seminar
CST	Friday 17 June	British North America Committee
CST	Monday 20 June	SE Area Conservative Women Annual Conference

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**BUDGET SECRET**

MINISTER

DATE

FUNCTION

CST

Friday 1 July

Association of District  
Councils Annual Conference

CST

Wednesday 13 July

City Dialogue Lunch

**SECRET**

**B.L.O.**

**SECRET**

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PRAYERS

✓ Bench Duty - Budget  
Debate.

I am arranging Bench Duty for the Budget Debate.

on Monday for the Budget Windup, if you are content, I will arrange Ministerial cover for an hour or so at dinner, otherwise presumably you will be on the Front Bench yourself for most of the time.

I will also arrange Ministerial cover for the remainder of the Budget Day Debate - after the Opposition have replied.

It is clear for you to attend the opening & closing speeches of the Debate on Wed & Thurs<sup>if you wish</sup> (I am arranging usual Ministerial cover for these days).

Content?

Julie 2/3.



AA  
Mr. [unclear] [unclear]  
OK

Maria,  
① Please get  
~~use~~ this retyped

for me  
② For JOS lit,  
please get clean  
copy & make changes  
on deat. Alex



## 1988 BUDGET: SUMMARY OF MAIN POINTS

The background to this year's Budget is an extremely favourable one. The economy is growing strongly, unemployment is falling rapidly, while inflation remains low. The public finances are exceptionally strong. This year's Budget will help the economy to continue this excellent progress, by improving incentives and encouraging enterprise, against the background of sound financial policies.

2. The main points are:

- a Budget surplus of £3 billion in both 1987-88 and 1988-89, and the prospect of a balanced budget over the medium term;
- major reform and simplification of personal taxation;
- income tax allowances raised by twice as much as inflation, the basic rate reduced to 25p in the £, and all higher rates above 40 per cent abolished;
- a completely new system of taxation for married couples, to take effect in 1990, which will, for the first time ever, give married women privacy and independence and end tax penalties on marriage.

### Economic Background

3. The strength and durability of the economic upswing in Britain has now exceeded all post-War records. The UK is about to enter its eighth successive year of sustained growth, and the sixth in which this has been combined with low inflation. It has now seen the longest period of steady growth, at a rate averaging 3 per cent a



year, for half a century. During the 1960s and the 1970s, Britain's growth rate was the lowest of all the major European economies; during the 1980s, it has been the highest.

4. In 1987, total output grew by  $4\frac{1}{2}$  per cent, substantially stronger than forecast a year ago, while inflation averaged  $4\frac{1}{4}$  per cent. Unemployment fell by half a million, more than in any other year since the War, in every region of the country, and faster than in any other major nation. The substantial fall in long-term unemployment is particularly encouraging.

5. Manufacturing industry performed particularly well in 1987. Manufacturing output rose by  $5\frac{1}{2}$  per cent, and there was a further large improvement in manufacturing productivity: in the 1980s, output per head in manufacturing industry has risen faster in Britain than in any other industrial country.

6. After seven successive years of surplus, the current account of the balance of payments is now estimated to have been in deficit last year by a little over  $\text{£}1\frac{1}{2}$  billion. This is a smaller deficit than forecast in last year's Budget, thanks to a better than expected performance on visible trade, with exports of manufactured goods up by  $8\frac{1}{2}$  per cent.

7. The Chancellor expects 1988 to be another year of healthy growth with low inflation; and there is every prospect that unemployment will continue to fall, although probably not as rapidly as last year. The pace of growth is likely to ease somewhat, returning to the underlying trend of the past few years. Output for 1988 as a whole is forecast to be 3 per cent higher than in 1987, with the non-oil economy up by  $3\frac{1}{2}$  per cent. Business investment is forecast to grow particularly strongly, with a rise of  $8\frac{1}{2}$  per cent. As last year, inflation is forecast to end the year at 4 per cent.



8. With growth in the UK likely to continue to outpace that of most other major countries, particularly in continental Europe, and with the oil surplus falling as North Sea production declines, the current account of the balance of payments is forecast to remain in deficit in 1988, by some £4 billion, equivalent to less than 1 per cent of GDP. The forecast assumes that the oil price will remain close to recent market levels.

### Budget Strategy

9. The Medium Term Financial Strategy continues to provide the framework for the Government's economic policy, as it has done since 1980. It is designed to reduce the growth of total spending power in the economy steadily over a period of years, at a pace which will gradually squeeze inflation out of the system, while leaving room for further sustained economic growth.

10. The Chancellor is setting a target range of 1 to 5 per cent for narrow money in 1988-89; like last year, there will be no explicit target for broad money. Short-term interest rates remain the essential instrument of monetary policy, and interest rate decisions will continue to be based on a continuous and comprehensive assessment of monetary conditions. Exchange rates play a central role in both domestic monetary decisions and in international policy co-operation. In their communique of 23 December the Finance Ministers and Central Bank Governors of the seven major industrialised countries re-emphasised their common interest in more stable exchange rates.

11. One of the Government's main objectives, since it first took office in 1979, has been to bring down Government borrowing. It has been reduced from 5½ per cent of national income in 1978-79 to only three-quarters of one per cent in 1986-87. In 1987-88, it now looks



as if the outturn will be a Budget surplus - something previously achieved on only one isolated occasion since the beginning of the 1950s.

12. The Chancellor believes that a balanced budget is a valuable discipline for the medium term, and intends that a zero borrowing requirement should be the norm from now on, though there are bound to be fluctuations on either side from year to year. For 1988-89, the Chancellor has decided that it is prudent to budget for a surplus of £3 billion, the same size as expected in 1987-88. This is after allowing for the substantial increases in public expenditure announced in last November's Autumn Statement, including additional spending of £1 billion on health and personal social services.

### Taxation

13. The Chancellor is introducing major reforms in personal taxation, designed to sharpen incentives and provide a further boost to the supply side of the economy.

### Income tax

14. The Chancellor is raising the main personal allowances by twice the amount needed to compensate for inflation - that is, by roughly  $7\frac{1}{2}$  per cent. This includes the special age allowance for pensioners. It also applies to the upper limit for the basic rate band (ie the point at which the higher rates of tax begin).

15. He is reducing the basic rate of income tax by 2p in the £, to 25p. This meets the Government's manifesto commitment. He is also announcing a new target for the basic rate, of 20p in the £, to be reached as and when it is prudent.



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assets since the 1960s or 1970s, or even earlier, who cannot realise them without paying substantial tax on purely paper gains made before 1982.

23. The Chancellor proposes to rectify this by exempting from tax all gains made before 1982. There will then be no taxation of inflationary gains whatever.

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b. there is no change in the tax on spirits or pipe tobacco, or in the main rates of vehicle excise duty: the cost of keeping VED unchanged will be financed from the increased petrol duty, which will go up by nearly 6p a gallon;

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#### **Business Expansion Scheme**

35. The Chancellor is extending the Business Expansion Scheme, under which investors obtain immediate tax relief for investment in new businesses in particular, to include investment in companies providing housing for rent. This extension will last for five years. It is designed to help revive the private rented sector, in conjunction with the deregulation of rents. These measures should make it easier for people seeking work to find accommodation for themselves and their families.



### Share ownership

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### Maintenance and Covenants

37. The Chancellor proposes to reform the taxation of maintenance and covenant payments, other than covenants to charity which are untouched. The present arrangements are complex and involve unnecessary work for both taxpayers and the Revenue.

38. Most maintenance payments are made by divorced men to their ex-wives or children. At present the Inland Revenue taxes the recipients, and returns the money to donors in tax relief. The Chancellor proposes instead that future recipients should be freed from tax on their maintenance. Donors will still be able to enjoy tax relief on payments to separated or divorced wives, but only up to a limit, set equal to the difference between the married allowance and the single allowance. In 1988-89 this will be £1,490. Existing arrangements will be protected, and existing recipients will be freed from tax on the first £1,490 of their maintenance.

39. For covenants between individuals, the Chancellor is again making the income tax free in the hands of recipients. Tax relief for donors is being abolished. The largest single group affected will be students and their parents: covenants have simply become a convoluted way of getting State support into the hands of students, in a way that shelters the parents' income from tax. There will be a broadly compensating reduction in the parental contribution to student grants at mandatory rates.



### Charities

40. As well as leaving tax relief on covenants to charity unchanged, the Chancellor is doubling the amount which people can give to charities free of tax under the payroll-giving scheme.

### Independent taxation

41. The Chancellor is announcing in the Budget that a major reform of the taxation of married couples will take effect in 1990, the earliest practicable date. The present system, which dates back 180 years, taxes the income of a married woman as if it belonged to her husband. This denies privacy and independence to married women. It can also lead to a tax penalty on marriage, with married couples paying more tax simply because they are married.

42. Under the new system a husband and wife will be taxed independently, on all their income. Married women will pay their own tax on their own income, and be responsible for their own tax return if one is necessary. All tax payers, male or female, married or single, will be entitled to the same personal allowance.

43. The tax system will continue to recognise marriage. Married couples will get a married couple's allowance equal in value to the difference under the present system between the single allowance and the married man's allowance.

### Tax penalties on marriage

44. The new system will remove a number of the tax penalties on marriage. The most common penalty, the taxation of a married woman's savings income at her husband's marginal rate, will disappear altogether; and husband and wife will be taxed



independently on any capital gains they may have, with an annual exemption each instead of one between them. Transfers of capital between husband and wife will continue to be free of tax.

45. The Chancellor is abolishing two other tax penalties on marriage, ahead of Independent Taxation. First, under the present system of mortgage interest relief an unmarried couple can get twice as much relief as a married couple. From August 1988 the limit of £30,000 will be applied to the house or flat, so that married and unmarried couples will get the same amount of relief. Existing borrowers will not be affected.

46. The second penalty arises because an unmarried couple with children can each claim an Additional Personal Allowance, giving them more tax relief than a married couple in the same position. In future unmarried couples will be entitled to only one Additional Personal Allowance.

47. Thus the Chancellor is abolishing, for all practical purposes, all the tax penalties which, under the present system, can arise on marriage.

### Summary

48. The Budget continues the economic policies which have brought about the renewed strength of the British economy. It introduces major reforms of personal taxation including: new arrangements for taxing husbands and wives which will give married women privacy and independence in their tax affairs for the first time; an end to the taxation of inflationary gains; and the elimination of all personal tax rates over 40 per cent. The Chancellor has reduced the basic rate of income tax to 25 per cent, and set a new target of 20 per cent. And he has done this within the context of a balanced budget.

HM Treasury  
15 March 1988

## 87 BUDGET: SUMMARY OF MAIN POINTS

The background to this year's Budget is an exceptionally favourable one. The economy has been growing strongly and unemployment has fallen by around half a million over the last year. Inflation has remained low, while the public finances have been much stronger than forecast. This year's Budget ~~should~~<sup>will</sup> help the British economy to continue this excellent progress; ~~the tax reductions it contains will contribute~~ by encouraging enterprise and efficiency.

2. The main points of the Budget are:

- tax reductions of £4 billion in 1988-89
- income tax <sup>the</sup> basic rate reduced to 25p in the £, and higher rates above 40 per cent abolished, and allowances raised by twice as much as inflation;
- <sup>a major</sup> reform and simplification of the tax system
- a budget surplus of £3 billion in 1988-89, the same as 1987-88, and a balanced budget over the medium term
- monetary and fiscal policies set to reduce the growth of money GDP over the medium term and so bring down inflation.

### Economic background

3. The economy grew by 4½ per cent in 1987, substantially faster than forecast a year ago, and in marked contrast to the sluggish performance of other major European economies. This has led to a further large rise in the number of jobs: the total increase in jobs since 1983 is now over 1½ million.

4. Unemployment has been falling since July 1986; up to January of this year, it had fallen by 647 thousand. Unemployment <sup>and the total fall since then is now 650,000</sup> is still far

o high, and there is no call for complacency about what has been achieved in the last eighteen months; but the fall in long term unemployment (about <sup>x 0/0</sup> 1/2 million over the last year) is particularly encouraging.

5. Inflation has been fluctuating around 4 per cent. It averaged 4.1 per cent in 1987, and so was below the rate of economic growth - the first time growth has been higher than inflation since 1964. Although pay increases have been too high, they have been offset by exceptional productivity improvements.

*the very rapid growth in*

6. Both exports and imports grew rapidly last year. The latest statistics show a current account deficit for 1987 of just over £1½ billion - below both the forecast made a year ago and earlier provisional estimates .

7. The Chancellor expects growth to moderate somewhat in 1988, to about 3 per cent. This will be close to the average recorded since 1981, and again better than *that expected in* most other industrial countries. Investment is expected to be particularly strong this year. Unemployment should continue to fall, although perhaps at a more moderate rate than in the last year. Inflation in the final quarter of the year is likely to be at about the same level as at the end of last year, ie 4 per cent.

8. As the UK will continue to grow faster than most other major industrial countries there is likely to be some increase in *the* deficit. *Current account* on the ~~current account~~ of the balance of payments. *But at* At around £<sup>3 1/2</sup>4 billion, about 1 per cent of GDP, it <sup>will still be</sup> is small relative to net overseas assets. Given the strength of the economy, there will not be any difficulty about financing it. The forecast assumes that the oil price will be \$14 a barrel, close to recent market levels.

*the current account imbalances elsewhere in the world*

### Budget strategy

9. The Medium Term Financial Strategy continues to provide the framework for the Government's economic policy, as it has done since

80. It is designed to reduce the growth of total spending power in the economy steadily over a period of years, at a pace which will gradually squeeze inflation out of the system, while leaving room for further sustained economic growth.

x 10. The Chancellor is setting a target range <sup>of 1-5 percent</sup> for narrow money in 1988-89; like last year, there will be no target for broad money, as its behaviour remains difficult to interpret. In operating policy the Government takes into account a range of evidence about monetary conditions; it <sup>will continue to pursue a policy of</sup> attaches ~~particular~~ importance to continuing to maintain exchange rate stability, <sup>with the rate</sup> notably against the Deutschemark. <sup>being of particular importance</sup>

x 11. At the time of the 1987 Budget, the Chancellor forecast a Public Sector Borrowing Requirement (PSBR) of £4 billion for 1987-88. It is now clear there will have been no net borrowing requirement at all in 1987-88; instead there has been net <sup>debt</sup> repayment of ~~debt~~. While there is still some uncertainty over the final figure, the Budget will show an estimated surplus of some £3 billion.

12. The Medium Term Financial Strategy this year will cover the period up to 1991-92, and for the years 1989-90 to 1991-92 will show the budget in balance - the PSBR at zero. To set the PSBR at zero in 1988-89, however, would require tax cuts of about £7 billion given the buoyancy of revenues. Tax cuts on this scale would run counter to the Government's approach to economic policy, which is to make smooth, gradual adjustments rather than violent changes which may have to be reversed later. The Budget package therefore includes tax cuts costing some £4 billion in 1988-89, leaving a budget surplus of some £3 billion, the same as the estimated outturn for 1987-88.

### Taxation

x 13. ~~On the tax side, the Chancellor's main objectives are to reduce income tax rates further, and to carry forward the process of tax reform.~~ The Chancellor is introducing major reforms to personal taxation, designed to sharpen incentives and provide a further boost to the supply side of the economy.



## 1987 BUDGET: SUMMARY OF MAIN POINTS

The background to this year's Budget is an extremely favourable one. The economy is growing strongly, unemployment is falling rapidly, while inflation remains low. The public finances are exceptionally strong. This year's Budget will help the economy to continue this excellent progress, by improving incentives and encouraging enterprise, against the background of sound financial policies.

2. The main points are:

- a Budget surplus of £3 billion in both 1987-88 and 1988-89, and a balanced budget over the medium term;
- major reform and simplification of personal taxation;
- income tax allowances raised by twice as much as inflation, the basic rate reduced to 25p in the £, and all higher rates above 40 per cent abolished;
- a completely new system of taxation for married couples, *effect in 1990, which will for the first time ever,* designed to give married women privacy and independence and to end tax penalties on marriage. *to take*

### Economic Background

3. The strength and durability of the economic upswing in Britain has now exceeded all post War records. The UK is about to enter its eighth successive year of sustained growth, and the sixth in which this has been combined with low inflation. It has now seen the longest period of steady growth, at a rate averaging 3 per cent a year, for half a century. During the 1960s and the 1970s, Britain's growth rate was the lowest of all the major European economies; during the 1980s, it has been the highest.

4. In 1987, total output grew by 4½ per cent, substantially stronger than forecast a year ago, while inflation averaged 4¼ per cent. Unemployment fell by half a million, more than in any other year since the War, in every region of the country, and faster than

in any other major nation. The substantial fall in long-term unemployment is particularly encouraging.

5. Manufacturing industry performed particularly well in 1987. Manufacturing output rose by  $5\frac{1}{2}$  per cent, and there was a further large improvement in manufacturing productivity: in the 1980s, output per head in manufacturing industry has risen faster in Britain than in any other industrial country.

6. After seven successive years of surplus, The current account of the balance of payments is now estimated to have been in deficit last year by a little over  $\text{£}1\frac{1}{2}$  billion. This is a smaller deficit ~~lower~~ than forecast in last year's Budget, thanks to a better than expected performance on visible trade, with exports of manufactured goods up by  $8\frac{1}{2}$  per cent.

7. The Chancellor expects 1988 to be another year of healthy growth with low inflation; and there is every prospect that unemployment will continue to fall, although probably not as rapidly as last year. The pace of growth is likely to ease somewhat, returning to the underlined trend of the past few years. Output for 1988 as a whole is forecast to be 3 per cent higher than in 1987, with the non-oil economy up by  $3\frac{1}{2}$  per cent. Business investment is forecast to grow particularly strongly, with a rise of  $8\frac{1}{2}$  per cent. As last year, inflation is forecast end the year at 4 per cent.

8. With growth in the UK likely to continue to outpace that of most other major countries, particularly in continental Europe, and with the oil surplus falling as North Sea production declines, the current account of the balance of payments is forecast to remain in deficit in 1988, by some  $\text{£}4$  billion, equivalent to less than 1 per cent of GDP. The forecast assumes that the oil price will remain close to recent market levels, ~~at about \$14 a barrel.~~

### Budget Strategy

9. The medium term financial strategy continues to provide the framework for the Government's economic policy, as it has done since 1980. It is designed to reduce the growth of total spending power in the economy steadily over a period of years, at a pace

which will gradually squeeze inflation <sup>out of</sup> ~~under~~ the system, while leaving room for further sustained economic growth.

10. Interest rate decisions are based on a continuous and comprehensive assessment of monetary conditions so as to ensure downward pressure on inflation. Industry has benefitted from the <sup>greater</sup> ~~greatest~~ stability of exchange rates over the past year, and the Government will continue to <sup>persevere</sup> ~~persue~~ a policy of exchange rate stability, with the rate against the deutschemark being of particular importance. The Chancellor is setting a target range of 1 to 5 per cent for narrow money in 1988-89; like last year, there will be no <sup>explicit</sup> target for broad money.

11. One of the Government's main objectives, since it first took office in 1979, has been to bring down Government borrowing. It has been reduced from 5½ per cent of national income in 1978-79 to only <sup>three-quarters</sup> ~~of~~ one per cent in 1986-87. In 1987-88, it now looks as if the outturn will be a Budget surplus - something previously achieved on only one isolated occasion since ~~the early 1950s.~~ 1952. [CHECK]

12. The Chancellor believes that a balanced budget is a valuable discipline for the medium term, and intends that a zero borrowing requirement should be the norm from now on, though there are bound to be fluctuations on either side from year to year. For 1988-89, the Chancellor has decided that it is prudent to budget for a surplus of £3 billion, the same size as expected as in 1987-88. This is after allowing for the substantial increases in public expenditure announced in last November's Autumn Statement, including additional spending of over £1 billion on health.

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13. The Chancellor is introducing major reforms <sup>m)</sup> ~~to~~ personal taxation, designed to sharpen incentives and provide a further boost to the supply-side of the economy.

14. [Continue as in Odling-Smee draft.]

## Summary

The Budget continues the economic policies which have brought about the renewed strength of the British economy. It introduces major reforms of personal taxation including: new arrangements for taxing husbands and wives which will give married women privacy and independence in their tax affairs for the ~~very~~ first time; an end to the taxation of inflationary gains; and the elimination of all personal tax rates ~~of~~ over 40 per cent. The Chancellor has reduced the basic rate of income tax to 25 per cent, and set a new target of 20 per cent. And he has ~~achieved~~<sup>done</sup> this within the context of a balanced budget.

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a saving of almost £3 billion a year. And the balanced budget path I have set out in this year's MTFs should bring a further saving of £2½ billion a year by 1990-91. What all this means is that, withing a given total of public expenditure, more can be devoted to priority programmes.

D12. But even so, the increased public spending now planned for 1988-89 inevitably means less scope for reducing taxation. Moreover, I have decided that for the year immediately ahead, the path of prudence and caution is to budget for a further surplus of the same size as this year's expected outturn - that is to say, a further public sector debt repayment of £3 billion.

D13. What this means, however, is that there will be no scope in this Budget for reducing the burden of taxation; that is to say, for reducing taxation as a share of GDP.

D14. However, the House may be pleased to know that, with a strong and healthy economy, a constant burden of taxation implies a reduction in tax rates.

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## Budget Strategy

Exchange rates play a central role in both domestic monetary decisions and international policy cooperation. In their communique of 23 December the Finance Ministers and Central Bank Governors of the seven major industrialised countries

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Short term interest rates remain the essential instrument of monetary policy.

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re-emphasised their common interest in more stable exchange rates.

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## Taxation

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### Income tax

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## Maintenance and Covenants

37. The Chancellor proposes to reform the taxation of maintenance and covenant payments, other than covenants to charity which are untouched. The present arrangements are complex and involve unnecessary work for both taxpayers and the Revenue.

38. Most maintenance payments are made by divorced men to their ex-wives or children. At present the Inland Revenue taxes the recipients, and returns the money to donors in tax relief. The Chancellor proposes instead that future recipients should be freed from tax on their maintenance. Donors will still be able to enjoy tax relief on payments to separated or divorced wives, but only up to a limit, set equal to the difference between the married allowance and the single allowance. In 1988-89 this will be £1,490. Existing arrangements will be protected, and existing recipients will be freed from tax on the first £1,490 of their maintenance.

39. For covenants between individuals, the Chancellor is again making the income tax free in the hands of recipients. Tax relief for donors is being abolished. The largest single group affected will be students and their parents: covenants have simply become a convoluted way of getting State support into the hands of students, in a way that shelters the parents' income from tax. There will be a broadly compensating reduction in the parental contribution to student grants at mandatory rates.

## Charities

40. As well as leaving tax relief on covenants to charity unchanged, the Chancellor is doubling the amount which people can give to charities free of tax under the payroll-giving scheme.

## Independent taxation

41. The Chancellor is announcing in the Budget that a major reform of the taxation of married couples will take effect in 1990, the earliest practicable date. The present system, which dates back 180 years, taxes the income of a married woman as if it belonged to her

husband. This denies privacy and independence to married women. It can also lead to a tax penalty on marriage, with married couples paying more tax simply because they are married.

42. Under the new system a husband and wife will be taxed independently, on all their income. Married women will pay their own tax on their own income, and be responsible for their own tax return if one is necessary. All tax payers, male or female, married or single, will be entitled to the same personal allowance.

43. The tax system will continue to recognise marriage. Married couples will get a married couple's allowance equal in value to the difference under the present system between the single allowance and the married man's allowance.

#### Tax penalties on marriage

44. The new system will remove a number of the tax penalties on marriage. The most common penalty, the taxation of a married woman's savings income at her husband's marginal rate, will disappear altogether; and husband and wife will be taxed independently on any capital gains they may have, with an annual exemption each instead of one between them. Transfers of capital between husband and wife will continue to be free of tax.

45. The Chancellor is abolishing two other tax penalties on marriage, ahead of Independent Taxation. First, under the present system of mortgage interest relief an unmarried couple can get twice as much relief as a married couple. From August 1988 the limit of £30,000 will be applied to the house or flat, so that married and unmarried couples will get the same amount of relief. Existing borrowers will not be affected.

46. The second penalty arises because an unmarried couple with children can each claim an Additional Personal Allowance, giving them more tax relief than a married couple in the same position. In future unmarried couples will be entitled to only one Additional Personal Allowance.

47. Thus the Chancellor is abolishing, for all practical purposes, all the tax penalties which, under the present system, can arise on marriage.

### Summary

48. The Budget continues the economic policies which have brought about the renewed strength of the British economy. It introduces major reforms of personal taxation including: new arrangements for taxing husbands and wives which will give married women privacy and independence in their tax affairs for the first time; an end to the taxation of inflationary gains; and the elimination of all personal tax rates over 40 per cent. The Chancellor has reduced the basic rate of income tax to 25 per cent, and set a new target of 20 per cent. And he has done this within the context of a balanced budget.

## BUDGET SECRET - TASK FORCE LIST

COPY NO ( OF 20

From: J ODLING-SMEE

9th March 1988

(Connected)

MR HUDSON

cc PPS  
PS/Chief Secretary  
Sir Peter Middleton  
Mr Anson  
Sir Terence Burns  
Mr Scholar  
Mr Culpin  
Mr Peretz  
Mr Sedgwick  
Mr Turnbull  
Mr S Davies  
Mr Mowl  
Mr Pickford  
Miss Evans  
Mr Cropper  
Mr Tyrie  
Mr Call

**BUDGET STATEMENT: FOURTH DRAFT**

My main comment relates to paragraph D.11, which could be misleading (if people think that the big savings in debt interest are attributable to the reduction in borrowing since the Autumn Statement or the last FSBR) and prejudicial to the Treasury's position in the coming Survey (because it juxtaposes debt interest savings of billions against paragraph D.10 which describes the increases in expenditure announced last autumn). Mr Turnbull and I think that the way to avoid these problems is to move that part of the paragraph relating to past savings in debt interest so that it follows paragraph D.6:

"The large reductions in borrowing in recent years have greatly reduced the cost of servicing the national debt. Debt interest now accounts for more than  $\frac{1}{2}$  a percentage point less of GDP than it did only three years ago. This may not sound very much, but it implies a saving of almost £3 billion a year. This sum of money has been available to reduce taxes and pay for extra spending on public services."

It would be necessary to change "this" into "the" in the first line of D.7.



BUDGET SECRET - TASK FORCE LIST

2. A shortened version of paragraph D.11 could remain, referring to future debt interest savings alone:

"The balanced budget path I have set out in this year's MTFS will help to reduce debt interest payments still further. This will help us in our task of reducing spending as a proportion of national income, and of finding room to devote more resources in total to priority programmes."

3. Sir Terence Burns would like to change "is the first that" into "exceptionally" in paragraph B.10 because we do not want to overplay the absence of a marked rise in inflation. It is, after all, early days yet. This change would also meet the Paymaster General's point.

4. Two other minor points:

✓ Paragraph C.2: "... now entering its ninth year ..." rather than "... now in its ninth year ..", since the MTFS does not really apply until after Budget day, and perhaps not until the beginning of the next financial year;

Paragraph D.3: replace "generations" by "years", because the maturity of debt does not usually span generations.

*Dors*

J ODLING-SMEE

## BUDGET SECRET: TASK FORCE LIST

Copy No | of ||

PUP

FROM: A G TYRIE

DATE: 10 MARCH 1988

CHANCELLOR

See D10A for  
 notes on Budget  
 Statement.

cc Chief Secretary  
 Financial Secretary  
 Paymaster General  
 Economic Secretary  
 Mr Scholar  
 Mr Culpin  
 Mr Odling-Smee  
 Mr Cropper  
 Mr Call

## BUDGET STATEMENT: DEBT INTEREST ETC

There have been quite a few exchanges on what to say in paragraph D8 to D11 (of the fourth draft).

I think it's well worth inserting the 'virtuous circle' point along the lines:

D10A. We have thus

~~'The Government has~~ secured an enviable virtuous circle in public finance: lower borrowing and lower tax rates ~~are creating more room~~ for the private sector to expand.

And ~~The private sector in turn is generating~~ higher revenues which ~~themselves are~~ permitting further reductions in borrowing and taxation. or tax.

Secondly I think it's worth keeping John Odling-Smee's sentence in his suggested draft of 8 March:

'and the balanced budget path I have set out in this year's MTFS should bring a further saving of £5 billion a year by 1991-92'.

(which he later revised & see below)

Messrs Turnbull, Anson and Co are understandably concerned that this might imply that increases to the planning total are available from reductions in debt interest. That's true, but we already have that problem in spades with the negative PSBR. I don't think that this sentence, coming six months from the heat of the PESC round, would make public expenditure control any more difficult, but I admit that GEP are more experienced judges of this!

Thirdly, I am a little concerned by D9 which says implies that the £3 billion PSDR is the result of 'fluctuations on either side from year to year' and is 'in the very nature of things'.

This phraseology would make it all the more difficult to explain why not even £1 billion of these 'fluctuations' could be earmarked for the NHS. I am not drafting but can we not justify the £3 billion PSDR with something approximating the truth? This year you have judged it important to buttress downward pressure on inflation from monetary policy with a particularly cautious fiscal stance. You could imply that your judgement reflects a year of above trend growth, the stock market crash, and uncertainties abroad.

Finally, I would just point out one further minor banana-skin to the line that debt interest payments provide room for more spending. If I were John Smith I would point out that this doctrine doesn't augur well for the health service. Debt interest payments as a proportion of GDP are (within a whisker) at exactly the same level they were eight years ago.

AGT

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FROM: A P HUDSON  
DATE: 10 March 1988

Copy No 3 of 5

CHANCELLOR

cc Mr A C S Allan

**BUDGET SPEECH: DRAFT OF 10 MARCH**

... I attach the latest draft, which incorporates the changes you made last night.

2. As we agreed, I have had a go at redrafting two short sections, both attached.

(a) On debt interest, Andrew Turnbull was concerned at putting the figures for the amount saved next to the paragraph on public spending - he thinks it would cause problems in the Survey. I have therefore put the point earlier on, after D7. I have also taken in Andrew Turnbull's presentation of the figures of spending programmes, which the Chief Secretary agreed to. Paragraph D12 in my redraft covers the saving from low borrowing in future. But I would prefer to omit that, and go straight from 1988-89 spending to the 1988-89 fiscal stance.

(b) I have reordered, and shortened, the tedious bit of the business section. This incorporates comments from Robert and the Revenue.

3. A few other points, late comments etc.

- Para B8. The EST would delete "it did" in the last line.
- Para B10. Terry is unhappy with the second sentence. He is researching the facts, and will then suggest something.
- Para B14. The EST would delete the last three words.

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Para H6. Tim Burr was not happy with the shortening of the middle sentence about the parental contribution. He thinks it is misleading to say "the parental contribution...will be reduced...", because for those who get no grant, it won't be. He prefers the original - "the parental contribution...will be assessed on a new and more generous scale, reflecting...". He also said that the Scottish Education Department will be making an announcement the following day, as well as the DES, but does not think this matters for the Budget Speech.

- Para J8. Customs feel that the petrol companies have done all they can to promote lead-free petrol. They would prefer the last few words to read "...reinforce this concession by promoting the use of lead-free petrol vigorously."
- Para K7. Mike Prescott's only comment was that the relaxation to section 79 is of no more benefit to an unquoted company than to a quoted company. He assures me that the Unquoted Companies Group were arguing on behalf of subsidiaries. I think he is probably right, and we should say "certain subsidiaries" instead of "unquoted companies".
- Para L8. Terry Painter is bothered about the word "avoidance" at the end, and would prefer "this particular tax shelter".

*Shall I come over  
Happy to come over & go  
through all this, if you like.*

*AAH*

A P HUDSON

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DRAFT OF 10 MARCH

**BUDGET SPEECH: SECTION D**

Redraft of debt interest and public spending section

D1-D7. As now.

D8. The substantial reductions we have made in Government borrowing have greatly reduced the cost of servicing the national debt. Debt interest now accounts for more than half a percentage point less of GDP than it did only 3 years ago. This may not sound very much, but it implies a saving of almost £3 billion a year. This means that, for any given fiscal stance, taxes can be lower, or public spending on priorities higher, or both.

D9. A balanced budget is a valuable discipline for the medium term. It represents security for the present and an investment for the future. Having achieved it, I intend to stick to it. In other words, henceforth a zero PSBR will be the norm.

D10. In the very nature of things, there are bound to be fluctuations on either side from year to year. It is in this context that I have to set the precise fiscal stance for the year ahead, 1988-89.

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D11. I have already announced, in the Autumn Statement last November, a substantial increase in public expenditure plans for 1988-89, with spending on programmes up by over £4½ billion. This has enabled us, in particular, to increase our plans for spending on health and personal social services by £1 billion, on education and science by £900 million, and on law and order by £500 million [while ensuring that public spending continues to fall as a share of GDP]. [And I also announced in November a corresponding increase in spending on programmes in 1989-90 of some £6 billion.]

D12. [The balanced budget path I have set out in this year's MTFs will help us to reduce debt interest payments still further. This will help us in our task of reducing spending as a proportion of national income, and of finding room to devote more resources in total to priority programmes.]

D13. [But even so,] the increased public spending now planned for 1988-89 ... [continues as before, in para D12].

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DRAFT OF 10 MARCH

Possible redraft of paragraphs G6-G11

G1-G5. As now.

G6. I have one reform to help the oil sector. In conjunction with my Rt. Hon. Friend the Secretary of State for Energy, I propose to improve the regime for the new generation of Southern Basin and onshore fields, by abolishing royalties and reducing the Petroleum Revenue Tax oil allowance for these fields. This will relate tax liability more closely to profits. And it will mean the end of royalties for all future fields.

G7. The 1986 Building Societies Act gives Building Societies the power to convert themselves into companies, if they so wish. At present, however, they would face a heavy, and unintended, tax charge if they did so. I propose to rectify this.

G8. I have two changes to propose to the tax arrangements for Lloyd's: first, to simplify the administrative arrangements for taxing Lloyd's members; and second, to meet the only point Lloyd's have raised on last year's legislation on reinsurance to close.

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G9. I also propose to simplify the Section 482 rules for companies who wish to migrate overseas, so as to bring them broadly into line with most of our major competitors. Instead of having to ask for Treasury consent, companies will be free to migrate, provided only that they pay their tax first.

G10. I now turn to a number of proposals to give further help to small businesses and new businesses. [Continue as before, para G12.]

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

10 March 1988

John Footman Esq  
PS/Governor  
Bank of England  
London

*Dear John,*

**BUDGET SPEECH: DRAFT OF 10 MARCH**

I attach the latest draft of the Budget Speech. As I told you on the telephone, the Chancellor would find it most helpful to have any comments from the Bank by close tomorrow (11 March).

**B.L.O.**

*Yours ever,*

*Andrew*

A P HUDSON

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Draft of 10 March

**CHANCELLOR OF THE EXCHEQUER'S BUDGET STATEMENT**

**15 MARCH 1988**

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B		THE ECONOMIC BACKGROUND
C		MONETARY POLICY
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F		INDEPENDENT TAXATION
G		BUSINESS TAXATION
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J		TAXES ON SPENDING
K		TAXES ON CAPITAL
L		INCOME TAX
M		PERORATION

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**A INTRODUCTION**

A1. I am reliably informed that my Budget speech last year was the shortest this century. My Budget speech this year is likely to have a different claim to a place in the history books. Not, the House will be glad to learn, as the longest Budget speech this century, but as the last untelevised Budget speech.

A2. As I once again present the first Budget of a new Parliament, I find the British economy stronger than at any time since the War. As the British people recognised last June, this has not happened by chance. It has happened because, for almost nine years now, we have followed the right policies and stuck to them. I reaffirm those policies today. In particular, there will be no letting up in our determination to defeat inflation.

A3. I shall begin, as usual, with the economic background to the Budget. I shall then deal with monetary policy, and the public finances this year and next, and indeed for the remainder of this Parliament. Finally, I shall propose a number of measures designed to improve the performance of the economy still further, by changing the structure of taxation. For this will be a tax reform Budget.

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A4. As usual, the Financial Statement and Budget Report, together with a number of press releases filling out the details of my tax proposals, will be available from the Vote Office as soon as I have sat down.

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**B. THE ECONOMIC BACKGROUND**

B1. I start with the economic background.

B2. The strength and durability of the economic upswing has now exceeded all previous records. We are about to enter our eighth successive year of sustained growth, and the sixth in which this has been combined with low inflation. And even without looking to 1988, the six years to 1987 have been the longest period of steady growth, at a rate averaging 3 per cent a year, for half a century.

B3. This performance compares favourably not only with our own past, but also with the economic performance of other countries. During the 1960s and the 1970s, Britain's growth rate was the lowest of all the major European economies. During the 1980s, our growth rate has been the highest of all the major European economies.

B4. In 1987 as a whole, output grew by a little over  $4\frac{1}{4}$  per cent, while inflation averaged a shade under  $4\frac{1}{4}$  per cent. Thus last year, for the first time for a generation, the rate of growth exceeded the rate of inflation. At the same time unemployment fell more than in any other year since the War, in every region of the country, and faster than in any other major economy.

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B5. The plain fact is that the British economy has been transformed. Prudent financial policies have given business and industry the confidence to expand, while supply side reforms have progressively removed the barriers to enterprise.

B6. Nowhere has this transformation been more marked than in manufacturing, where output rose last year by 5½ per cent. This outstanding performance was founded on a further big improvement in manufacturing productivity. In the 1980s, output per head in manufacturing has gone up faster in Britain than in any other major industrial country, and we led the way once again last year. This is in stark contrast to the 1960s and 1970s, when in manufacturing productivity growth, as in so much else, we were bottom of the league.

B7. The current account of the balance of payments is now estimated to have been in deficit last year, after seven successive years of surplus, by a little over £1½ billion. This is comfortably below the deficit I forecast at the time of last year's Budget, despite growth turning out stronger than forecast. The reason for this was the better than expected performance of visible trade, with exports of manufactures up by 8½ per cent. This continues the pattern of the 1980s, with British manufacturers maintaining their share of an expanding world trade, after decades during which Britain's share was steadily declining.

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B8. Looking ahead, I expect 1988 to be yet another year of healthy growth with low inflation; and there is every prospect that unemployment will continue to fall, although probably not as rapidly as it did last year.

B9. The pace of non-oil growth is likely to ease from now on, returning to the underlying trend of the past few years. But output for 1988 as a whole is forecast to be 3 per cent higher than in 1987, with the non-oil economy up by  $3\frac{1}{2}$  per cent. Business investment is forecast to grow particularly strongly, with a rise of  $8\frac{1}{2}$  per cent.

B10. As last year, inflation is forecast to end the year at around 4 per cent. While this is still too high, it is a testimony to the soundness of our policies that the present sustained upswing is the first since the War that has not led to any resurgence of inflation.

B11. With growth in the UK economy likely to continue to outpace that of most other major countries, particularly in continental Europe, and with our oil surplus falling as North Sea oil production declines, the current account of the balance of payments is forecast to remain in deficit this year, by some  $\text{£}3\frac{1}{2}$  billion, equivalent to around three-quarters of one per cent of GDP. Given the strength of the economy in general, and of our public finances in particular, not to mention our massive net overseas asset position, I foresee no difficulty in

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financing a temporary current account deficit of this magnitude.

B12. But the outlook both for exports and for jobs will depend critically on employers keeping their costs firmly under control. Unit labour costs in manufacturing scarcely rose at all in 1987. It is vital that employers do not let this slip, and keep a tight grip on all their costs, not least pay.

B13. In my Budget speech last year, I warned that:

"Given the continuation of present policies in this country, the biggest risk to the excellent prospect I have outlined is that of a downturn in the world economy as a whole."

That remains the case. The dramatic collapse in the world's equity markets last October was not the second coming of 1929 and the harbinger of a 1930s-style world slump, as so many feared at the time - although it could have been a great deal nastier had the authorities in the major nations not responded in a prompt and appropriate way. It was essentially an overdue market correction which did little more than reverse the rapid rise in share prices of the previous year. Certainly, business confidence does not seem to have been greatly affected, and growth in the seven major industrial countries as a whole this year is likely to be only slightly lower than last year.

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B14. But Black Monday was also a warning. The world's three largest economies - the United States, Japan and Germany - have made a number of the policy adjustments necessary to reduce the imbalances which have for so long afflicted them, and there is evidence that the measures they have taken are starting to bear fruit. But there is still a long way to go; and meanwhile there is the constant danger that the process of adjustment, and with it the world economy as a whole, could be gravely damaged either by further wild gyrations in the dollar exchange rate or by a lurch into protectionism - or indeed both.

B15. There are some who continue to insist that the simple and only solution to these imbalances lies in a further substantial fall in the dollar, even though the source of the problem lies elsewhere. They see exchange rate changes as a miracle cure, whatever the illness. They wholly ignore the damage that exchange rate volatility does to economic health, and distract attention from the fundamental causes of the imbalances.

B16. Success in reducing these imbalances depends on countries putting the right fiscal and monetary policies in place, and keeping them there. But the necessary adjustments are much more likely to be achieved if the objective of greater exchange rate stability is given an explicit role in the process of international co-operation, as has been the case for well over



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two years now. I can assure the House that we shall play our full part.

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**C. MONETARY POLICY**

C1. Meanwhile, the maintenance of sound money and prudent public finances will keep us in the best possible position to weather any shocks we may face, whether at home or abroad.

C2. The Medium-Term Financial Strategy, now entering its ninth year, will continue to provide the framework for reducing the growth of money GDP, and hence inflation, over the medium term. These will be achieved by maintaining firm monetary discipline, buttressed by a prudent fiscal stance.

C3. Short term interest rates remain the essential instrument of monetary policy. Within a continuous and comprehensive assessment of monetary conditions, I will continue to set interest rates at the level necessary to ensure that inflationary pressures are not accommodated. [This means, in particular, that business and industry should fully understand that increases in domestic costs will not be accommodated by a decline in the exchange rate.]

C4. I believe that most businessmen have welcomed the greater stability between sterling and the Deutschmark

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that has ~~persisted over the past year~~. It is important that they also accept the financial discipline inherent in this policy.

C5. Achieving the gradual eradication of inflation also requires a steady reduction in monetary growth in the medium term. While I shall continue to take account of broad money, or liquidity, as last year there will be no explicit target. For narrow money, MO, the target range for 1988-89 will be 1-5 per cent, as foreshadowed in last year's MTFs.

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**D. PUBLIC SECTOR FINANCES**

D1. As I pointed out a moment ago, a sound monetary policy needs to be buttressed by a prudent fiscal stance.

D2. At one time, it was regarded as the hallmark of good government to maintain a balanced budget; to ensure that, in time of peace, government spending was fully financed by revenues from taxation, with no need for government borrowing. Over the years, this simple and beneficent rule was increasingly disregarded, culminating in the catastrophe of 1975-76, when the last Labour Government had a budget deficit, or Public Sector Borrowing Requirement, equivalent in today's terms to some £40 billion.

D3. This profligacy not only brought economic disaster and the national humiliation of a bail-out by the IMF. It also added massively to the burden of debt interest, not merely now but for generations to come.

D4. Thus one of our main objectives, when we first took office in 1979, was to bring down government borrowing. We steadily reduced the Public Sector Borrowing Requirement from the 5½ per cent of GDP we inherited to only three quarters of one per cent in 1986-87. Today I

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am able to tell the House that in 1987-88, the year now ending, we are set to secure something previously achieved only on one isolated occasion since the early 1950s: a balanced budget.

D5. Indeed, we have gone even further. It looks as if the final outturn for 1987-88 will be a budget surplus of £3 billion. Instead of a PSBR, a PSDR: not a Public Sector Borrowing Requirement, but a public sector debt repayment.

D6. And, incidentally, even if there had been no privatisation proceeds at all, the resulting PSBR, at a half of one per cent of GDP, would still have been the lowest in all but one year since the early 'fifties.

D7. Some two thirds of this substantial undershoot of the PSBR I set at the time of last year's Budget is the result of the increased tax revenues that have flowed from a buoyant economy; while the remaining third is due to lower than expected public expenditure, again the outcome of a buoyant economy: less in benefits for the unemployed, higher receipts from council house sales, and improved trading performance by the nationalised industries.

D8. A balanced budget is a valuable discipline for the medium term. It represents security for the present and an investment for the future. Having achieved it, I

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intend to stick to it. In other words, henceforth a zero PSBR will be the norm.

D9. In the very nature of things, there are bound to be fluctuations on either side from year to year. It is in this context that I have to set the precise fiscal stance for the year ahead, 1988-89.

D10. I have already announced, in the Autumn Statement last November, a substantial increase in public expenditure plans for 1988-89, amounting to an increase of over £4½ billion in spending on priority programmes. This includes an extra £700 million on the Health Service, an extra £600 million on education and science, and an extra £350 million on law and order. Moreover these increases were over and above the increases already in the existing plans: thus the total increase in planned spending on the Health Service is not £700 million but £1.1 billion in 1988-89. And I also announced in November, a corresponding increase in spending on priority programmes in 1989-90 of some £6 billion.

D11. These large increases in public expenditure for the coming year will be financed partly from the saving in debt interest resulting from the reduction in Government borrowing. Debt interest now accounts for more than half a percentage point less of GDP than it did only three years ago. This may not sound very much, but it implies a saving of almost £3 billion a year. And the balanced

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budget path I have set out in this year's MTFs should bring a further saving in debt interest of £2½ billion a year by 1990-91. What all this means is that, within a given total of public spending, more can be devoted to priority programmes.

D12. But even so, the increased public spending now planned for 1988-89 inevitably means less scope for reducing taxation. Moreover, I have decided that for the year immediately ahead, the path of prudence and caution is to budget for a further surplus of the same size as this year's expected outturn - that is to say, a further public sector debt repayment of £3 billion.

D13. What this means is that it will not be possible in this Budget to reduce the burden of taxation; that is to say, to reduce taxation as a share of GDP.

D14. However, the House may be pleased to know that, with a strong and healthy economy, a constant burden of taxation implies a reduction in tax rates.

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**E. TAX REFORM**

E1. I indicated at the outset that this will be a radical, tax-reforming Budget.

E2. Over the past few years there has been increasing recognition, throughout the industrialised world, of the importance of tax reform in improving economic performance. And for us in this country, the lesson is underlined by the success of the reform of business taxation I announced in my first Budget, at the start of the last Parliament.

E3. But while tax reform is a simple matter for the armchair critic, it is very much more difficult in practice. It is difficult technically and difficult politically - since any tax system, however it arose, creates powerful vested interests in favour of the status quo. Nor, indeed, is it right that change should be too violent. People have a right to expect a reasonable degree of stability in the framework within which they order their affairs. But stability should not mean immobility. That way lies national decline.

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E4. The tax-reforming Chancellor thus has to tread a careful path. That I have sought to do in this Budget. Inevitably, it means that I cannot do, in a single Budget, everything that arguably should be done. But the proposals I shall be making today amount to a substantial and coherent package which will be of increasing benefit to the taxpayer and the economy as a whole in the years to come.

E5. Today I propose to turn to the reform of personal taxation. In doing so, I shall be guided by four basic principles. First, the need to reduce tax rates where they are clearly too high. Second, the need to reduce or abolish unwarranted tax breaks. Third, the need to make life a little simpler for the taxpayer. And, fourth, the need to remove some manifest injustices from the system.

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**F. INDEPENDENT TAXATION AND TAX PENALTIES ON MARRIAGE**

F1. My first reform concerns the taxation of marriage.

F2. The present system for the taxation of married couples goes back 180 years. It taxes the income of a married woman as if it belonged to her husband. Quite simply, that is no longer acceptable.

F3. This is a matter on which there has been extensive consultation. The time has come to take action.

F4. I therefore propose a major reform of personal taxation, with two objectives. First, to give married women the same privacy and independence in their tax affairs as everyone else. And second, to end ways in which the tax system can penalise marriage.

F5. I have decided to introduce, at the earliest practicable date, April 1990, a completely new system of independent taxation.

F6. Under the new system, a husband and wife will be taxed independently, on income of all kinds. All taxpayers, male or female, married or single, will be entitled to the same personal allowance, which will be

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available against income of all kinds, whether from earnings, pensions or savings.

F7. In addition, there will be a married couple's allowance, equivalent in value to the difference under the old system between the married man's allowance and the single allowance. This new allowance will go in the first instance to the husband, so that his tax threshold does not fall. But if he does not have enough income to use it in full, he will be able to transfer any unused portion to his wife, to set against her income.

F8. This ensures that the tax system will continue to recognise marriage, as it should do. At the same time, from 1990 married women will pay their own tax, on the basis of their own income, and have their own tax return, when one is necessary. There will, of course, be nothing to stop married women from asking their husbands to handle their tax affairs, as before; and many will no doubt do so. But what matters is that, for the first time ever, married women will have the right to complete independence and privacy so far as tax is concerned.

F9. In the same way, a husband and wife will be taxed independently on any capital gains they may have, with an annual exemption each, instead of one between them, as now. But transfers of capital between husband and wife

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will continue to be entirely free of any liability to tax.

F10. As I have said, the new system will come into force in 1990. This is much sooner than would have been possible for most of the alternatives that have been canvassed. The necessary legislation will be contained in this year's Finance Bill. The cost of this historic reform, which for the first time ever gives a fair deal to married women, will be £550 million in 1990-91.

F11. I mentioned a few moments ago the tax penalties on marriage. It is clearly wrong that some couples should find themselves paying more tax, simply because they are married. I propose to put that right.

F12. Independent taxation by itself will remove the most common penalty - the taxation of a married woman's income at her husband's top rate. But there are other tax penalties on marriage, and I propose to abolish all of them. These changes need not await the introduction of Independent Taxation.

F13. Under the present system an unmarried couple can get twice as much mortgage interest relief as a married couple. This has attracted increasing - and justified - criticism. I propose to put a stop to it as from August this year. Thereafter, the £30,000 limit on mortgage



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interest relief will be related to the house or flat, irrespective of the number of borrowers. This was the solution put forward in the 1986 Green Paper on Personal Taxation, and it was widely welcomed. Existing mortgages will be unaffected.

F14. Another anomaly is that an unmarried couple with children can each claim the Additional Personal Allowance intended for single parents, and thus get more tax relief than a married couple in the same position. I propose to confine them to a single Additional Personal Allowance, with effect from April 1989.

F15. Thus this Budget will not only, for the first time ever, give married women a fair deal from the tax system. It will also eliminate, for all practical purposes, all the other tax penalties which, under the present system, can arise on marriage.

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**G. BUSINESS TAXATION**

G1. I turn now to business taxation.

G2. The major reform of business taxation, which I introduced in 1984, and which was completed in 1986, has given us one of the lowest Corporation Tax rates in the world. This has encouraged overseas companies to invest in Britain and, most important of all, has greatly improved the quality of investment by British firms. It is a crucial part of an environment in which company profitability has recovered to its highest level for some twenty years. It has succeeded in its objectives.

G3. I do not therefore propose any further changes to the structure of Corporation Tax. And the main Corporation Tax rate for 1988-89 will be unchanged at 35 per cent.

G4. But I do have some changes to propose to specific aspects of business taxation.

G5. British exporters have done extremely well in recent years, thanks to major improvements in efficiency and quality. But no exporter could honestly claim that his success hinges on the fact that the cost of entertaining

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overseas customers is tax deductible, whereas business entertainment generally is not. I therefore propose to simplify the system by making all business entertainment non-deductible for tax purposes, including for VAT.

G6. I have also reviewed the complex and uncertain provisions governing company residence and migration in Section 482 of the Income and Corporation Taxes Act 1970.

G7. In future, companies will be treated as resident in the UK for tax purposes if they are incorporated here. A small number of companies which are not incorporated in the UK, but are centrally managed and controlled here, will also continue to be classified as resident. Companies resident in the UK and wishing to migrate will be able to do so, provided they pay their tax first, including any accrued capital gains tax liability. In return, the anachronistic requirement for companies to seek Treasury consent before they migrate, on pain of criminal penalty, will be abolished. This will bring our rules broadly into line with those of most of our major competitors.

G8. In conjunction with my rt. hon. Friend the Secretary of State for Energy, I propose to restructure the tax regime for the new generation of Southern basin and onshore fields, so as to relate tax liability more closely to profitability. Accordingly, my rt hon Friend

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will shortly be bringing forward legislation to abolish royalties, from 1 July, for all such fields. At the same time, I propose to reduce the Petroleum Revenue Tax oil allowance for these fields to 100,000 tonnes per chargeable period.

G9. Coupled with the substantial oil tax reforms introduced in 1983, this will mean the end of royalties for all future fields. The pace of UK oil and gas activity has already made an impressive recovery from the oil price collapse of two years ago, and this change will sustain it.

G10. The 1986 Building Societies Act gives Building Societies the power, to convert themselves into companies, if they so wish. At present, however, they would face a heavy, and unintended, tax charge if they did so. I propose to rectify this.

G11. I have two changes to propose to the tax arrangements for Lloyd's. The first meets the only point Lloyd's have raised on last year's legislation on reinsurance to close. The second will benefit both Lloyd's and the Inland Revenue by simplifying the administrative arrangements for taxing Lloyd's members.

G12. I have a number of proposals to give further help to small businesses and new businesses. These are a vital



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source of enterprise, innovation, and new jobs, and their encouragement is a central theme of Government policy. The rate of business formation, net of failures, which has averaged 500 a week, week in, week out, since 1979, shows beyond any doubt the continuing vigour of this sector.

G13. Many new businesses have been greatly assisted by the very successful Business Expansion Scheme, which has now been running for nearly five years. During that time it has enabled new and expanding companies to raise equity finance amounting to some £150 million a year.

G14. However, the rapid growth of the venture capital market since 1983 has meant that companies seeking relatively large amounts of equity investment can now raise these readily, while smaller companies looking for more modest amounts can still find it difficult to do so.

G15. To improve the targeting of BES, I therefore propose to introduce a limit of half a million pounds on the amount any company can raise under the scheme in any one year. Investment should thus be better directed at the smaller, newer and riskier businesses, particularly those outside the South-East of England, which can still find it hard to raise equity finance in other ways. In the special circumstances of the ship chartering industry, however, the limit will be £5 million.

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G16. I have one further proposal affecting the Business Expansion Scheme.

G17. One of the key reasons for our economic transformation has been the reform of the supply side of the economy.

G18. The tax relief I introduced last year for profit-related pay will, in time, help to increase pay flexibility and improve the working of the labour market. But if successful firms are to expand further, and if we are to build on the substantial reductions in unemployment, we also have to make it easier for people to move to where the new jobs are.

G19. For years, the shortage of private rented accommodation has been an obstacle to labour mobility. The Government's proposals to deregulate new rents are already going through the House. Deregulation will, over time, substantially increase the supply of housing for rent. But this will not happen overnight, and there is a case for a special incentive to speed up the process in the early years.

G20. I therefore propose to extend the Business Expansion Scheme to include companies specialising in the letting of residential property on the new assured tenancy basis.

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G21. The BES is well suited to this task. Since full tax relief is given immediately, it should bring forward new investment straight away. And we will be building on success.

G22. The limit for this type of investment will be £5 million a year for any one company. But since the relief is specifically designed to provide an extra stimulus in the early years of the new regime, it will run only for investments made before the end of 1993.

G23. This change will powerfully reinforce the impact of deregulation in reviving the private rented sector of housing in Britain.

G24. In last year's Budget I raised the ceiling for capital gains tax retirement relief from £100,000 of gain to £125,000. But I believe it is necessary to do more to help the small businessman whose entire wealth is tied up in his business and who is faced with the disincentive of a heavy capital gains tax bill when he sells up on retirement. I therefore propose to extend capital gains tax retirement relief so that, on top of the exemption, half of any gain between £125,000 and £500,000 will also be completely free of tax.

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G25. Lastly, on the small business front, I propose to increase the VAT threshold to £22,100, the maximum permitted under existing European Community Law.

G26. Throughout my time as Chancellor, I have been on the look-out for taxes to abolish. Abolition is clearly the simplest variety of reform. I have already abolished the National Insurance surcharge, the Investment Income surcharge, Development Land Tax, and the tax on lifetime gifts. Today I propose to abolish a further tax: Capital Duty.

G27 At present, companies have to pay a 1 per cent duty whenever they raise new capital - whenever, for example, a new company is formed or an existing company sells new shares to the public. This is undesirable on two counts. It is a burden on companies who need to secure external finance for expansion. And it discriminates against equity capital as compared with debt finance and bank borrowing.

G28 Capital Duty is a relatively recent impost which had to be introduced in 1973 in compliance with our obligations under European Community Law. But the relevant Community Directive has now been amended. Accordingly, I propose to abolish Capital Duty with effect from midnight tonight.



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G29 At the same time, I propose to get rid of the Unit Trust Instrument Duty, a similar though much less substantial tax, which is levied at the rate of  $\frac{1}{4}$  per cent on all property put into a unit trust. I know the unit trust movement will welcome this minor relief, and I trust the benefit will be fully passed on to investors.

G30. The cost of abolishing these two taxes will be of the order of £100 million in 1988-89. Not counting minor imposts, the demise of Capital Duty brings the number of taxes I have abolished up to five: an average of one a Budget.

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**H. COVENANTS AND MAINTENANCE**

H1. I now turn to an important area of personal taxation which is ripe for reform and simplification: the taxation of payments made under deeds of covenant and maintenance arrangements.

H2. Covenants to charity will be wholly unaffected by the changes I am about to propose.

H3. Other covenants, and maintenance arrangements, are essentially ways of transferring income from one individual to another, usually from one member of a family to another, whether it is a parent or grandparent covenanting to a child, or a husband paying maintenance to an ex-wife. Most financial transfers that take place within families are rightly and properly outside the scope of the tax system altogether. I propose, as far as is practicable, to take covenants and maintenance out as well. This will greatly simplify an unnecessarily complex part of the tax system.

H4. First, covenants. Charitable covenants apart, I propose to take all new covenants made by individuals on or after today out of the tax system altogether. In other words, people receiving payments under covenants

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will not be liable to tax on them, and those making the payments will not be able to claim tax relief on them. The tax treatment of existing covenants will continue unchanged.

H5. The largest single group of people affected by this change will be students, together with their parents, many of whom nowadays choose to make their contributions to the student maintenance grant by covenant. This has arisen as an unintended by-product of the reduction in 1970 of the legal age of majority from 21 to 18.

H6. As I have already indicated, those who have already made such covenants will continue to benefit from them. For new students, the parental contribution to the maintenance grant will be reduced to reflect the withdrawal of tax relief on new covenants. My right hon Friend the Secretary of State for Education and Science will be publishing the new scale tomorrow.

H7. One desirable side-effect of this reform is that students will no longer be deterred from taking vacation jobs because their covenant income has already absorbed their personal allowance.

H8. Student covenants apart, there will be no compensation for the loss of tax advantage arising from these proposals. But once rates of income tax are set at

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reasonable levels, this is precisely the sort of tax shelter it is right to dispense with.

H9. Next, maintenance agreements. Here, we tax the recipient only to give tax relief to the payer. The present arrangements are complex and confusing for people going through separation and divorce. The tax system ought to intrude as little as possible, though it is reasonable that there should be some recognition of the fact that an ex-husband is continuing to support his ex-wife.

H10. Accordingly, I propose that, for new arrangements, those receiving payments under maintenance orders and agreements will no longer be liable to any tax whatever on them. Those making payments to a separated or divorced spouse will be able to get tax relief up to a limit equal to the difference between the married and single allowances. But there will no longer be any tax relief either for payments above this limit, or for maintenance payments to anyone other than a separated or divorced spouse.

H11. As for existing arrangements, the present rules will continue to apply in 1988-89 to all those who are making payments under existing Court Orders or agreements. The same protection will also apply to those who have already applied for Court Orders, provided these are made by 30 June. From April 1989 there will be special



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transitional rules to continue protection for pre-existing arrangements. Divorced or separated spouses receiving maintenance under the present rules will be freed from tax on receipts up to the difference between the married and single allowances.

H12. While the transitional provisions are inevitably somewhat complex, the new system will be very much simpler than the old, for all concerned. At the same time, while it will reduce the tax relief that can be obtained by the better-off payers of large amounts of maintenance, for most couples the ex-husband will continue to enjoy full tax relief while the ex-wife will no longer be taxed.

H13. The reform of the tax treatment of maintenance I am proposing today will also remove one of the lesser known tax penalties on marriage. Tax relief greatly in excess of that which is available to a married couple will no longer be available to an unmarried couple who make large income transfers either between themselves or to their young children.

H14. As I have already indicated, the reform and simplification of the taxation of covenants and maintenance, which I have proposed today, in no way affects covenants to charity. Indeed, I have a proposal to help charities further.

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H15. The payroll giving scheme has now been running for nearly a year. I am glad that so many employers have already set up schemes, and I hope as many employees as possible will take advantage of them. In order to give further encouragement to charitable giving, and to assist the growth of the payroll giving scheme, I propose to double the limit on tax-allowable donations under the scheme from £10 a month to £20 a month.

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**J. TAXES ON SPENDING**

J1. I now turn to the taxation of spending.

J2. I have one change to propose today affecting the coverage of Value Added Tax, which will remain at 15 per cent. Confectionery was brought in to VAT by the RHM for Leeds East in 1974, and the legal definition of confectionery goes back further still to the days of purchase tax. The emergence of new products has rendered this definition obsolete. In particular, recent legal decisions mean that some cereal bars are subject to VAT, while others are not. I propose to clarify the law so that all cereal bars are taxed.

J3. I propose to raise the excise duties as a whole in line with inflation, but to make some modest adjustments within the total. The duty on cigarettes and hand-rolling tobacco will be increased, by the equivalent, including VAT, of between threepence and fourpence for a packet of 20 cigarettes. This will take effect from midnight on Thursday. The duty on a packet of five small cigars will rise by twopence, but that on pipe tobacco will remain unchanged.

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J4. As to the alcohol duties, I propose increases which, including VAT, will put about a penny on the price of a pint of average-strength beer and cider, fourpence on a bottle of table wine, and sixpence on a bottle of sparkling or fortified wine. There will once again be no increase in the duty on spirits. These changes will take effect from 6 o'clock tonight.

J5. I propose to reduce the duty on drinks known as 'coolers', which are mixtures of an alcoholic drink and a soft drink, so as to encourage the young in particular to move to drinks with a lower alcohol content. For the same reason, I propose from 1 October to abolish the minimum duty charge on beer, which will encourage the promotion of low-alcohol beers.

J6. I propose once again to leave the main rates of Vehicle Excise Duty unchanged. To recover the revenue forgone, I propose increases in petrol and derv duty over and above the rate of inflation, which, including VAT, will raise the price of petrol by between fivepence and sixpence a gallon, and that of derv by under fivepence a gallon. These changes will take effect from 6 o'clock tonight.

J7. In my Budget last year, I sought to promote the use of lead-free petrol, with all the environmental benefits it brings, by introducing a duty differential in its



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favour. As a result, the number of garages selling lead-free petrol has more than trebled. But consumption remains disappointingly low.

J8. Accordingly, I propose to double the duty differential in its favour by exempting it altogether from the duty increase I have just announced for leaded petrol. This means that, despite the higher production costs, the pump price of unleaded petrol should in future be below that of ordinary 2-star petrol. I very much hope the petrol companies will now reinforce this concession by stepping up their promotion of lead-free petrol.

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**K. TAXES ON CAPITAL**

K1. I now turn to taxes on capital.

K2. The emergence of the capital-owning democracy has been one of the most remarkable features of the 1980s. Encouraged by Government policy, almost three million families have bought their homes, bringing the total to nearly two households in three. And our proposals for personal pensions, which come in to effect in July, will give a new dimension to pension ownership.

K3. But the most dramatic change has been in share ownership. In last year's Budget, I announced the results of a joint Treasury/Stock Exchange survey of the number of shareholders in this country. This revealed that some 8½ million people - one adult in five - owned shares, about three times the number in 1979.

K4. A similar survey has been carried out this year. Despite all the stories of people taking quick profits on privatisation shares, and despite the stock market collapse, the results show that the number of individual shareholders has if anything risen further over the past 12 months, to very nearly 9 million. This illustrates in

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a quite remarkable fashion how the habit of share ownership is now taking root.

K5. I have two proposals to encourage share ownership still further to announce today.

K6. First, Personal Equity Plans are off to a successful start. Over a quarter of a million people took out plans in 1987, and subscribed nearly £½ billion between them. To give further encouragement to this form of investment, I propose to increase the annual limit from £2,400 to £3,000. The new higher limit will apply to all plans taken out this year.

K7. Second, measures to encourage employee share ownership have featured in seven out of the last eight Budgets. As a result, the number of approved all-employee share schemes has risen from 30 in 1979 to over 1400 today, involving well over 10,000 companies, and providing shares and options for well over 1½ million employees.

K8. Following extensive consultation, including the publication of draft clauses, I propose to relax the provisions of Section 79 of the 1972 Finance Act. This will make it easier for companies to provide shares to their employees outside the approved schemes without giving rise to an undue charge to tax. This will be of

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particular benefit to unquoted companies and their employees.

K9. In previous Budgets I have already substantially reformed the taxation of capital, with the replacement of Capital Transfer Tax by Inheritance Tax. But I believe this process can and should be taken further. Last year, I reduced the number of inheritance tax rates from seven to four. This year, I propose to simplify the tax still further by levying it at a flat rate of 40 per cent.

K10. At the same time I propose to raise the threshold from £90,000 to £110,000.

K11. The increase in the threshold will reduce the number of estates liable to tax by a quarter allowing many more people to inherit the family home free of tax. And the flat rate of 40 per cent means that for the family business, enjoying 50 per cent business relief, the effective rate of tax can never exceed 20 per cent, one of the lowest rates in the industrialised world.

K12. The Inheritance Tax reforms will reduce liability to tax at all levels. They will cost £100 million in 1988-89.

K13. Lastly, Capital Gains Tax. Strictly speaking, this should not be a tax on the original capital at all. Nor



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is it, so far as gains which have arisen since 1982 are concerned, thanks to the indexation provisions introduced by my predecessor in 1982, and extended in my 1985 Budget.

K14. But for gains that arose before 1982, the tax falls largely on purely paper profits resulting from the rampant inflation of the 'seventies. In other words, it bites deeply, and capriciously, into the capital itself.

K15. This has long been recognised as manifestly unjust. Indeed, from the time I first entered this House I have argued that Capital Gains Tax should fall only on real gains, and not on paper gains. I have therefore looked hard to see if the indexation provisions could be applied right back to the inception of the tax in 1965. Unfortunately, they cannot. The necessary information is in many cases no longer available.

K16. Accordingly, I have decided to bring the base date for the tax forward from 1965 to 1982. That is to say, for all disposals on or after 6 April, that part of any capital gain which arose before April 1982 will be exempt from tax altogether, for individuals and companies alike.

K17. This Budget thus ends once and for all the injustice of taxing purely inflationary gains. This will benefit the economy by unlocking assets which have been virtually

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sterilised because of the penal tax that would have arisen on any sale. And it will help many small businessmen and farmers in particular.

K18. At present, the first £6,600 a year of capital gain is tax free. The relatively high level of this threshold stems from the substantial increase my predecessor made in 1982, explicitly as rough and ready partial compensation for the continued taxation of pre-1982 paper gains. Now that I have taken pre-1982 gains out of tax altogether, I propose to reduce the capital gains tax threshold to £5,000. It should also be borne in mind that, with the introduction of independent taxation in 1990, a husband and wife will each have their own threshold for capital gains tax as well as for income tax.

K19. Rebasing the tax so as to produce a fully indexed system makes it possible to bring the taxation of gains closer to that of income. In principle, there is little economic difference between income and capital gains, and many people effectively have the option of choosing to a significant extent which to receive. And, insofar as there is a difference, it is by no means clear why one should be taxed more heavily than the other. Taxing them at different rates distorts investment decisions and inevitably creates a major tax avoidance industry.

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K20. Moreover, at present, with capital gains taxed at 30 per cent for everybody, higher rate taxpayers face a lower - sometimes much lower - rate of tax on gains than on investment income, while basic rate taxpayers face a higher rate of tax on gains than on income. This contrast is hard to justify.

K21. I therefore propose a fundamental reform. Subject to the new base date, capital gains will continue to be worked out as now, with the present exemptions and reliefs. In particular, the principal private residence will remain tax-free. But the indexed gain will then be taxed at the income tax rate that would apply if it were the taxpayer's marginal slice of income. In other words, I propose in future to apply the same rate of tax to income and capital gains alike.

K22. These changes will not take effect until 6 April.

K23. Taxing capital gains at income tax rates makes for greater neutrality in the tax system. It is what we now do for companies. And it is also the practice in the United States, with the big difference that there they have neither indexation relief nor a separate capital gains tax threshold.

K24. The changes I have announced represent a thoroughgoing reform of capital gains tax which will

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benefit the economy and eradicate a major injustice. They will sharply reduce the damaging effects of the tax, while ensuring that capital gains remain properly taxed and the yield of income tax adequately protected.

K25. They are expected to cost £210 million in 1989-90. This reflects tax that should never have been levied in the first place.

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**L. INCOME TAX**

L1. Finally, I turn to income tax.

[L2. There has been much discussion about the relative merits of tax reductions and public spending increases. This is a false antithesis. The plain fact is that if you have a strong economy, you can, over time, have both. And we have had both. And if you have a weak economy, you can have neither.]

L3. The way to a strong economy is to boost incentives and enterprise. And, particularly in the modern world, that means keeping income tax as low as possible.

L4. Income tax has now been reduced in each of the last six Budgets - the first time this has ever occurred. And the strength of the economy over that period speaks for itself.

L5. However, reforming Income Tax is not simply a matter of cutting the rates. I also have to look at all the various allowances and reliefs to ensure that they are still justified.

L6. With this in mind, I have a number of proposals to announce.

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L7. First, forestry. I accept that the tax system should recognise the special characteristics of forestry, where it can take anything up to a hundred years between the costs of planting and the income from selling the felled timber.

L8. But the present system cannot be justified. It enables top rate taxpayers in particular to shelter other income from tax, by setting it against expenditure on forestry, while the proceeds from any eventual sale are effectively tax free. Indeed a whole industry has grown up to promote this particular form of tax avoidance.

L9. The time has come to bring it to an end. I propose to do so by the simple expedient of taking commercial woodlands out of the tax system altogether. That is to say, as from today, and subject to transitional provisions, expenditure on commercial woodlands will no longer be allowed as a deduction for income tax and corporation tax. But, equally, receipts from the sale of trees or felled timber will no longer be liable to tax.

L10. It is, perhaps, a measure of the absurdity of the present system that the exemption of commercial woodlands from tax will, in time, produce a yield of over £10 million a year.

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L11. But in order to further the Government's objectives for the rural areas, I have agreed with my rt hon. Friends who have responsibilities for forestry and the environment that there should be a parallel increase in planting grants. Full details of the new grant scheme will be announced next week.

L12. The net effect of these changes will be to end an increasingly blatant form of tax avoidance; to simplify the tax system, abolishing the archaic Schedule B in its entirety; and to enable the Government to secure its forestry objectives with proper regard for the environment, including a better balance between broad-leaved trees and conifers.

L13. Among the legacies of the years of penal top tax rates is the complicated special relief for large redundancy payments. This is no longer justified. I propose to increase the exemption limit for these payments from £25,000 to £30,000, and to abolish the additional relief for larger amounts.

L14. I have a few changes to propose following from the recommendations of the Keith Committee on the Inland Revenue taxes. Most are designed to improve compliance, and to help the Revenue to uncover taxpayers who do not declare all their income, particularly where large amounts of tax are being lost. At the same time I have reviewed the VAT enforcement regime, and have a number of

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relaxations to propose which will make life easier for businesses, while safeguarding tax revenue. Some of the penalties will be reduced from midnight tonight.

L15. Next, benefits in kind - perhaps better known as perks. One of the biggest tax-induced distortions in the economy today is the growing tendency to provide remuneration in kind rather than in cash. It must be right to move towards a system of lower taxes all round and fewer tax breaks of this kind.

L16. Far and away the most widespread benefit in kind is the company car, which is substantially undertaxed. Independent studies, based on figures supplied by the AA, suggest that an employee with a typical company car may be taxed on only a quarter of its true value to him.

L17. This discrepancy is too great to be allowed to continue. On the other hand, the scale of the undertaxation is so great that it cannot be put right in a single year. But in a Budget when I am able to reduce tax rates, there is a strong case for a substantial increase in the taxation of these benefits. I therefore propose to double the car scales for 1988-89. This increase replaces the 10 per cent increase which I had already announced for 1988-89. The yield from this will be £260 million in 1988-89.



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L18. The scales for the taxation of car fuel adequately reflect the value of the benefit, and I propose to leave them unchanged for 1988-89.

L19. However, the taxation of the benefit of free car parking threatens to become an administrative nightmare. I propose to exempt this particular benefit from tax altogether.

L20. Next, mortgage interest relief. This Government is committed to the further spread of home ownership. Mortgage interest relief has an important role to play in achieving that aim, and will continue in place, against both the basic and higher rates of tax.

L21. However, in addition to the decision to apply the £30,000 limit to the house or flat, which I have already announced, and which will remove the most widely-resented tax penalty on marriage, I have one further reform to propose in this area.

L22. This concerns the parallel tax relief for home improvement loans. Most of these loans are for fittings such as double glazing, and have played a significant part in the recent growth of consumer credit without in any way contributing to the expansion of home ownership. This may be partly due to the substantial scope for abuse, as loans ostensibly taken out for home improvements are used for other purposes, a matter which

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was the subject of a recent report from the Public Accounts Committee.

L23. I propose, therefore, to end tax relief for all new home improvement loans taken out after 5 April. Existing home improvement loans will be unaffected. This is expected to yield £80 million in 1988-89.

L24. Finally, I turn to income tax itself.

L25. The statutory indexation formula means that I should increase all the principal income tax allowances and bands by the increase in the RPI over the year to last December, or 3.7 per cent, rounded up. I propose to do more than that; indeed twice as much.

L26. Thus the single allowance will go up not by £90, as required by indexation, but by £180, to £2605; and the married allowance will go up not by £150 but by £300, to £4095. The additional personal allowance and widow's bereavement allowance will thus rise by £120 to £1490. Similarly the single age allowance will rise by £220 to £3180 and the married age allowance by £360 to £5035. The higher allowances for taxpayers aged 80 and over, which I introduced in the last Budget, will correspondingly be increased by £240 and £360 to £3310 and £5205 respectively, and the new age allowance income limit will be £10,600. The upper limit of taxable income for the basic rate band will be increased to £19,300.

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L27. The increases I have just announced mean that the basic tax thresholds will be fully 25 per cent higher, in real terms, than they were in 1978-79, Labour's last year. Indeed, the married man's tax threshold will be at its highest level in real terms for nearly half a century.

L28. Given these substantial increases in the main allowances, I am taking the opportunity to simplify the system by abolishing three minor personal allowances which have been unchanged, in cash terms, for over twenty years: the housekeeper allowance, the dependent relative allowance, and the son's or daughter's services allowance.

L29. In our general election manifesto last year, we committed ourselves to reducing the basic rate of income tax to 25 pence in the £ as soon as it was prudent to do so. This pledge followed a reduction of twopence in the £ to 27 pence in last year's Budget.

L30. At the time, this was regarded with some scepticism, not to say cynicism, by the Opposition, who no doubt recalled that Labour Governments reduce tax only in front of an election, and at all other times increase it. Indeed, shortly before last year's Budget the right hon Gentleman the deputy leader of the Labour Party said this:

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"I must advise the Chancellor of something he already knows: whichever party wins the general election, the tax cuts he makes in this Budget will be reversed."

L31. The time has come to put the right hon Gentleman out of his misery. So far from reversing the 1987 Budget tax reductions, I propose to take this, the first opportunity since the general election, to fulfil our manifesto pledge. The basic rate of income tax for 1988-89 will be 25 pence in the pound.

L32. The small companies' rate of corporation tax will similarly be reduced to 25 per cent. This means that the basic rate of income tax, and the corporation tax rate for small companies, will both be at their lowest level since the war.

L33. Life Assurance premium relief remains in place for policies taken out before the 1984 Budget. It has traditionally been given at half the basic rate of income tax. I therefore propose to reduce it from 15 per cent to 12½ per cent. But, to give life offices time to adjust, this change will not take effect until 6 April 1989.

L34. I propose to reduce the additional rate which applies to the income of discretionary trusts and for certain other purposes from 18 per cent to 10 per cent.



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L35. It is now nine years since my predecessor, in his first Budget in 1979, reduced the top rate of tax from the absurd 83 per cent that prevailed under Labour to 60 per cent, where it has remained ever since.

L36. At that time, this was broadly in line with the European average for the top rate of tax. It is now one of the highest. And not only do the majority of European countries now have a top rate of tax below 60 per cent, but in the English-speaking countries outside Europe - not only the United States and Canada, but socialist Australia and New Zealand, too - the top rate is now below 50 per cent, sometimes well below.

L37. The reason for the worldwide trend towards lower top rates of tax is clear. Excessive rates of income tax destroy enterprise, encourage avoidance, and drive talent to more hospitable shores overseas. As a result, so far from raising additional revenue, over time they actually raise less.

L38. By contrast, a reduction in the top rates of tax can, over time, result in a higher, not a lower, yield to the Exchequer. Despite the substantial reduction in the top rate of tax in 1979, and the subsequent abolition of the investment income surcharge in 1984, the top five per cent of taxpayers today contribute a third as much again in real terms as they did in 1978-79, Labour's last year; while the remaining 95 per cent of taxpayers actually pay less.

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L39. After nine years at 60 per cent I believe the time has come to make a further reduction in the top rate of income tax. At present there are no fewer than five higher rates of income tax: 40 per cent, 45 per cent, 50 per cent, 55 per cent, and 60 per cent. I propose to abolish all the higher rates of tax above 40 per cent.

L40. This major reform will leave us with one of the simplest systems of income tax in the world, consisting of a basic rate of 25 per cent and a single higher rate of 40 per cent. And, indeed, a system of personal taxation in which there is no rate in excess of 40 per cent.

L41. I believe that 40 per cent is an acceptable top rate of tax. But, bearing in mind that the basic rate of income tax is also the starting rate, 25 per cent is still too high.

L42. Since we first took office in 1979, we have now reduced the basic rate of income tax from 33 per cent - one third - to 25 per cent - a quarter. Our aim should now be to get it down to a fifth - a rate of 20 pence in the pound - as soon as we prudently and sensibly can.

L43. Meanwhile, I have today been able to reduce income tax at all levels, with increases in both the personal allowances and the basic rate limit, and reductions in

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both the basic and higher rates. The tax reduction for a married man on average earnings in 1988-89 will be worth nearly £5 a week. The changes will take effect under PAYE on the first pay day after 14 June. They will cost £4½ billion in 1988-89 over and above statutory indexation, of which three quarters represents the cost of increasing tax thresholds and reducing the basic rate.

L44. The total cost of all the measures in this year's Budget, again on an indexed basis, is £4 billion.

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**M. PERORATION**

M1. In this Budget, I have reaffirmed the prudent policies which have brought us unprecedented economic strength. I have announced a radical reform of the taxation of marriage, which for the first time ever will give married women a fair deal from the tax system. I have eliminated the long-standing injustice of taxing inflationary gains, and abolished a fifth tax. I have radically reformed the structure of personal taxation, so that there is no rate anywhere in the system in excess of 40 per cent.

M2. After an Autumn Statement which substantially increased public spending in priority areas, I have once again cut the basic rate of income tax, fulfilling our Manifesto pledge of a basic rate of 25 pence in the £ and setting a new target of 20 pence in the £.

M3. And I have balanced the Budget.

M4. I commend this Budget to the House.

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