

PO-CH/NL/O370 PT A



**SECRET**

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PO -CH /NL/0370



PART A

1988 BUDGET DEBATE AND  
WIND UP SPEECH

DD'S 25 years NAGC 11/12/95

18-3-88

PO -CH /NL/0370

PO -CH

PART A

CLOSED

CONFIDENTIAL ON:-

PART

**B**



V2710.45

BUDGET SECRET: TASK FORCE LIST

COPY NO 1 OF 3

FROM: ROBERT CULPIN  
DATE: 22 January 1988

MR A C S ALLAN

cc Mr Hudson

## DINNER WITH PRIME MINISTER

Here are some approximate facts. Use as you wish.

Tax Burden and PSBR

Forecast assumes package with PSBR cost (comparable to Table 2 of Scorecard dated 21 January) of about £4 billion. Gives roughly constant tax burden in 1988-89.

	<u>1987-88</u>	<u>1988-89</u>
Non-oil taxes and NICs as % non-oil GDP	37.8	37.8
Total taxes and NICs as % GDP	38.1	38.1
PSBR (£ billion)	-3	-3½

Capital gains tax: higher rate

40% with indexation is much less than 30% without indexation.  
Roughly equivalent to an unindexed:

- 15% if inflation 5%, real gain 3%
- 20% if inflation 3%, real gain 3%
- 10% if inflation 3%, real gain 1%

*Mr has many years?  
(one yr)*

CGT: basic rate

Under present system, basic rate accounts for roughly

- 55% of payers
- 35% of yield



## BUDGET SECRET: TASK FORCE LIST

After reform, basic rate might account <sup>but</sup> (~~for~~ see next sentence) for

- 35% of payers
- 10% of yield

This exaggerates likely fall in basic rate element because it makes no allowance for the effect of rebasing.

### CGT: pensioners

Many save in working life; realise assets in retirement. Gain from reduction from 30% to 25%.

Estimate is that, after reform, pensioners will account for about

- 49% of basic rate CGT payers
- 50% of basic rate CGT revenue

\*\*\*\*\*

- 46% of all CGT payers
- 31% of all CGT revenue.

And of all pensioners with capital gains, about half will be basic rate payers.

### Cars: problem

Grossly undertaxed:

- valued for tax purposes at only  $\frac{1}{4}$  what worth
- revenue loss from this alone of the order of £1 billion a year

Also undercharged relative to earnings because free of NICs.

Classic distortion:

- three out of five people with company cars costing £30,000-odd are basic rate taxpayers, most of whom would surely never choose this sort of extravagance if it weren't for the tax advantage.



Cars: numbers

Roughly 1.2 million people have company cars. Most are basic rate taxpayers: forecast is that 4 out of 5 will be next year.

Present yield of tax on cars £300 + million.

Cars: options

Following very approximate: Revenue costings not yet available.

Option 1:

- raise valuation to  $\frac{1}{2}$  what worth (from 1989-90 at earliest)
- yield about extra £ $\frac{1}{3}$  billion

Option 2:

- couple increase in valuation with move to FBT (from 1990-91 at earliest)
- yield about extra £500-600 million instead of £ $\frac{1}{3}$  billion

Other benefits in kind

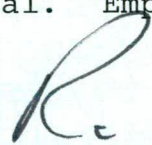
Present yield about £350 million.

Move to FBT could make that about £500-600 million.

More if coverage extended.

FBT swings and roundabouts

Remember most FBT costing give net gains to Government. Employers would lose more, because would have to pay existing tax paid by employees - £600-700 million a year in total. Employees would gain that amount.



ROBERT CULPIN





Inland Revenue

Policy Division  
Somerset House

COPY NO<sup>1</sup> OF 33  
FROM: P LEWIS  
DATE: 3 MARCH 1988

*Thanks*

Chancellor

## P11D THRESHOLD

1. At the last Overview meeting you asked about the implications for cost, number of benefits cases, Revenue staffing, and car scale losers from increasing the P11D limit (if pressed during the passage of the Finance Bill) from £8,500 to £9,000.

Cost

2. We estimate that the cost would be about £10m per year.

P11D "population"

3. With the proposed increase in the car scales, and the threshold at £8,500, we estimate that there will be an extra 130,000 taxpayers with taxable benefits in 1988/89 as compared with 1987/88. Increasing the threshold to £9,000 would reduce that increase by 40,000 to 90,000.

---

cc	Chief Secretary	Mr Battishill
	Financial Secretary	Mr Isaac
	Paymaster General	Mr Painter
	Economic Secretary	Mr Beighton
	Sir P Middleton	Mr Lewis
	Sir T Burns	Miss Rhodes
	Sir G Littler	Mr Northend
	Mr Anson	Mr R H Allen
	Sir A Wilson	Mr I Stewart
	Mr Byatt	Mr Boyce
	Mr Monck	PS/IR
	Mr Scholar	
	Mr Culpin	
	Mr Sedgwick	
	Mr Olding-Smee	
	Miss Riley	
	Mr Hudson	
	Miss Evans	
	Mr Cropper	
	Mr Tyrie	
	Mr Call	



## Revenue staffing

4. The 130,000 extra benefits cases would produce an extra staff requirement of about 65. There would be a reduction in the number of extra staff required of about 20 if the number of extra cases fell to 90,000 through increasing the P11D limit to £9,000.

5. In the first two years, this reduction would be offset, or more than offset, by the work involved in taking the exempt people out of the system. During 1988/89 we would have to adjust PAYE codes individually as people wrote in saying they were no longer liable; and we would need to try to devise some new arrangements for picking up other cases after the end of the year (in the normal course we would no longer get a P11D for them). Given the relatively small numbers involved - and the fact that after a few years they would be liable on benefits again if there were no further changes - we would need to keep the arrangements as simple as possible.

## Car scale losers

6. With the threshold at £8,500 we expect there to be about 70,000 losers in all. Of these about 40,000 would have losses averaging about £45, and about 30,000 losses averaging some £330 (those at present below the P11D limit). Losses would range up to about £420.

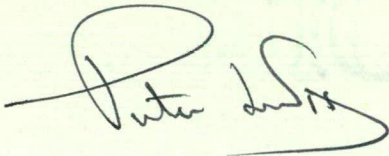
7. With the P11D limit at £9,000, we would expect the overall number of losers to fall. The 40,000 taxpayers with losses averaging about £45 would not be affected by the increase in the P11D limit. There would be some reduction, which could be sizeable, in the number of cases brought into the P11D field as a result of the scale charge increase but it is not possible to make reliable estimates of the size of the reduction. Losses for the cases remaining would range up to about £410.

8. As discussed at the Overview meeting, the effect of increasing the threshold to £9,000 would be to eliminate virtually entirely the losers with cars in the bottom (under 1400cc) category. Some of these would otherwise have losses of £100 or more.



9. For medium cars the income range over which large losses (about £200) could occur would be reduced from about £700 to £200. For cars in the top (over 2000cc) band the income range over which large losses (over £400) could occur would be reduced from about £1,100 to about £600. These losses would all apply to people with cash earnings below £8,000.

10. As you know, the estimates of the number of losers and their average loss are subject to considerable margins of error. But specimen income calculations make it clear that if the threshold were increased to £9,000 it would go a long way towards cutting out the most plausible losers - and those most deserving of sympathy - people with relatively low cash earnings and small or medium sized cars.



P LEWIS





*PWP*

FROM: J M G TAYLOR

DATE: 7 March 1988

MR LEWIS - INLAND REVENUE

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Sir P Middleton  
Sir T Burns  
Sir G Littler  
Mr Anson  
Sir A Wilson  
Mr Byatt  
Mr Monck  
Mr Scholar  
Mr Culpin  
Mr Sedgwick  
Mr Odling-Smee  
Miss Riley  
Mr Hudson  
Miss Evans  
Mr Cropper  
Mr Tyrie  
Mr Call  
Mr Battishill - IR  
Mr Isaac - IR  
Mr Painter - IR  
Mr Beighton - IR  
PS/IR

**P11D THRESHOLD**

The Chancellor was grateful for your minute of 3 March.

*JMG*

J M G TAYLOR



Pmf

C. You asked about Mark's note on Lord Cledwyn. The speech is, in fact, Lord Young's in the debate initiated by Lord Cledwyn last week, i.e. the speech you commented on last Tuesday night. Oops! ~~ANT~~

CHIEF SECRETARY

FROM: MARK CALL

DATE: 26 FEBRUARY 1988

cc PS/Chancellor

Mr Hudson

Mr Cropper

Mr Tyrie

As I suspect.  
Better again  
Mark

BUDGET DEBATE SPEECH: PLAGIARISING LORD CLEDWYN

You said you would like to start collecting together some thoughts on your speech in the Budget debate. The attached speech by Lord Cledwyn on 24 February contains some points which could be very useful for countering criticisms of the distributional effects of the Budget. I think he has put some of these points particularly well.

- "We cannot assume that changes which lead to wider differences are always harmful. Such changes may be beneficial to everyone in society - and I stress everyone - simply because national wealth and income is raised and everyone can share in that".

- "It is true that between 78/79 and 87/88 men on twice average earnings did enjoy real increases in pay faster than those on half average earnings. Single men had an increase of 26% compared to an increase of 21%. But that is an increase - there has been a quiet remarkable increase at every level of earnings. Perhaps those single people on half average earnings preferred the situation under the last Labour Government between 73/74 and 78/79 when they did better compared to those on twice average earnings. Those low earners only lost 1% in real take home pay while those on twice average earnings lost 4%. Everyone was getting poorer but the low paid were getting poorer at a slower rate than the highly paid were."



- "We recognise that some element of redistribution is needed ... and we recognise that society must provide for people's minimum needs. But there are dangers. If pressure for a more equal distribution weakens the process of wealth creation, the poor will lose. Emphasising State intervention and concentrating on redistribution was a characteristic of the UK in the 1970s when it was consistently bottom of the growth league table of the European Community."

- "I would identify 3 main ways to help those who are poorest in our society. First, to encourage individuals to create wealth. Second, to spread the ownership of wealth more widely. Third, to tackle inflation and provide the conditions in which unemployment will fall."

- "We have not abandoned the concept of a safety net but we want to make it a safety net not a smothering blanket of State control."

Mc  
MARK CALL



LORDS DEBATE : 24 FEBRUARY 1988

The Lord Cledwyn of Penrhos - to call attention to the developing disparities in opportunity and income and to the case for policies to reduce divisions in the Community; and to move for papers.

My Lords, the Government is committed to encourage a society in which wealth is created. A society in which that wealth creation benefits all the citizens. And a society which offers equality of opportunity to its citizens.

Our concern is to ensure that our people are better off, that they all enjoy rising standards of living, better health and education.

But, this does not imply a uniform society in which there are no differences. Differences are bound to exist. Those differences will change as the economy changes. It will always be the case that at any given moment in time, some industries in some areas may prosper and develop more than elsewhere. Over any given period of time, earnings in some occupations will rise more than others because skills and talents in limited supply will be rewarded more highly.

But differences are not the same as divisions, and people who try to elevate the differences which exist into divisions within a society are doing that society a disservice.

The Noble Lord has used a number of statistics making comparisons between different groups. I believe that such comparisons, and the basis of the question put, are fundamentally flawed.



First, they are flawed philosophically. I am sure that no members of this House would see complete uniformity as a desirable aim. We accept that uniformity would be wrong and differences are both inevitable and desirable. For example, differences of income have a purpose. They encourage people to develop the skills which are in demand; they provide incentives for people.

Once this argument is accepted, there can be no certain basis for saying that one set of differences is acceptable and unchanging but another set is not.

Second, these comparisons are flawed practically. Questions of distributions are largely an academic exercise for individuals. What matters for individuals is their own life style and whether their needs can be met. Someone at the bottom of the wealth distribution in a rich country may be much wealthier than someone much higher up the distribution in a poor country.

We cannot assume that changes which lead to wider differences are always harmful. Such changes may be beneficial to everyone in society - and I stress everyone - simply because national wealth and income is raised and everyone can share in that growth.

The Noble Lord spoke eloquently about the faster earnings growth of the better off. And, if we look at percentage changes in real take home pay, it is true that between 1978/79 and 1987/88 men on twice average earnings did enjoy real increases in pay faster than those on half average earnings. For single men an increase of 26% compared to an increase of 21%. But that is an increase - there has been a quite remarkable increase at every level of earnings. Perhaps those single people on half average



earnings preferred the situation under the last Labour Government between 1973/74 and 1978/79 when they did better compared to those on twice average earnings. Those low earners only lost 1% in real take home pay while those on twice average earnings lost 4%. Everyone was getting poorer but the low paid were getting poorer at a slower rate than the highly paid were.

And it is not just those in work who have benefitted from real growth in the economy. Pensioners enjoyed an 18 per cent increase in real income between 1979 and 1985.

For those are the most important comparisons. They show that people have had higher incomes [and better opportunities]. For real take home pay has risen substantially at every level of earnings.

[The Noble Lord has argued that tax cuts have benefitted the rich rather than the poor.] The less well off have benefitted, from tax changes, from the cut of 6 percentage points in the basic rate and the increase of 22 per cent in real terms in main personal allowances. The introduction of reduced rate national insurance bands in 1985 benefitted all those earning below £105 a week. [What is true is that the growth in real earnings has been so significant the people can afford to pay more in taxes and still be much better off.]

Of course, we recognise that some element of redistribution is needed - the progressive nature of income tax and the existence of capital taxation show that - and we recognise that society must provide for people's minimum needs. But there are dangers. If pressure for a more equal distribution weakens the process of wealth creation, the poor will lose. Emphasising state intervention and concentrating on redistribution was a



characteristic of the UK in the 1970's when it was consistently bottom of the growth league table of the European Community.

I would identify three main ways to help those who are poorest in our society. First, to encourage individuals to create wealth. Second, to spread the ownership of wealth more widely. Third, to tackle inflation and provide the conditions in which unemployment will fall.

Encouraging individuals to create wealth is not only a matter of tax incentives. It needs a shift towards an enterprise culture in which creating businesses and creating jobs is regarded as a socially - perhaps even morally - acceptable occupation. For the Government, this means looking hard at education, training and encouraging the growth of new businesses.

We ARE now seeing a change of attitude. 82 per cent of a recent sample survey of 30's customers agreed that there is a new enterprise culture in this country. We have to spread those positive attitudes to enterprise more widely in our society - the enterprise message is for all - it offers challenges, it offers opportunities, and it is not limited to any one section of the community.

Spreading the ownership of wealth has been encouraged by selling council houses - more than a million since 1979 - so encouraging more people to own their own homes.

Wider share ownership has been encouraged by privatisation which has benefitted employees and small shareholders in particular, and by tax incentives for share option schemes. Over one and a half million employees have benefitted or will benefit from all employee share schemes established or improved under this Government. Under this



Government, individual share ownership has trebled; and, the fastest growing group of shareholders is manual workers.

The more widely ownership of assets is spread the better. One of the consequences of privatisation and wider ownership is that people are given more control and more individual responsibility - both to look after their homes and to participate in the companies for which they work. This is giving people real opportunity.

Tackling inflation has been the first priority of this Government. Inflation is now back to the levels of twenty years ago. The way in which inflation destroyed wealth in the past was insidious and unrelenting. We must never forget or underestimate the evil effects of inflation on society. People's savings built up over a lifetime are lost. The old become embittered and the young see no purpose in saving. Inflation causes untold anxiety and undermines personal independence. Its effects have been random, as for example people with war bonds found to their cost. Cutting inflation has reduced real divisions in our community.

Tackling inflation is also vital to reduce unemployment. [For the poorest individuals are the unemployed - and it is a poverty of spirit as much as a poverty of wealth which strikes them so hard.] Tackling unemployment requires low inflation and flourishing enterprise. We have seen unemployment fall by 647,000 since July 1986; down more than any other major industrialised country.

We have heard something of the North-South divide. That is a great over-simplification:

- Unemployment has fallen in every region in the past



eighteen months, and fastest in Wales, the West Midlands, the North West and the North.

- The "North's" share of unemployment in 1979 was 69%: it is now 68%.
- About half the steep rise in self employment has been in the North - and more than a third of the additional jobs since March 1983.

[I believe that emphasis on the North/South divide has done the North a great disservice. It has perpetuated the cloth-cap and black-spot image that is wholly undeserved. The so called North has a great deal to offer - and many foreign investors have responded to its advantages. I was intrigued to see recently an analysis of the quality of urban life - of the top tens towns - seven were in the North.]

I am not arguing that everything is just right. Indeed it must be evident to all members of this House that we are pursuing radical changes to widen opportunity, increase choice and to give individuals greater control in key areas of their lives such as housing and education.

[For example, in education:

- more young people aged 16 and 17 are receiving full time education or structured training, up from 49 per cent in 1981 to 62 per cent in 1987;
- City Technology Colleges will provide free, high quality, science and technology based education for pupils of all activities and backgrounds;
- the legislative proposals will give parents more



say and increase educational opportunities.]

Running throughout our policies is the emphasis on individuals, their responsibilities and their opportunities. We have not abandoned the concept of a safety net but we want to make it a safety net not a smothering blanket of state control. That indeed is the key difference between the underlying ideas expressed in the motion and Government policy.

The motion talks about opportunities. My Lords, we should never forget that opportunities came from responsibilities and challenges. They came from self-help in the market not spoon feeding by the state. The will to help yourself is crucial; of course, it needs encouragement and development but the emphasis must be on self-help.

We do not seek to elevate differences to divisions within our community. We do strive to encourage individuals to make and create their own opportunities; that may bring greater diversity, it should certainly bring more growth and more change. That sort of diversity is to be welcomed not opposed.



CONFIDENTIAL



FROM: B O DYER  
DATE: 2 March 1988

01-270 4520

MR ALEX ALLAN

cc Mr Scholar  
Miss C Evans

BUDGET DEBATES : 1988

*Case this year for giving all Treasury Ministers a go, plus Mr Clarke (no shot for Mr Fowler)?*

*Is there a package for this? If so, let us know if we can plan for scenario (as above) before subject to physical availability.*

It is perhaps not too early to give some thought to the batting order for Government Spokesmen in the forthcoming Budget Debates: to line up any departmental Minister invited to assist the Treasury team, and also in readiness to treat with the Opposition.

2. A possible scenario, based on the practice in previous years, might be:

### Tuesday 15 March

3.30pm: Budget Statement (followed by customary motion, under the PCT Act, to give provisional statutory effect to Budget proposals - to be put forthwith). The Leader of the Opposition will then reply and debates, founded on the Amendment of Law Resolution, will continue until 10pm (unless some other business can be introduced at 7pm). Traditionally this day is given over to senior backbench spokesmen.

### Wednesday 16 March

3.40 to 10pm: Resumption of Budget Debates (Opposition will open - probably Mr John Smith - followed by the Chief Secretary, with the Financial Secretary winding up for the Government).

*PMG lead up?*

### Thursday 17 March

3.50 to 10pm: Continuation of Budget Debates (S of S for Employment or Paymaster General to open for the Government with the Economic Secretary winding up).

*FST open?*

PTO



Monday 21 March

3.30 to 10pm: Budget Debates, concluding day (The ~~Chancellor~~  
~~of the Duchy of Lancaster~~ to open for the  
Government with the Chancellor of the Exchequer  
winding up).

10pm: All the Budget Resolutions (including the Amendment of  
Law Resolution) will be taken and, in some cases, Voted  
upon. When all the Resolutions have been obtained the  
Financial Secretary will bring in the Finance Bill -  
ie 'Walk the Floor'.

3. It would be helpful to know the Chancellor's wishes prior  
to next week's Business Statement - ie by Wednesday 9 March.

4. For background information, I attach a list of the principal  
spokesmen covering the last four years.



B O DYER



## BUDGET 1987

## SUMMARY OF DEBATE AND SPEAKERS

DATE OF BUDGET	17.3.87	Vol. 113	Col 815-900
Date of Budget debate	18.3.87	Vol. 113	Col 942-1016
	19.3.87	Vol. 113	Col 1055-1135
	23.3.87	Vol. 113	Col 22-136

17 MARCH (BUDGET DAY)

Nigel Lawson (C/Ex)

Col 815-828  
(Budget Statement)

Neil Kinnock

Col 229-836  
(Opposition Reply to Budget)18 MARCH (DAY 1)

Mr Roy Hattersley

Col 942-954

Mr John MacGregor (CST)

Col 955-965

Mr Roy Jenkins

Col 965-970

Dr Oonagh MacDonald

Col 970-1008

Mr John Moore (FST)

Col 1008-1014

?!  
Must have been  
Norman Lamont

19 MARCH (DAY 2)Mr Kenneth Clarke  
(Paymaster General & Minister  
for Employment)

Col 1055-1069

Mr John Prescott

Col 1069-1076

Mr George Gardiner

Col 1082-1089

Mr Keith Raffon

Col 1109-1113

Mr Peter Brooke MPT

Col 1128-1135

23 MARCH (DAY 3)Mr Paul Channon  
(S of S for Trade  
and Industry)

Col 22-30

Mr John Smith

Col 29-37

Robert Sheldon

Col 40-44

Mr Ian Wrigglesworth

Col 84-89

Mr Nigel Lawson

Col 105-111



## BUDGET 1986

## SUMMARY OF DEBATE AND SPEAKERS

<u>DATE OF BUDGET</u>	18.3.86	Vol. 94	Col 166-213
Date of Budget debate	19.3.86	Vol. 94	Col 305-384
	20.3.86	Vol. 94	Col 424-509
	24.3.86	Vol. 94	Col 628-734

18 MARCH (BUDGET DAY)

Nigel Lawson (C/Ex)

Col 166-184  
(Budget Statement)

Neil Kinnock

Col 185-213  
(Opposition Reply to Budget)19 MARCH (DAY 1)

Mr Roy Hattersley

Col 305-312

Mr John MacGregor *CST*

Col 312-324

Mr Roy Jenkins

Col 324-329

Dr Oonagh MacDonald

Col 372-377

Mr John Moore *FST*

Col 377-384

20 MARCH (DAY 2)Mr Kenneth Clarke  
(Paymaster General & Minister  
for Employment)

Col 424-438

Mr John Prescott

Col 438-450

Mr Ian Wrigglesworth

Col 455-463

Mr Ian Stewart *FST*

Col 504-509

24 MARCH (DAY 3)Mr Norman Tebbit  
(Chancellor of the Duchy of  
Lancaster)

Col 628-638

Mr John Smith

Col 638-648

Mr Terry Davis

Col 694-700

Mr Nigel Lawson

Col 700-734



**BUDGET 1985**SUMMARY OF DEBATE AND SPEAKERS

<u>DATE OF BUDGET</u>	19.3.85	Vol 75	Col 787-828
Date of Budget debate	20.3.85	Vol 75	Col 873-962
	21.3.85	Vol 75	Col 1017-1083
	25.3.85	Vol 76	Col 32-152

19 MARCH (BUDGET DAY)

Nigel Lawson (C/Ex)

Col 787-804  
(Budget statement)

Neil Kinnock

Col 805-810  
(Opposition reply to budget)20 MARCH (DAY 1)

Mr Roy Hattersley

Col 873-883

Mr Peter Rees **CST**

Col 883-896

Richard Wainwright

Col 896-900

Dr Oonagh MacDonald

Col 949-955

Mr John Moore **FST**

Col 955-962

21 MARCH (DAY 2)

Mr Tom King (S/S Emp)

Col 1017-1026

Mr John Prescott

Col 1026-1034

Mr Tony Blair

Col 1072-1078

Mr Barney Hayhoe **MST**

Col 1078-1083

25 MARCH (DAY 3)

Mr Norman Tebbit (S/S Trade and Ind)

Col 32-42

Mr John Smith

Col 42-51

Mr Terry Davies

Col 98-105

Mr Nigel Lawson

Col 105-112



## BUDGET 1984

SUMMARY OF DEBATE AND SPEAKERS

<u>DATE OF BUDGET</u>	13.3.84	Col 286-331
Date of Budget debate	14.3.84	Col 413-482
	15.3.84	Col 522-597
	19.3.84	Col 709-855

13 MARCH (BUDGET DAY)

Nigel Lawson (C/Ex)	Col 286-305 (Budget statement)
Neil Kinnock	Col 306-311 (Opposition reply to budget)

14 MARCH (DAY 1)

Mr Roy Hattersley	Col 413-419 (open for opposition)
Mr Peter Rees (CST)	Col 419-430 (open for government)
Mr Barney Hayhoe (MST)	Col 478-482 (close for government)

15 MARCH (DAY 2)

Mr Tom King (Sec of State Dept/Emp)	Col 522-527 (open for government)
Mr John Smith	Col 527-535 (open for opposition)
Mr John Moore (FST)	Col 590-597 (close for government)

19 MARCH (DAY 3)

Mr Norman Tebbit (Sec of State Trade)	Col 709-719 (open for government)
Mr Peter Shore	Col 719-726 (open for opposition)
Mr Nigel Lawson (C/Ex)	Col 788-796 (close for government)



CONFIDENTIAL



FROM: B O DYER  
DATE: 2 March 1988

01-270 4520

MR ALEX ALLAN

cc Mr Scholar  
Miss C Evans

**BUDGET DEBATES : 1988**

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2. A possible scenario, based on the practice in previous years, might be:

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3.30pm: **Budget Statement** (followed by customary motion, under the PCT Act, to give provisional statutory effect to Budget proposals - to be put forthwith). The **Leader of the Opposition** will then reply and debates, founded on the Amendment of Law Resolution, will continue until 10pm (unless some other business can be introduced at 7pm). Traditionally this day is given over to senior backbench spokesmen.

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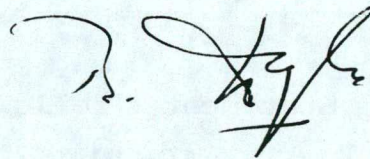
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3.30 to 10pm: Budget Debates, concluding day (The Chancellor of the Duchy of Lancaster to open for the Government with the Chancellor of the Exchequer winding up).

10pm: All the Budget Resolutions (including the Amendment of Law Resolution) will be taken and, in some cases, Voted upon. When all the Resolutions have been obtained the Financial Secretary will bring in the Finance Bill - ie 'Walk the Floor'.

3. It would be helpful to know the Chancellor's wishes prior to next week's Business Statement - ie by Wednesday 9 March.

4. For background information, I attach a list of the principal spokesmen covering the last four years.

A handwritten signature in black ink, appearing to be 'B O Dyer', written in a cursive style.

B O DYER



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 Mr John Moore (FST)

Col 942-954  
 Col 955-965  
 Col 965-970  
 Col 970-1008  
 Col 1008-1014

19 MARCH (DAY 2)

Mr Kenneth Clarke  
 (Paymaster General & Minister  
 for Employment)  
 Mr John Prescott  
 Mr George Gardiner  
 Mr Keith Raffon  
 Mr Peter Brooke MPT

Col 1055-1069  
  
 Col 1069-1076  
 Col 1082-1089  
 Col 1109-1113  
 Col 1128-1135

23 MARCH (DAY 3)

Mr Paul Channon  
 (S of S for Trade  
 and Industry)  
 Mr John Smith  
 Robert Sheldon  
 Mr Ian Wrigglesworth  
 Mr Nigel Lawson

Col 22-30  
 Col 29-37  
 Col 40-44  
 Col 84-89  
 Col 105-111



# BUDGET 1985

## SUMMARY OF DEBATE AND SPEAKERS

<u>DATE OF BUDGET</u>	18.3.86	Vol. 94	Col 166-213
Date of Budget debate	19.3.86	Vol. 94	Col 305-384
	20.3.86	Vol. 94	Col 424-509
	24.3.86	Vol. 94	Col 628-734

### 18 MARCH (BUDGET DAY)

Nigel Lawson (C/Ex)

Col 166-184  
(Budget Statement)

Neil Kinnock

Col 185-213  
(Opposition Reply to Budget)

### 19 MARCH (DAY 1)

Mr Roy Hattersley  
Mr John MacGregor *CST*  
Mr Roy Jenkins  
Dr Oonagh MacDonald  
Mr John Moore *FST*

Col 305-312  
Col 312-324  
Col 324-329  
Col 372-377  
Col 377-384

### 20 MARCH (DAY 2)

Mr Kenneth Clarke  
(Paymaster General & Minister  
for Employment)  
Mr John Prescott  
Mr Ian Wrigglesworth  
Mr Ian Stewart *FST*

Col 424-438  
  
Col 438-450  
Col 455-463  
Col 504-509

### 24 MARCH (DAY 3)

Mr Norman Tebbit  
(Chancellor of the Duchy of  
Lancaster)  
Mr John Smith  
Mr Terry Davis  
Mr Nigel Lawson

Col 628-638  
  
Col 638-648  
Col 694-700  
Col 700-734



## BUDGET 1985

SUMMARY OF DEBATE AND SPEAKERS

<u>DATE OF BUDGET</u>	19.3.85	Vol 75 Col 787-828
Date of Budget debate	20.3.85	Vol 75 Col 873-962
	21.3.85	Vol 75 Col 1017-1083
	25.3.85	Vol 76 Col 32-152

19 MARCH (BUDGET DAY)

Nigel Lawson (C/Ex)

Col 787-804  
(Budget statement)

Neil Kinnock

Col 805-810  
(Opposition reply to budget)20 MARCH (DAY 1)

Mr Roy Hattersley

Col 873-883

Mr Peter Rees CST

Col 883-896

Richard Wainwright

Col 896-900

Dr Oonagh MacDonald

Col 949-955

Mr John Moore FST

Col 955-962

21 MARCH (DAY 2)

Mr Tom King (S/S Emp)

Col 1017-1026

Mr John Prescott

Col 1026-1034

Mr Tony Blair

Col 1072-1078

Mr Barney Hayhoe MST

Col 1078-1083

25 MARCH (DAY 3)

Mr Norman Tebbit (S/S Trade and Ind)

Col 32-42

Mr John Smith

Col 42-51

Mr Terry Davies

Col 98-105

Mr Nigel Lawson

Col 105-112



SUMMARY OF DEBATE AND SPEAKERS

<u>DATE OF BUDGET</u>	13.3.84	Col 286-331
Date of Budget debate	14.3.84	Col 413-482
	15.3.84	Col 522-597
	19.3.84	Col 709-855

13 MARCH (BUDGET DAY)

Nigel Lawson (C/Ex)	Col 286-305 (Budget statement)
Neil Kinnock	Col 306-311 (Opposition reply to budget)

14 MARCH (DAY 1)

Mr Roy Hattersley	Col 413-419 (open for opposition)
Mr Peter Rees (CST)	Col 419-430 (open for government)
Mr Barney Hayhoe (MST)	Col 478-482 (close for government)

15 MARCH (DAY 2)

Mr Tom King (Sec of State Dept/Emp)	Col 522-527 (open for government)
Mr John Smith	Col 527-535 (open for opposition)
Mr John Moore (FST)	Col 590-597 (close for government)

19 MARCH (DAY 3)

Mr Norman Tebbit (Sec of State Trade)	Col 709-719 (open for government)
Mr Peter Shore	Col 719-726 (open for opposition)
Mr Nigel Lawson (C/Ex)	Col 788-796 (close for government)





FROM: B O DYER  
DATE: 3 March 1988

01-270 4520

MR ALEX ALLAN

## BUDGET DEBATES : TREASURY SPOKESMEN

You asked if all five Treasury Ministers (with only one other departmental Minister supporting) had participated in the Budget Debates during the life of this Government. The answer is 'no'.

2. The only precedent in modern times (ie in the last 20 years) was in 1975 when the batting order was:-

16 April : CST opened for the Government (Joel Barnett)  
FST wound up (John Gilbert)

17 April : PMG opened for the Government (Edmund Dell)  
MST wound up (Robert Sheldon)

21 April : Chancellor of the Duchy of Lancaster opened  
(Harold Lever)  
Chancellor of the Exchequer wound up (Denis Healey)

almost a  
Tsy Minister  
as well.

B O DYER

PS

It is only in the last 15 years or so that the Treasury has moved from 4 to 5 Ministers.

*Refer to the 15/3 v. usq. 16/3 as follows: Budget Speech CST/FST 17/3 Clarke/EST 21/3 Fowler/Ch.Ex.*





FROM: A C S ALLAN  
DATE: 7 March 1988

*ps*

CHANCELLOR

### SPEAKERS IN BUDGET DEBATES

Thursday would be very difficult for Mr Clarke: he is due to fly out to Zurich that afternoon for a meeting the next day with the Americans on aerospace issues. If really pressed, he might be prepared to delay his departure, but Monday would definitely be better for him. Mr Fowler could do either Thursday or Monday. (I made it clear to their offices that this was purely some contingency planning by me and that you had not yet considered who you wanted to invite.)

2. Do you see any great disadvantage in returning to Fowler on Thursday and Clarke on Monday, even though that gives Gould a better platform?

3. Separately, Mark Lennox-Boyd rang me up to say that he had been speaking to Murdo, who would need to approach the Opposition soon: it was conceivable they would try to negotiate for a health service day, which we would of course resist. I think this points to your ringing Mr Fowler and Mr Clarke tomorrow, rather than waiting until Cabinet.

*I have definite  
fixes for Thursday  
(= Monday for  
I will speak to  
Fowler & Murdo  
later.*

*AA*

A C S ALLAN





**Inland Revenue**

Policy Division  
Somerset House

7 March 1988

*PHF*

PS/FINANCIAL SECRETARY

TAX TREATMENT OF EXCHANGE RATE FLUCTUATIONS  
BUDGET DEBATE: DEFENSIVE BRIEFING

1. As you know, we have prepared a comprehensive progress report for the Financial Secretary which we will submit as soon as the Budget is over. It will recommend the publication of a (very green) consultative document later in the year.
2. We understand that the Financial Secretary does not propose to volunteer anything on this topic during the Budget debates. However, it may well be raised and we therefore attach a short briefing note together with some background.

A J BOLTON

---

cc PS/Chancellor  
Mr Peretz  
Ms Sinclair  
Ms Goodman  
Mr Cropper  
Mr Tyrie  
Mr Call

Mr Painter  
Mr Pollard  
Mr McGivern  
Mr Deacon  
Mr J F Hall  
Mr Keith  
Mr J W Calder  
Mr Bolton  
PS/IR



## TAX TREATMENT OF EXCHANGE RATE FLUCTUATIONS

### DEFENSIVE BRIEFING

#### 1. Why no proposals in Budget?

Widely recognised as formidably complex problem. (Revenue Statement of Practice on current law runs to 13 pages).

Wrong to rush into legislation without full examination of all possible solutions.

Detailed representations for reform being carefully considered.

#### 2. Government not serious about reform

Government certainly not discounting possibility of major legislative reform.

But any solution could be very expensive and legislation very complex.

So Government cannot commit itself unless and until satisfied that:

- effective scheme can be devised;
- which commands general agreement;
- without unacceptable Exchequer cost.

#### 3. Inland Revenue Statement of Practice unhelpful/unclear

Statement goes as far as possible within existing law.

#### 4. Inland Revenue not devoting proper resources to the topic

(Institute of Directors has complained that resources being devoted to other topics (thin capitalisation) when exchange rate fluctuations should have priority).

Revenue resource implications are always a major consideration in determining priorities.



# TAX TREATMENT OF EXCHANGE RATE FLUCTUATIONS

## BACKGROUND NOTE

### 1. The existing law

There are very few special statutory provisions relating to foreign exchange gains and losses. The application of the general law is highly problematic. Revenue's views are set out in a Statement of Practice issued on 17 February 1987.

### 2. Government's position

When the Statement of Practice was published, the Government invited representations for a change in the law acknowledging that the present law was complex and (by implication) less than satisfactory. The Financial Secretary said:

"We have certainly not ruled out the possibility of major legislative reform but, before committing itself, the Government would need to be satisfied that a scheme could be devised which could be applied effectively in practice and reflect a broad measure of agreement without entailing an unacceptable cost to the Exchequer."

### 3. Representations

The only significant response has come from a Group of Nine representative bodies (the "Group of 9") - Association of Corporate Treasurers, CBI, Association of British Insurers, British Bankers Association, ICAEW, IOD, IOT, International Chamber of Commerce and The Law Society.

Their proposals are a serious attempt to tackle the problem. But, as they recognise, many difficult questions are left unanswered. The Group of 9 is looking to the Government to put forward its own proposals.





PWP

MR A J BOLTON - IR

FROM: MISS S J FEEST

DATE: 7 March 1988

cc PS/Chancellor

Mr Peretz  
Ms Sinclair  
Ms Goodman  
Mr Cropper  
Mr Tyrie  
Mr Call

**TAX TREATMENT OF EXCHANGE RATE FLUCTUATIONS  
BUDGET DEBATE: DEFENSIVE BRIEFING**

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

A handwritten signature in cursive script, appearing to read "Susan Feest".

**SUSAN FEEST**  
Assistant Private Secretary



*mjp*

FROM: MRS JULIE THORPE

DATE: 8 March 1988

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Mr Cropper  
Mr Tyrie  
Mr Call  
Mr N Forman MP  
Mr Lennox-Boyd MP  
Mr Ian Stewart  
Conservative Central Office

**BUDGET DEBATES: MINISTERIAL BENCH DUTY**

I have set out below a very provisional Bench Duty Rota for the Budget Debates next week, which I understand you would like to discuss at Prayers tomorrow.

2. I have tried, as far as possible, to be fair to each Minister and to fit in with any other engagements they may have. I realise that some Ministers may be on the Bench for most of the afternoon anyway on the days when they are winding-up the Debate.

3. Regarding Monday 21 March, I expect you will want to be on the Bench yourself for most of the afternoon. I have provisionally arranged for another Treasury Minister to be on the Bench throughout the Debate as well so that you may come and go if you wish.



UNCLASSIFIED



Tuesday 15 March

PMG 5.30pm - 7.00pm

Wednesday 16 March

CST 3.30pm - 5.00pm

FST 5.00pm - 7.30pm

EST 7.30pm - 9.30pm

FST to wind up

Thursday 17 March

CST 3.30pm - 5.00pm

EST 5.00pm - 7.00pm

FST 7.00pm - 8.00pm

PMG 8.00pm - 9.30pm

EST to wind up

Monday 18 March

PMG 3.30pm - 5.00pm

CST 5.00pm - 7.00pm

EST 7.00pm - 8.00pm

FST 8.00pm - 9.30pm

Chancellor to wind up

4. When you have discussed this at Prayers I will make the final arrangements in consultation with other Ministers' offices.

*Julie Thorpe*

JULIE THORPE



Copy 4 of 7

Ch/ some comments from  
FP behind. Content?

BUDGET SECRET - TASK FORCE LIST

PS/Secretary of State

cc PS/Mr Moynihan  
Miss Caines  
Mr Michie, Treasury \*  
Mr McGuigan, Customs  
and Excise

mpm  
9/3  
gr-

UNLEADED PETROL DUTY DIFFERENTIAL

1. The Chancellor has decided to increase the duty differential in favour of unleaded petrol, by very much the amount requested by the Secretary of State. I attach for approval a draft Press Notice welcoming this news; it is written for the Secretary of State, but could alternatively be issued by Mr Moynihan.

2. The Press Notice needs to be run off in large quantities tomorrow for distribution by the Treasury, so I should be grateful for urgent clearance. I am sending it in parallel to the Treasury for clearance by the Chancellor. |X

Neil Sanders

N SANDERS  
AQ

9 March 1988

\* to arrange X/ please



FROM: M PARKINSON  
DATE: 10 MARCH 1988

1. Mr Mortimer  
2. Financial Secretary

cc: PS/Chancellor 12/2  
PS/Chief Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Mr Lankester  
Mr Byatt  
Mr Edwards  
Mr Odling-Smee  
Mr C M Kelly  
Mr D Savage  
Miss Simpson  
Mr Dyer  
Miss Wright

**BUDGET DEBATE: EC ANNUAL ECONOMIC REPORT 1987-88**

The House of Commons Select Committee on European Legislation has recommended the EC Annual Economic Report for debate "in the context of a future debate on economic affairs". This happens every year, and our usual practice is to name the Report as relevant for the UK Budget debate. There are, in fact, two versions of the Report recommended for debate:

- (a) European Community document 9561/87, Annual Economic Report 1987-88 (the Commission's draft);
- (b) unnumbered document, Annual Economic Report 1987-88 (final version as adopted by the Council).

Parliamentary Section are arranging for the necessary rubric to appear on the order paper.

2. This procedure is also consistent with the relevant Community legislation, the 1974 Council Decision on the convergence of the economic policies of member states. Article 5 of this Decision stipulates that, once the Report has been adopted by the Council, member states should bring it to the attention of their national Parliaments so that it can be taken into account during the debate on the Budget.



The purpose of this note is to provide a short line to take, with some background information on the Report, for use if necessary in the Budget debate. A brief is attached.

4. The Report recognises the strong performance of the UK economy, and as in previous years continues to advocate the cooperative growth strategy aimed at increasing growth to reduce Community unemployment while maintaining downward pressure on inflation.

*Mark Parkinson*

**M PARKINSON**



**EC ANNUAL ECONOMIC REPORT 1987-88**

Line to take

**On general issue of Report**

EC 1987-88 Annual Economic Report useful document; UK was glad to agree, along with other member states, to adopt it last December. UK economic policies generally in line with Report's recommendations, though of course could not accept every word in such a long document.

Particularly welcome are Report's continued emphasis on policies to improve supply-side performance, and on stable monetary and fiscal policies to maintain downward pressure on inflation. Note also call for real wage moderation. Report argues that sustaining demand is important but within a framework of fiscal consolidation. As far as UK is concerned, note that Report recognises the contribution which the UK's strong economic performance has made to growth in the Community.

[If issue of EC coordinated fiscal expansion raised]:  
Recession not in prospect. General fiscal expansion would carry serious inflationary risks.

**On Report and more recent developments**

The ECOFIN Council discussed the international economic situation on 7 March and agreed that there was no need to change the guidelines in the Report at this stage. Since the Annual Economic Report was adopted international policy developments have been helpful, including the G7 Communique of 23 December.



## Background

The European Community's Annual Economic Report for 1987-88 was agreed by the Council of Finance Ministers in December 1987. Its purpose is to describe the economic situation in the Community, and to establish policy guidelines to influence member states' economic policies in the following year.

2. The main thrust of the Report is that the Community should press ahead with the cooperative growth strategy set out in the 1985-86 and 1986-87 Reports. As usual the Report is in two parts: a general Community part and a part analysing the economic situation in each member state.

3. The aim of the cooperative growth strategy is to increase growth and thereby reduce Community unemployment, while maintaining downward pressure on inflation. The Commission believes that this should include continued dialogue between governments and social partners on wage moderation (we have emphasised that this is most effective at the level of the individual firm without government involvement), alongside action by governments to sustain demand and implement supply side policies.

4. On the whole, the adopted version of the Report was in line with UK policy, in particular on the need for:

- (a) moderation in the growth of real wages;
- (b) greater flexibility of markets and the completion of the internal market;
- (c) monetary stability to reduce inflation and interest rates;
- (d) consolidation of public sector finances.



5. Although the Report calls for governments to use all room for manoeuvre to sustain demand, this is put in the context of fiscal consolidation and national policy objectives. We have emphasised the inflationary risks of any coordinated fiscal easing.

6. The UK chapter of the Report raises no major problems. The Commission note the expansion of economic activity which has been under way without interruption since 1981 and the downward trend in unemployment. They also note the UK's progress in achieving budgetary and supply side objectives.

7. The Report was prepared before the fall in world stock markets. In view of this the adopted version contains a short preamble saying that the basic analysis remains valid. Since then the Commission have produced their normal first quarterly review of the economic situation containing modest revisions to their forecasts. The Commission recommended no change to the policy guidelines, which was agreed by the Council of Finance Ministers on 7 March.



**Inland Revenue**Policy Division  
Somerset House

FROM: MISS R A DYALL

DATE: 11 MARCH 1988

PS/FINANCIAL SECRETARY

FINANCIAL SECRETARY'S SPEECH

I attach a section on Independent Taxation for the Financial Secretary's Budget speech, as requested in your minute of 3 March. This has already been seen in draft by FP Division.

MISS R A DYALL

cc PS/Chancellor  
PS/Chief Secretary  
Sir P Middleton  
Mr Scholar  
Mr Culpin  
Miss Sinclair

Mr Isaac  
Mr Lewis  
Mr Beighton  
Mr Mace  
Miss Dyall  
PS/IR

speech.txt



BUDGET DEBATE

DRAFT SPEECH FOR FST

A number of hon. Members have spoken about our proposals to reform the taxation of husband and wife. All agree that there is a need for change in this area. The present system of taxing married couples dates back to 1805, the year of the battle of Trafalgar. The system may have been appropriate in the days of the Napoleonic Wars but it is completely inappropriate today.

The present tax laws generally treat a married woman as if she had no identity separate from that of her husband. Her income is taxed as if it were his income, her capital gains as if they belonged to him. Even her tax allowance is technically his allowance for use against her earnings. Other taxpayers have a personal tax allowance as of right. Only a married woman has to go out to work to qualify for any allowance at all. No wonder married women feel they are second class citizens when it comes to tax!

This feeling can only be reinforced by the responsibility which the law places on the husband for a married couple's tax affairs. A married man has to make returns and pay tax on both his wife's income and his own. As a result many married women have no privacy in their financial affairs. This is a cause of deep resentment, whether it affects the housewife who has saved to provide herself with a small nest-egg or the businesswoman who finds the tax office corresponding with her husband about tax on her profits. And many



husbands find it irksome to have to deal with such matters when their wives are so much better placed to do so.

We all know that this system has become unacceptable. Since we took office in 1979 we have actively encouraged debate about how it might be reformed. But discussion and consultation must not become a substitute for action. The Government are determined that we shall not go into the final decade of the twentieth century with essentially the same system of taxing married couples as we started the nineteenth.

Accordingly, from April 1990, we propose to introduce a system of Independent Taxation for husband and wife which will give married women the independence and privacy in tax matters which they have for so long been denied. This is the earliest possible date at which such a system can be implemented and indicates the priority we are giving to this reform.

Under this system a married woman will be treated as a taxpayer in her own right with a full personal allowance to set against her income and her own basic rate band. She will have responsibility for her own tax affairs and will be able to enjoy complete privacy if she wishes.

The change will mean that a married woman will no longer have her income from savings taxed at her husband's highest rate, regardless of the size of her income. Married women whose only income comes from modest savings need pay no tax at all.

The reform will help in particular elderly wives. Many receive ~~for~~ a National Insurance retirement



pension on the basis of their husband's contributions because they have spent much of their working lives bringing up a family. Under the present system this kind of pension, unlike a pension based on a woman's own contributions, is taxed as the husband's income. Under Independent Taxation the wife's personal allowance will be available to set against this pension so a woman who has no other income will pay no tax at all. In addition the size of her personal allowance will increase because elderly married women will become eligible for age allowance for the first time. This means that at present allowance levels she could have other income on top of such a pension of about £2,000 before she becomes liable for tax.

Over half of the 1.6 million wives who will pay less tax on their income as a result of Independent Taxation, are elderly.

But it is not only elderly wives who will benefit. Independent Taxation of incomes and separate income limits for age allowance purposes will mean that 130,000 more elderly married men on modest incomes will qualify for age related allowances. And 160,000 elderly men - nearly 15 per cent of the total - will be taken out of tax altogether.

Some hon. Members are critical of the approach we have adopted. [There have been calls from the Opposition benches] to abolish the married man's allowance and use the money to fund higher social security benefits. We reject this approach. It would increase the tax burden on all married couples and bring many on low incomes into tax only to give the money back to some in increased benefits. It would be impossible to recognise



through the social security system all the reasons why one partner in a married couple may be dependent on the other.

We believe it is right that the tax system should recognise marriage and the responsibility of one partner to support the other. Under the new system of allowances the married man's allowance will disappear but in order that no married couple should see a fall in their tax threshold we are introducing a new married couple's allowance. This will be added to the husband's personal allowance. However, where a married woman supports her husband because he has little or no income of his own, any unused part of the married couple's allowance will be available to set against her income.

[Some of my hon. Friends] regret that we are not introducing a system of transferable allowances as discussed in the 1986 Green Paper. We still see attraction in transferable allowances, but there is insufficient support to go ahead at this stage with such a far reaching change. One important consideration is that it would not be possible in administrative terms to introduce transferable allowances before 1993 and, as the 1986 Green Paper explained, the system would then have to be phased-in to spread the cost. We believe that the present treatment of married women needs changing as soon as possible and Independent Taxation can be introduced much earlier, in April 1990.

[If raised]

[A system of partially transferable allowances has also been suggested in some quarters as a possible compromise. But we believe this would be the worst of both worlds. It would not deliver the extra help to one earner couples which



transferable allowances would provide nor would it give couples the same privacy and independence as the reforms we now propose. And like transferable allowances partially transferable allowances could not be introduced before 1993.]

Our proposals for Independent Taxation give privacy and independence at the earliest possible date, and do this without lowering the tax threshold of any married couple. They remedy the injustice to married women which has been a feature of our tax system for so long and remove the tax penalty which a woman faces on marriage. I believe they will be widely welcomed not least because they represent action now with tangible benefits at an early date rather than a further round of debate with the prospect of any practical reform slipping further and further into the future.



CONFIDENTIAL



FROM: MARK CALL

DATE: 11 MARCH 1988

CHANCELLOR'S MORNING MEETING27TH MEETINGNOTE FOR THE RECORD

Present: Chancellor  
Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Mr Lennox-Boyd, MP  
Mr Forman, MP  
Mr Cropper  
Mr Tyrie  
Mr Call

1. BUDGET DEBATE

It was now clear that on the first full day of debate John Smith would open, with the Chief Secretary replying; the Financial Secretary would wind-up. On the Thursday Kenneth Clarke would open, focussing on how well trade and industry is doing and not giving a lead into the health issue. The Opposition would probably be fielding Robin Cook. On the Monday Norman Fowler would open opposite Bryan Gould, and Gordon Brown would wind-up for the Opposition with the Chancellor winding-up the debate.

2. STOCK EXCHANGE/TREASURY SHARE OWNERSHIP SURVEY

The results of this Survey would be announced in a Written Answer, accompanied by a press release next Wednesday. The Question would have to be down on the Tuesday, and the Chancellor asked for the Draft Answer to be circulated on Monday.

MARK CALL



## BUDGET SECRET - TASK FORCE LIST



Copy No. 1 of 10.

FROM: MARK CALL  
DATE: 11 MARCH 1988CHANCELLOR *e*cc Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir P Middleton  
Mr Cropper  
Mr TyrieBUDGET STATEMENT

The latest version of the Budget Statement had been circulated late last night, and the Chancellor said that he could still consider minor changes. He would consider restoration of the agriculture and spaceships joke.

2. BACKBENCH BRIEF

The current draft was too long and somewhat defensive. Given the excellent informative material put out by the Treasury, the Backbench Brief should focus on the bull points and presentational gloss. It would be unwise to include a Question and Answer section as this had the unhelpful habit of falling into the wrong hands.

The Brief should include some points on the impact of the Budget on pensioners. These would build on the bull point about the virtues of low inflation. The Brief should lay out the case for low tax rates, referring to international comparisons, for example New Zealand and Australia. It should also cover points on the Balance of Payments.

3. BUDGET PRESENTATION

Mr Tyrie's note of 10 March was discussed.



Independent Taxation:

Add Doreen Miller of the 300 Group to the list

Economic Secretary to talk to City Women's Network

CGT:

Financial Secretary to talk to Simon Gourlay of the NFU

Private Rented Sector

Paymaster General to talk to British Property Federation to ensure that what they say is at least sensible.

Charities

Paymaster General to talk to Brophy of the CAF

MIR and Home Improvement Loans

leave

Unleaded petrol

Economic Secretary to telephone Des Wilson of CLEAR

CBI

The Chancellor to speak to David Nickson

IOD

Paymaster General to speak to Judith Chaplin

Small Business Interest Groups

Small Business Bureau and Graham Bright of the Backbench Committee

Mr R I G Allen would be asked to find out who had been invited to give television and radio comment on Budget Day.

*Mc*

MARK CALL



11 March 1988

PJC

G22. "Whose entire world is tied up....."

✓ The measure will it put relief people who have our assets as well?

H8. I wonder what happens if a grandparent has been covenanted - Is there to be grant compensation in that case?

J2. ✓ RHM. Do we have contingency planning if case RHM is not there?

L22. ✓ "This is expected to yield £80 million in 1988-89." Better not to speak in terms of yield? We are not doing it primarily for yield?

PJC

11 March



## BUDGET SECRET: TASK FORCE LIST

COPY No. 1 OF 28 COPIES



FROM: JILL RUTTER

DATE: 14 March 1988

PRINCIPAL PRIVATE SECRETARY

CC:

PS/FST

PS/PMG

PS/EST

Sir Peter Middleton

Sir Terence Burns

Mr Anson

Mr Monck

Mr Scholar

Mr Culpin

Mr Odling-Smee

Mr Turnbull

Mr R I G Allen

Mr Pickford

Miss Sinclair

Miss Simpson

Mr Scotter

Miss Evans

Mr Cropper

Mr Call

Mr Tyrie

PS/IR

Mr Isaac - IR

Mr Painter - IR

Mr Walker - IR

Mr Mace - IR

## CHIEF SECRETARY'S SPEECH IN THE BUDGET DEBATE

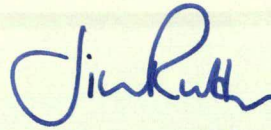
I attach the latest version of the Chief Secretary's speech. It reflects earlier comments from Messrs Anson, Odling-Smee, Turnbull, Walker and Mace.

2 I have not yet taken a comment from Mr Painter on paragraph 21. The Chief Secretary would be grateful if Mr Painter could suggest an alternative formulation to make the point. Mr Monck will be providing a "green gloss" on the trees section.

3 I would be grateful if EB, FP, ETS and the Revenue could ensure that all facts and assertions are correct.



4 Final comments please as soon as possible but at latest  
by 6.00pm tomorrow.

A handwritten signature in blue ink, appearing to read 'Jill Rutter', with a horizontal line underneath.

JILL RUTTER

Private Secretary



## BUDGET SECRET: TASK FORCE LIST

CHIEF SECRETARY'S BUDGET SPEECH

This Budget is about Tax Reform. Yesterday, my RHF the Chancellor introduced a package that cut 6 rates of income tax to 2. That reformed the taxation of capital gains. That introduced independent taxation for wives. And that introduced a single rate of Inheritance Tax. It is a package that represents the most sweeping reform of personal taxation this century and leaves us with no single rate of taxation above 40p in the £.

2 The centre piece of my RHF's proposals was a promise redeemed: the reduction of the basic rate of tax to 25p together with a comprehensive reform of higher rates. The RHG Monklands East is indignant [at this tax cutting Budget]. [He would have preferred to spend more and raise the effective rate of tax]. He certainly made a different speech ~~to~~ his predecessor.

by double  
number of  
June 152!



BUDGET - SECRET

3 Last year the RHG the Member for Sparkbrook claimed we could afford neither higher spending nor lower taxes. He saw the Autumn Statement's increase in spending as a pre-Election boom which would not be sustained. And he predicted confidently that the Budget's tax reductions would be reversed after the Election. No wonder he had to be moved on.

4 The RHG the Member for Monklands, East is more emollient. His message is that his RHF was ~~wholly wrong~~ *on all counts* and we can afford both to raise spending and to reduce taxes. *That*

5 He may not have noticed - but that is precisely what we have done. We have raised spending by £2½ billion, allocating an extra £4½ billion to programmes; we have reduced taxes by £4 billion; and in addition, we are repaying debt of £3 billion into the bargain. It is a fiscal hat-trick for



## BUDGET - SECRET

the second successive year. And a hat-trick no Labour Chancellor has ever produced. 5A It is surprising that after nearly 9 years denouncing the economic policies that have made this Budget possible the RHG Monklands East now has the brass neck to lecture the House on how he would have used the room for manoeuvre the Chancellor has obtained. I must tell him this: if we had been following his policies, we would never have had that room in the first place. We do have it because we ditched their policies and pursued ours.

6 So I can understand why RHG, Monklands East, dislikes my RHF's success. But there is more to his opposition than sour grapes. The fact is that the Labour Party instinctively prefer greater expenditure by the State on behalf of the taxpayer rather than enabling the taxpayer to choose his own priorities. We generally believe the reverse. The taxpayer should be able to choose how to spend his or her money on his or her behalf in the interest of his or her family That is one of the fundamental divides between this Government and this Opposition.



BUDGET - SECRET

It is why the Opposition demand ever more public expenditure. And it is why we have now set a target of reducing the basic rate of tax still further to 20p in the £.

7 I said a few moments ago that this Budget is about tax reform and tax reductions. I believe the case for both is overwhelming on economic grounds, on fiscal grounds and on practical grounds.



# BUDGET - SECRET

## Tax Reduction

8 The reductions in tax rates in this Budget reduce the marginal rates faced by over 99 per cent of taxpayers. And allowances have been raised by twice the amount needed for indexation which especially helps those on modest incomes. It is a double Lawson/Rooker/Wise. As a result personal allowances are now 25 per cent higher in real terms than they were in 1978-79. Taken together, the reduced tax rate and the increased allowances mean that the married man on average earnings will find himself better off by almost £5 a week as a result of this Budget. That is equivalent on its own to a pay increase of £370 and means that a pay rise of less than 2 per cent this year would maintain living standards. Anything higher raises them.

9 Moreover a low tax environment helps create new jobs - genuine jobs that are not forever dependent on state expenditure or subsidy. Not a word of this found its way into RHG speech. The Labour Party claims they wish to improve living



## BUDGET - SECRET

standards. I am sure they are sincere in this. But how ironic that they invariably seek to do so by supporting high wage claims that cost jobs whilst opposing tax cuts that help create them.



Higher Rates

10 But while the RHG dislikes the reduction in basic rate tax, he was positively apoplectic at the reductions in upper rates. This is the measure the Opposition find hardest to swallow. And that despite the fact that is clear to anyone with eyes to see that low tax economies work better than high tax economies. [It is no accident that America and Japan have long been the <sup>strongest</sup> economies in the world.]

11 The Opposition's position is admirably clear. They believe in high taxation. Not because it raises more revenue. It doesn't. Not because it improves the quality of public services. It doesn't. Not because it leads to economic success. It doesn't.

12 It does not lead to economic success because it removes incentives and discourages enterprise. It does not improve the long-run quality of public



## BUDGET - SECRET

services, because that can only be based on the sustained growth of a healthy economy. And it is not effective in raising revenue because it stunts the economy and encourages ~~evasion~~ *avoidance*.

13 No - they believe in high taxes for their own sake. In the name of social justice, they are prepared to penalise success. In the name of equality they seek to level down. They use the tax system as an instrument of social engineering. We do not.

14 The fact is the Government cut the top rate of tax in 1979. Yet, despite that, the top 5 per cent of taxpayers now contribute 29 per cent of our income tax revenues compared with the 24 per cent they contributed when they were subject to Labour's penal rates. Nor is this trend only evident in personal taxation.

15 This mirrors what happened after my RHF reformed Corporate Taxes in 1984. Companies



## BUDGET - SECRET

now contribute a higher proportion of our revenues than when they were subject to higher rates. And companies are investing in this country and moving to it rather than dis-investing and leaving it. And they are doing so in part because we have the lowest Corporation Tax rate in Europe.

16 Nor is reducing high tax rates simply a bizarre fetish of the present government. The Socialist Government in India, the Labour Governments in Australia and New Zealand are all cutting taxes. They are doing so because it is accepted by those in Government, Socialist and non-Socialist alike, that high tax rates are inefficient in raising revenue and damaging to the economy. Only the British Labour Party - excluded from power for so long - do not recognise this reality. And, until they do, they will remain excluded from power. And they will deserve to be.

17 For the truth is that penal tax rates do not encourage efforts, risk-taking or wealth creation. All they encourage is tax avoidance, tax evasion and emigration. Let me put this to the RHG: -



## BUDGET - SECRET

"Lower marginal tax rates will reward effort and enterprise, and give an incentive to invest in productive areas of the economy". Does he agree? Not my words but those of New Zealand's Labour Finance Minister when he announced a reduction in the top rate of tax from 66 per cent to 48 per cent. He was right. We are right. And the Opposition are wrong.

18 We cannot insulate ourself from the worldwide trend to lower tax rates. We cannot hope to keep the best talent in this country - the best entrepreneurs, the best surgeons, the best scientists - if the price of their success is 60p in the £ here against 28¢ in the \$ in the US, only 49¢ in the \$ in Australia or 48¢ in New Zealand. That is why it was right to cut tax rates in this Budget. And those who disagree must explain to the sick and the unemployed why they want to cling to a tax regime that offers low rewards to those who can most help them and encourage them to seek greater rewards elsewhere.

include  
Canada, too  
(29¢)  
that



## BUDGET - SECRET

19 But let me make one last comment on tax rates. We have heard a lot from the RHG today about the NHS. I understand that . He cares about the NHS and so do we. But what he chose to overlook was that this Budget, indeed, successive Budgets over the years, have benefited considerably those workers in the health service he cares about. Thanks in part to the tax reductions this Government has made, a nurse with typical earnings has seen her real take-home pay rise by no less than 40 per cent since we took office. Under Labour her real take home pay increased by only 8 per cent. And I stress that that's after allowing for inflation and before the pay awards currently under consideration. If we had stuck with Labour's Income tax regime that same Nurse would be paying over £40 a month more in tax. Nor would she have had a Review Body on Pay for that was a Conservative initiative, too.

20 Successive Budgets have been NHS days under this Government.



# BUDGET - SECRET

## Tax Shelters

21 But there is a converse to lower tax rates. If it is not right to have penal tax rates then nor can it be right that the better off, through efficient manipulation of the tax system can reduce or eliminate their tax bills. Most people have no option but to pay their taxes. PAYE ensures that their earned income is taxed in full, at source. They pay tax on their deposits in building societies or banks. Any modest dividends they may have from their small private shareholdings are taxed before they receive them. Most wage or salary earners pay their taxes in full.

22 And so do most of those on higher incomes. But, for a small minority, the present tax system means that while the nominal tax rates for which they are liable is high, the actual tax rates they pay can be very low. That is of course, quite legal. But it is also unfair. Far too many people have been able to avoid far too much tax by utilising tax shelters. I do believe in low taxes. But I also believe those taxes should be paid. People



## BUDGET - SECRET

should not be enabled to have lower effective rates of tax because they have sufficient resources to utilise tax shelters.

23 But that is an inevitable consequence of a tax regime which gives the highly paid and the better-off incentives to invest in tax planning.

24 "It would be stupid not to recognise the lesson of recent history; taxpayers just will not pay ridiculously high marginal tax rates. The system invites abuse if it attempts to impose such a burden. The time has come when the facts must be faced."

25 Again, not my words but those of Paul Keating - Labour Treasurer in Australia in the 1985 Budget. He recognised the basic truth that tax shelters are the product of punitive tax rates. It is right that in a Budget where we are bringing tax rates down, we should take measures that start to remove such shelters.



Forestry

26 Recent comment has focussed on one of the most unacceptable shelters: the present tax regime for commercial woodlands. The special characteristics of forestry call for some special tax treatment. But the present anomalous and complex arrangement delivers a subsidy which [is worth most to the top rate taxpayer and] is not the best way to achieve the Government's forestry policies.

27 My RHF is now proposing to exempt forest from Income and Corporation Tax completely. The archaic Schedule B, which is based on hopelessly out of date land values and brings in about 15p an acre will be abolished. *But at the same time,* Expenditure on planting trees will no longer be allowed as a tax deduction against other income, *which is what he abuses lay [or some such explanation]*

28 In parallel with these tax changes increases in planting grants will be announced next week. Support through grants can be better targetted to achieve environmental benefits, for example by means of a differential increase in favour of



## BUDGET - SECRET

broadleaves. The grants will be worth the same to all occupiers of commercial woodlands regardless of the rate of tax they pay. So these proposals both simplify the tax system and made it easier for the Government to combine maintaining its forestry policies with a better environment.



Cars

29 There are other unfairnesses in the tax system, which it is possible to start to tackle in the context of a Budget which reduces tax rates. The amount of tax you pay should not depend on how you are paid. Yet while payment in cash attracts tax [(and national insurance)] in full, many benefits - in-kind do not.

30 The most widespread such benefit is a company car. An Inbucon Survey suggests that a company car forms part of the "remuneration package" of 96 per cent of executives earning over £20,000. Such cars are available for private use and so eliminate the need for an individual to buy one out of their own income.

31 Yet the present car scales mean that this benefit is taxed at far below its value to the



## BUDGET - SECRET

employee. At present, someone paying basic rate tax driving a 1.6 Ford Sierra will pay only £3.63 a week in tax on that benefit. A top rate taxpayer driving a Porsche 911 would pay only £26.54 a week.

32 This clearly massively understates the true benefit being received and it was for this reason that my RHF decided to double the car scales in a move to tackle under taxation.

33 And so in this Budget we are tackling the most criticised tax shelter and the most widespread perk. Both these measures will make a significant contribution to making the impact of the tax system fairer. But a real assault on tax shelters is only possible in an environment which does not encourage them to flourish. And that is a low tax regime.

### Capital Gains Tax

34 My RHF's reforms have not been confined to income tax alone. We have been able to look again



BUDGET - SECRET

at the tax treatment of capital gains. Our first priority was to remedy one of its long-standing flaws. The 1982 Budget introduced for the first time arrangements to exclude from taxation all gains arising solely from inflation. But those indexation arrangements applied only to future gains. They left a potentially large tax liability arising from the high rates of inflation in the 1970s. The only way people could avoid paying tax on purely notional and artificial gains was to hold onto the asset.

35 This was clearly unfair as well as being economically damaging. That is why my RHF announced yesterday that, from 6 April, we would rebase CGT to 1982. Inflationary gains therefore will no longer be subject to tax. All gains arising before 1982 will be excluded from tax entirely and gains since that date will be subject to the existing indexation arrangements. The large exempt slice for CGT was in part a recognition of over-taxation on pre-1982 gains. That compensation is no longer needed and so the slice will be reduced to £5,000.

amount

amount (or for 'threshold')

36 But gains above that ~~slice~~ <sup>amount</sup> will no longer be charged at a flat-rate 30 per cent. Instead



BUDGET - SECRET

capital gains will be taxed at the same rate as income. The basic rate taxpayer will pay only 25 per cent on his gains, as on his income. The higher rate taxpayer will pay 40 per cent on his gains, as on his income. This reform ends the ~~bizarre~~ distortions caused by having much higher tax rates [for the wealthy] on income than on gains.

~~MS. of~~

MS. of ~~earlier~~ plan  
gains (above ~~the~~  
amount) take him  
above the higher  
rate threshold, to  
will pay  
40% on the  
same gains.



37 All these reforms, together with the changes in inheritance tax announced yesterday mean that there will be no tax rate higher than 40 per cent in the system. This is transformation - the days of 98 per cent marginal rates on investment income, 83 per cent on earned income and 75 per cent on capital transfers are gone - and gone, I hope, for good.



Independent Taxation

38 Mr Speaker, these measures alone would represent a catalogue of substantial reform. But there is one other area I must single out. That is the reform of the tax treatment of married women. Frankly, the present system is an anachronism and widely accepted as such. Few will be sorry to see an end to a system which meant that marriage signalled an end to a woman's privacy and independence in tax matters whilst retaining it for her husband. There is no longer justice nor logic in a system in which a wife is deemed by the state to be liable to pay tax but incapable of accounting to the State for that tax; in which her income from savings is taxed as her husband's; in which her overpayment of tax can result in a rebate to her husband and in which she is obliged to provide her husband with the details of her income and savings without any reciprocal obligation at all. These are areas of personal privacy where the tax system should not intrude. In future, it will not.

*decided on a*

39 Mr Speaker, while there has been a clamour for some reform, there has been no consensus on what reform. We have ~~found a new~~ system which provides fair treatment, privacy and which can be implemented quickly. It provides for fully independent taxation. Each husband



## BUDGET - SECRET

and wife will have their own personal tax allowance to use against any of their own income - from work or from savings and their own basic rate band. They will be taxed separately on their capital gains. And we are tackling the other flaws in our tax system - which have given the unmarried or the divorced a better deal from the tax system than couples who marry, and stay together.

40 But simply to end there would have meant there was no recognition of marriage in the tax system. It would have meant married couples would face a dramatic drop in their tax allowances. It was for that reason, therefore, that we decided to provide a married couple's allowance to ensure that the tax system recognised marriage and that married couples were protected from loss from this reform whilst ensuring independence and privacy in the system.

41 Our new proposals will end the present unfair and widely resented tax regime for married women and remove absurd and unjustifiable penalties on marriage from our tax laws.

? benefit for pension  
couples: higher  
with mark



## BUDGET - SECRET

[42 And what of Labour's attitude. Perhaps its best summed up by the fact that when the RHG chose to unveil his Budget thoughts - not to the FT, not to the Economist, nor even to the New Statesman - but to Womans' Own, there was not one word about the tax treatment of women in an article of 1500 words].



Fiscal prudence

41 These reforms and reductions in tax rates in this Budget have not been bought at the expense of fiscal prudence. For the remarkable fact is that the strength of the economy is such that we are able to reduce taxes by £4 billion and plan to repay debt of £3 billion next year. And for future years our strategy will be based on a zero PSBR - a balanced budget.

44 The achievement of a budget surplus is a significant milestone in the financial affairs of this country. Apart from a solitary year you have to go back to the immediate post-war to find a run of years without a deficit.

45 The idea that the Budget should be balanced is not, of course, a new one. It was the orthodox view for most of the last 200 years. It has an excellent pedigree. It is a policy for the medium term, not just the occasional year. As long as the government is not making excessive demands



## BUDGET - SECRET

on private saving through running deficits, there is no reason why the economy should not continue to run smoothly.

46 And the advantages are plain to see. Deficit financing defers cost to the future - borrowing now imposes costs on future governments. We borrow and our children repay either through lower spending or higher taxes or higher inflation. I cannot believe that is generally right. In the Public Expenditure debate I drew attention to the implications of a falling burden of debt interest: on the latest figures it fell from 5½ per cent of GDP in 1981-82 to 4 per cent this year with a further fall expected in future. The MTFS path for the FSBR will mean that fall will be even more rapid - and debt service payments should be down to only 3 per cent of GDP by 1991-92. We are now reducing the burden of the next generation and not increasing it.



*This motion  
hides  
higher  
deficit,  
unspelt,  
for  
short-term*

Balance of payments

45 Yet despite 1988-89 being the first fiscal year in which a Chancellor has budgeted for a surplus [since 19 ], the Opposition claim that we are taking unnecessary risks with the balance of payments.

48 I understand their concern . For short-term crises are seared on their collective memory. What they do not recognise is that the British economy is now in a totally different position to the 1960 and 1970s.

49 First, it is not unexpected that we shall have a current account deficit when there is strong growth of the UK economy at a time of slower growth in many of our partners . Even so last year's deficit was less than  $\frac{1}{2}$  per cent of GDP and the deficit forecast for next year is less than 1 per cent. That contrasts with deficits of 3 - 4 per cent of GDP in the mid-70s.

50 Second, the strength of our net asset position overseas means that we have no problem whatever in financing a deficit of that size. Our net



## BUDGET - SECRET

overseas assets now represent [20] per cent of national income. That produces an annual income stream of about £6 billion into the UK. [Think what a mess we would have been in if we had done what the Opposition urged us and spent the North Sea money when we got it and forgot about the future.]

51 Third, Government policy will put no strain on the balance of payments. The more a Government borrows in total the more likely the country as a whole will have to borrow abroad. Equally, the smaller the budget deficit, the smaller any current account deficit is likely to be. So the RHG's concerns are misplaced.

(Let's not  
say this:  
better to  
have no  
or not  
the deficit  
is from  
Govt spending  
not from  
the deficit)

Butter  
Miles

52 The RHG has suggested that the Government should adjust taxes according to the short term prospects for the balance of payments. That sounds like the fine-tuning approach that was so common - and so unsuccessful - in the old days of stop - go. Our approach is different. We set fiscal policy in a medium-term context. It supports



# BUDGET - SECRET

monetary policy which is set to keep downward pressure on inflation. As long as we continue these prudent policies, the improved performance of the private sector and the moderation of private sector demand growth will, in time, ensure that the current account moves back towards balance. And secondly, it is a colossal cheek for the Party opposite - that wrecked our economy - to criticise for recklessness the Government that has rebuilt it.

~~the current account is in surplus~~

also we have a cumulative surplus of £20 bn : all our accumulated surpluses.



Manufacturing

53 What the RHG's analysis also ignored was the dramatic improvement in the position of British industry. Output rose by 5½ per cent in 1987, productivity by 6¼ per cent, unit costs by only 1¼ per cent. Our manufactured export volumes rose by 9 per cent to the highest ever recorded level - and our share of world trade rose slightly. Profitability of non North Sea companies as a whole is at levels unseen since 1973.



Overheating/Credit

54 Nor does the Budget run the risk of "overheating" the economy. As the Chancellor said yesterday our stance is cautious. This is not a "giveaway" Budget. The measures we have taken do no more than reduce the 1988-89 tax burden to its level this year. Without these rate cuts it would rise. This is the Budget of a prudent and responsible Government. We will take no risks with inflation or growth.

[55 Some hon Members have expressed concern about the growth of credit. We believe that the principle that people are the best judges of what is in their own interests applies to the borrowing they do within the country. Recent years have seen a big increase in personal sector financial liabilities, and an even bigger increase in their financial assets. Some people, especially the professional pessimists, seem to notice only the growth in liabilities.

56 What they forget is that most of the growth in the personal sector debt is matched by a growth



## BUDGET - SECRET

in assets. In particular, the growth in mortgage debt, which is of course matched by the acquisition of houses, entirely explains, when expressed as a proportion of GDP, the rise in total private sector borrowing. That is wholly sensible it is extra-ordinary that the Party opposite should imply that people should not take out mortgages to buy their own homes. They still do not understand that people want the independence and security of home ownership. And they are right to borrow to buy to secure that independence. As for consumer credit - bank overdrafts, credit card debt, hire purchase debt - amounts to only 15 per cent of total personal sector debt, a proportion which has been falling. Total borrowing on all forms of credit cards is well under 5 per cent of <sup>the</sup> personal sector debt.]



# BUDGET - SECRET

## Peroration

56 Mr Speaker, this is a landmark Budget. It is a land mark because we have been able to redraw the tax system:

- we have radically simplified personal taxation;
- we now have the lowest basic rate since the second world war and the lowest top rate since the First World War,
- we have transformed the tax treatment of married women.

55 It is a landmark because we have done all this, on top of increases in spending on priority public services and have planned a Budget surplus next year.

58 This has only been made possible by the dramatic improvement in the performance of the economy since 1979. Without that improvement this Budget would



## BUDGET - SECRET

not have been possible. And this Budget will give a further impetus to that improvement. My RHF has delivered a Budget that is a product of past success and which lays also the foundations for further growth and future success. I commend it to the House.





COPY NO. 30 OF 30.

FROM: MISS M P WALLACE

DATE: 14 March 1988

PS/CHIEF SECRETARY

cc PS/Financial Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Anson  
Mr Monck  
Mr Scholar  
Mr Culpin  
Mr Odling-Smee  
Mr Turnbull  
Mr R I G Allen  
Mr Pickford  
Miss Sinclair  
Miss Simpson  
Mr Scotter  
Miss Evans  
Mr Cropper  
Mr Call  
Mr Tyrie  
  
Mr Isaac - IR  
Mr Painter - IR  
Mr Walker - IR  
Mr Mace - IR  
PS/IR

## CHIEF SECRETARY'S SPEECH IN THE BUDGET DEBATE

The Chancellor has seen your minute of 14 March attaching the latest version of the Chief Secretary's speech. The Chancellor has commented that this is a good draft. He has made a few suggestions.

Paragraph 4: amend second sentence to read "... that his RHF was wrong on all counts and that we can afford ...".

Paragraph 12, last sentence: "evasion" should be "avoidance".

Paragraph 18: the international comparison might include Canada, too (29¢ in the dollar ?).

Paragraph 27: the Chancellor feels the last sentence needs some amendment to explain the point, perhaps: "But at the same time, expenditure on planting trees will no longer be allowed as a tax deduction against other income, which is where the abuses lay."





Paragraph 29: the Chancellor would be inclined to omit the reference to national insurance in the last sentence.

Paragraph 35: the Chancellor would prefer "amount" to "slice" in the last two sentences of paragraph 35 and the first sentence of paragraph 36.

Paragraph 36: the Chancellor has one caveat about the formulation in the third sentence, namely that, of course, if the basic rate taxpayer's gains (above the exempt amount) take him above the higher rate threshold, he will pay 40 per cent on that part of his gains. In the last sentence of this paragraph the Chancellor would be inclined to drop "bizarre".

Paragraph 39: the Chancellor would suggest "We have decided on a system" instead of "We have found a new system".

The Chancellor wonders if the section on Independent Taxation might usefully mention the benefit for pensioner couples. He also approves of the Womans' Own paragraph, currently in square brackets.

The Chancellor thinks that the Balance of Payments section, necessarily defensive, might usefully be shortened. He would not be inclined to use the last three sentences of paragraph 51: he thinks it would be better to make the point that the deficit is financing not Government spending but investment in British industry.

Paragraph 52: the closing sentences on the Balance of Payments, in paragraph 52, could also point out that we have a cumulative surplus of well over £20 billion, while all they accumulated were deficits.

Paragraph 56, last sentence: the Chancellor would make the point quite clear by amending to read "... well under 5 per cent of total personal sector debt."

A handwritten signature in dark ink, appearing to read "Moira Wallace".

MOIRA WALLACE





FROM: B O DYER  
DATE: 14 March 1988

*pp*

01-270 4520

PS/CHANCELLOR

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Mr Scholar  
Mr Culpin  
Mr R I G Allen  
Miss C Evans  
Mr P Cropper

**BUDGET DEBATES : OPPOSITION SPOKESMEN**

I am advised that the Opposition Spokesmen are as follows:

**Tuesday, 15 March**

Mr Kinnock (to follow the Chancellor)

**Wednesday, 16 March**

Mr John Smith (to open)  
Mr Stuart Holland (to wind)

**Thursday, 17 March**

Mr Robin Cook (to open)  
Mr Chris Smith (to wind)

**Monday, 21 March**

Mr Bryan Gould (to open)  
Mr Gordon Brown (to wind)

*DTI & D. Enys have been informed.*

B O DYER  
Parliamentary Clerk



BUDGET CONFIDENTIAL

FROM: A G TYRRE

DATE: 14 MARCH 1988

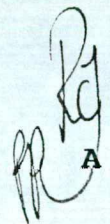
PS/FINANCIAL SECRETARY

cc PS/Chancellor  
PS/Chief Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Mr Pickford  
Mr Turnbull  
Mr Culpin  
Mr Cropper  
Mr Call

## FINANCIAL SECRETARY'S SPEECH IN BUDGET DEBATE

The Financial Secretary asked for a passage on public spending for use in his speech. I attach a draft which brings together material from budget briefing. On the health service, in particular, I have followed the Chancellor's line very closely.

There is more material here than the Financial Secretary will need, and unless pressure builds up for it on the day, I think it might be preferable to steer clear of the budget/spending debate altogether. It is, after all, Labour's ground.

  
A G TYRRE



## PUBLIC EXPENDITURE IN THE BUDGET

Budgets are about taxation and borrowing, not spending. We have already announced substantial increases to the cash totals for public spending in the Autumn Statement. This provided for additional spending on programmes of £4½ billion in 1988-89 and £6 billion in 1989-90.

So once again, the Government has achieved the hat-trick, its second in a row: an increase in (public) spending, with lower borrowing and lower taxation. *on priority area*

The Government has now secured an enviable virtuous circle in public finance: lower borrowing and lower tax rates are creating more room for the private sector to expand. The private sector in turn is generating higher revenues which themselves permit further reductions in borrowing and taxation.

The country is in this virtuous circle because the Government have created the conditions in which the economy can grow strongly, and at a sustainable rate. And the result is that the Government is achieving its objectives on many fronts at once:

- The ratio of public spending (general government expenditure excluding privatisation proceeds) to GDP is continuing to fall. The ratio in 1987-88, at 41½%, is the lowest since 1972-73. As the FSBR



shows, further falls are planned. They will provide more room for the private sector and more scope for growth.

- The public sector debt repayment for 1987-88 and 1988-89, together with the balanced budget planned for future years, is reducing the burden of debt interest. This is making more room for spending.

*over?*

- Within the totals we set out last November we have been able to make substantial increases to priority programmes. Education was increased by £900 million; law and order, by £500 million; defence by £230 million; science and technology by £230 million; spending on the inner cities, with an increase of £50 million for the urban programme alone. Public sector capital spending as a whole was increased by £1½ billion. We have heard a lot about health spending from Hon. Members opposite.

Health. Spending on the NHS in 1988-89 is planned to be <sup>at least</sup> [some] £1.1 billion more than the estimated outturn for this year. Similar increases are planned for each of the next two years.

- The 1987 public expenditure survey contained the largest ever cash increase for the NHS over the previous White Paper plans, of £800 million.

- Gross spending on the NHS is up over 31% in real terms since the Government took office.



- Health spending has grown faster than the economy as a whole over this period. Net health expenditure as a proportion of GDP has increased 4.7% in 1978 to 5.3% by 1986.

- These increases, combined with the benefits of the cost improvement programme, are providing substantial improvements in services, with a record number of patients being treated (up over a million over the last 10 years), and 500 major hospital building schemes underway. There are X,000 more nurses and Y,000 more doctors.

There is only one way to create the scope for more resources in the future, and that is to create and sustain a strong economy. And only the policy of sound public finance, and that means eliminating government borrowing, and stimulating enterprise, and that means, among other things, getting taxes down, can give us that strong economy.

The sustainable growth we now enjoy is the reason why, unlike Labour, we have been able to afford a substantial further increase in spending on the NHS and other priority areas.

What a contrast with Labour. Over their five years they failed to make any real increase (check) in health spending at all. Furthermore, they were forced to make drastic cuts in capital spending by the IMF.



The consequences for the health service were catastrophic. It meant the delay and cancellation of so much hospital building and repair. It took a Conservative Government to restore that appalling underprovision.

Spending on the NHS has risen substantially, both in real terms and as a share of total public expenditure. Nevertheless all is clearly far from well with the NHS. That is why the Government has set up a fundamental review, and will be announcing its conclusions as soon as we are in a position to do so.

Meanwhile, the reductions in debt interest announced in this budget, which have resulted from the Government's prudent policies, will leave more money to be spent on public spending programmes in general, and the NHS in particular.





**Inland Revenue**

Policy Division  
Somerset House

*Prp*

COPY NO <sup>2</sup> OF '5  
FROM: C STEWART  
DATE: 15 MARCH 1988

PS/Financial Secretary (Mr Heywood)

FST'S SPEECH IN BUDGET DEBATES

I attach a contribution on covenants and maintenance.

*Cs*  
C STEWART

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cc PS/Chancellor  
PS/Chief Secretary  
Mr McIntyre  
Miss Hay  
Mr Cropper  
Mr Tyrie

Mr Isaac  
Mr Corlett  
Mr Davenport  
Mr Stewart  
Mr Walker  
Mrs Fletcher  
Miss Dougharty  
PS/IR



Financial Secretary's Speech - Covenants and Maintenance

1. I now turn to our proposals on covenants and maintenance payments. As my right Hon Friend the Chancellor said in his Budget Speech, this is an area which is overdue for reform.

2. Covenants have been used increasingly as a way of getting basic rate income tax relief for transferring income from one member of the family to another. If the recipient is a non-taxpayer, he claims repayment of the tax deducted at source from the covenant payment. This is costly to administer. It involves a significant loss of revenue, which makes it that much more difficult to bring general tax rates down. And there is no very good reason in principle why the tax system should give relief for gifts between individuals, merely because they happen to take the form of a covenant. There is of course no reason why a grandparent should not make gifts to his grandchildren if he wishes. But it is difficult to see why the Exchequer should bear part of the cost through income tax relief.

3. The use of covenants for student support also illustrates clearly the need for reform. The student grant is already means-tested, and the parent's contribution is assessed according to his income. It makes little sense for the Exchequer then to give additional support separately in the form of tax relief on covenant payments which are used to give the student the parental contribution. The student then has to claim a tax repayment. And because the covenant has the effect of transferring income from the parent to the student for tax purposes, it uses up all or part of the student's own personal allowance. So he is more likely to have to pay tax on his vacation earnings than a student receiving a full grant and no covenant payments. I know from my own post-bag that this often causes misunderstanding and resentment among students and their parents.

4. The present arrangements for covenants are also unfair to married couples. A covenant between husband and wife can have no effect for tax purposes because their incomes are aggregated. But unmarried couples can reduce their tax liability by making a covenant to transfer income between themselves.



5. For all these reasons, it is right to reform the present tax rule for personal covenants. But there are two points I would like to emphasise. First, covenants already made before Budget Day will not be affected, provided that they reach the tax office by 30 June. The present rules will continue to apply to them until they come to an end. Secondly, these changes do not apply to charitable covenants. So relief for new charitable covenants will continue to be given in the same way as before.

6. The present rules for maintenance payments following divorce or separation are also unnecessarily complicated. The person receiving the maintenance payments is taxable on them, and the payer gets tax relief for them. Some payments have tax deducted at source; others have to be paid gross. Indeed the same person may find he is making some payments gross and others net. The recipient may have to claim a tax repayment from the Revenue. Or she may have to meet a tax bill if the payments are made gross and she has other income. All this can be very confusing for the couple, and makes extra work both for the Revenue and for professional advisers.

7. The present rules also produce results which are difficult to justify. For example the Courts have established that a divorced parent can get tax relief for maintenance payments to children living with him, by applying for a Court Order against himself requiring him to make maintenance payments to the children. And unmarried couples can also get similar relief. But the ordinary married couple get no tax relief for payments to their children. We do of course recognise the financial and other problems which divorced and separated families face. But at the same time the way in which they can obtain substantial extra relief under the present system can cause resentment among ordinary married couples who get no tax relief for similar expenses.

8. So our proposals are designed to simplify and rationalise the treatment of maintenance payments for the future. Under new maintenance arrangements, someone paying maintenance to a divorced or separated spouse will get relief for the payments up



to a limit based on the difference between the single and married personal allowances. For example, a husband paying £1,490 maintenance to his ex-wife will get the same relief as when he was still married to her. The payments will be tax-free for the recipient. So they will be treated in the same way as the house-keeping money she received from her husband while they were still married. And if she goes out to work, her full personal allowances will be available to set against earnings instead. Thus she could well be better off than if the old rules had continued unchanged. On the other hand, if she remarries, the relief for her ex-husband will cease; but her new husband will of course be entitled to the married allowance.

9. Many people who are already divorced or separated will have made their maintenance arrangements on the basis of the present tax rules. It is clearly right that these should not be suddenly disrupted. So for existing maintenance arrangements we are proposing special transitional rules. These are inevitably a little more complicated than the new regime itself, but that is necessary to ensure reasonable fairness and to give people time to consider whether they want to change their arrangements for the future.

10. There are four points here which I would like to highlight. First, for existing maintenance arrangements the present rules will continue to apply until April 1989. So there is no need for people to feel they must take urgent action to change their present maintenance arrangements.

11. Second, from 1988-89, divorced or separated people receiving maintenance from their former husband or wife under pre-Budget orders or agreements will be exempt from tax on the first £1,490. Since the ex-husbands will continue to get relief, the tax treatment overall will be substantially improved. This will particularly ease the tax burden on people receiving fairly modest maintenance and going out to work to supplement their maintenance. It means, for example, that a divorced wife receiving maintenance of £1,490 will be in the same position whether she is getting maintenance under old or new arrangements.



The £1,490 will be tax-free for her; and her ex-husband will still get relief for it. If she receives more than £1,490 under existing arrangements, she will remain taxable on the balance, but then her husband will be getting relief for more than £1,490, unlike the newly divorced husband.

12. Third, from April 1989, payments under existing maintenance arrangements will all be made gross without deduction of tax. That will remove one of the complexities of the present system. And it will mean that the recipient will not need to claim tax repayments. Relief will then be frozen for future years at the 1988-89 level. This means that people with existing maintenance arrangements have a full year to make any adjustments they wish, before these changes take effect. And even then the 1988-89 level of relief will be preserved.

13. Fourth, where existing arrangements are varied by a new maintenance Order or agreement, these transitional rules will continue to apply to them. So people need not fear that a small variation in their present arrangements will trigger off a significant loss of relief for them.

14. I believe these proposals strike a fair balance between simplifying the rules for the future and protecting the many divorced and separated people who already have maintenance arrangements in force.



*FWP*

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

15 March 1988

Nick Wilson Esq  
PS/Secretary of State  
Department of Employment  
Caxton House  
Tothill Street  
London SW1H 9NF

*Dear Nick,*

**BUDGET DEBATE**

The Chancellor is grateful to your Secretary of State for agreeing to open the Budget Debate on Monday.

Mr Fowler will no doubt have plenty of ideas of his own for his speech. But the Chancellor thought it would be helpful to set out the key themes of the Budget, which Mr Fowler might like to work into his speech.

- The strength of the economy, resulting from sound financial policies and supply-side reform, including tax reductions and tax reform.
- The balanced budget - a repayment of Government debt this year and next year, with a balanced budget as the norm for the medium-term. This represents a prudent fiscal stance, and reduces the debt burden on future generations.
- Lower income tax - lower rates vital to improve incentives at all levels; also raised tax thresholds.
- Tax reform: lower rates; reduced tax breaks; simplification; and removal of some manifest injustices.

Mr Fowler will no doubt cover the rapid fall in unemployment. Among the Budget measures, the Chancellor thought he might be particularly interested in speaking about the small business measures, and the reform of the Business Expansion Scheme, especially its extension to the private rented sector.





There is plenty of material available on these subjects in the Budget Brief, and please get in touch if you would like any further help.

The Chancellor would be grateful for a sight of Mr Fowler's speech in advance, if that is at all possible.

*Yours sincerely,*

*Andrew Hudson*

A P HUDSON



*AP*

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

15 March 1988

Peter Smith Esq  
PS/Chancellor of the Duchy of Lancaster  
Department of Trade and Industry  
1-19 Victoria Street  
London SW1

*Dear Peter,*

**BUDGET DEBATE**

The Chancellor is grateful to the Chancellor of the Duchy of Lancaster for agreeing to open the Budget Debate on Thursday.

Mr Clarke will no doubt have plenty of ideas of his own for his speech. But the Chancellor thought it would be helpful to set out the key themes of the Budget, which Mr Clarke might like to work into his speech.

- The strength of the economy, resulting from sound financial policies and supply-side reform, including tax reductions and tax reform.
- The balanced budget - a repayment of Government debt this year and next year, with a balanced budget as the norm for the medium-term. This represents a prudent fiscal stance, and reduces the debt burden on future generations.
- Lower income tax - lower rates vital to improve incentives at all levels; also raised tax thresholds.
- Tax reform: lower rates; reduced tax breaks; simplification; and removal of some manifest injustices.

Mr Clarke may also like to cover the strong performance of the company sector, and the importance of the enterprise culture.

There is plenty of material available on these subjects in the Budget Brief, and please get in touch if you would like any further help.

The Chancellor would be grateful for a sight of Mr Clarke's speech in advance, if that is at all possible.

*Yours sincerely,*

*Andrew Hudson*

A P HUDSON



## DRAFT OPENING SECTION FOR THE ECONOMIC SECRETARY

We have now been debating the Budget for three days. During the whole of that time we have heard hardly anything from the party opposite about macro-economic policy. the 'alternative economic strategy' died in the ignominy of Labour's defeat, not in 1987, but in 1983.

The reason is plain. They clearly do not know of any policies which could possibly trump the success of the Conservatives in the 1980s. (Seventh successive year of growth at average 3% etc.)

Instead of trying to peddle an alternative economic strategy, for the last five years, Labour have concentrated on saying how they would redistribute the cake, a cake that somebody else has made.

They still exhibit the same ignorance about what creates wealth that has kept them out of power for the best part of a decade. They still do not understand that penalising wealth creation can only lead to one thing - less wealth for everyone.

If 1983 saw the end of the alternative economic strategy, 1987 threatens to have made ~~an~~ end of any 'alternative Labour policies', even on redistribution through taxation.

What has become for example of Labour's policy, wrung out of



them during the election, to abolish the Upper Earnings Limit on NICs? Is this Labour policy, or not? [That would make 2 million people worse off.]

What has become of Labour's policy, concealed from the electorate during the election, to abolish the Married Man's Allowance? [that would mean at least £7 per week extra tax for 11½ million couples.]

What has become of Labour's policy to restore successive cuts in the basic rate of income tax? Do Labour want to restore income tax to 27%. Or to their election pledge of 29%?

Mr Rt Hon Friend the Chief Secretary challenged the RHG for Monklands East to answer these questions yesterday. But for the first time in 3 days he suddenly lost his voice.



Mr Speaker. Today is St Patrick's Day. This has received little attention during the debate, I suppose because St Patrick is the patron saint of Ireland rather than of Budgets. He is best known for banishing from the Island or Ireland all venomous serpents. This Budget is another step towards banishing the serpent of socialism from this island.



1. Immediate Response to Chris Smith

(If called for)

e.g. welcome to dispatch box

2. Introduction

My Rt hon friend's Budget has many facets:- fairness to married women, removal of penalties on marriage, simplification, removal of tax shelters and perks, ...

But a major aspect is the range of measures designed to improve the working of the supply side of the economy. As the theme of today's debate is Industry it is appropriate that I should concentrate on those supply side measures.

Before I do so I want to respond to some of the points about non-supply side matters raised in the debate.

3. Response to Issues Raised in Debate



#### 4. The Supply Side

There is no doubt, Mr Speaker, that the supply side of the British economy has been transformed over the last 8 years. After coming bottom in the growth league of major European countries in the 60s and 70s, we have come top in the 1980s. And last year we enjoyed more rapid growth than any major industrialised country in the world - including Japan.

Our manufacturing industry, once the weakest sector of the British economy, has shown a sturdy recovery from world recession of 79/81. Indeed Britain's manufacturing productivity growth has been outpacing all our major competitors.

The renewed competitiveness of our industry is demonstrated by the growth of manufactured exports. Our share of world trade fell year in year out for most of the post war period. There could not be a more dramatic change than the retention since 1981 of our share of a rise in world trade.

As a result the volume of British manufactured exports is up by over a quarter since 1978. And last year manufactured exports were up 8½%.

#### 5. The Reflationary Fallacy Debunked

It used to be widely believed [and today's debate shows a number of opposition members still cling to the notion] that the prime determinant of economic growth was the level of demand. If



output was sluggish this was held to be a sure symptom of deficient demand. And the only practical way to stimulate demand was by increased public borrowing.

That was a view, you may recall our Speaker, which was eloquently expressed 7 years ago this month by no less than 364 economists.

[They wrote ...]

Apparently 100 German Professors signed a letter to Albert Einstein denouncing his theory of relativity: to which he replied "had it been wrong, one Professor would have been enough". Well one fact has been enough to demonstrate the fallacy of the growth through demand and public borrowing theory. And that is the fact that, from the very moment the 365 economists wrote, the economy has grown steadily for 6 years and it has grown while government borrowing has been steadily declining.

The experience of this last year has finally kyboshed the growth-through-public-borrowing ideas. For we have seen the most rapid growth for fifteen years occur in a year when government finances finally moved from borrowing to repayment of debt.

The thinking of the Opposition parties - if that is not too strong a word for it - is left in tatters.



The recovery of Britain's economy in recent years is dramatic confirmation of the importance of supply side measures. Of course the liberation of our economic potential has been the consequence, not of a single policy, but of a battery of reforms.

- the reform trades union and industrial relations law
- the abolition of price, pay, dividends and exchange controls
- the privatisation of two fifths of our state enterprises
- the extension of direct share ownership to nearly 9 million people
- and extensive reforms of the tax system.

Of course, tax reforms, have been only a part of that package. And it is impossible to disentangle their impact from that of all the other supply side measures. But, I believe, the reforms already undertaken have played a significant part in securing better economic performance. And the major tax reforms introduced in this Budget will substantially reinforce that success.



After all, common sense suggests that the greater the burden of tax on enterprise, effort, skill and investment; the less enterprise, effort, skill and investment you will get.

And if you increase the rewards for enterprise, effort, skill and investment you will get more of those things and of the jobs, output, prosperity and revenues which they generate.

Needless to say, there are elaborate economic theories and studies to demonstrate those simple truths. And even more elaborate theories to refute them.

For my part I put my faith in common sense and the simple evidence of events, since it is a safe rule of thumb that economic theories have precious little validity unless they coincide with common sense.

The direct evidence that tax cuts work is pretty compelling.

In 1984 my Rt hon friend announced a reform of corporation tax which involved cutting the rate from 52% to 35%. Since then the yield of corporation tax, far from declining, has more than doubled. [In real terms, up by £7.1 billion - 107% - between 1983-84 and 1987-88 (estimate)]. Non-North Sea corporation tax.

Stamp duty on both shares and houses has been halved. [From 2% to 1% on houses, and from 1% to  $\frac{1}{2}$ % on shares]. Yet the yield in the year now ending is estimated £2.4 billion, over £1 billion high in real terms since the rates were first cut in 1984.



The introduction of indexation and the exempt allowance in 1982 reduced the effective rate of tax on capital gains. Yet since that time the yield of capital gains tax has risen in real terms by over two thirds (70%).

Even in the case of capital transfer tax, and the inheritance tax which replaced it, the reduction in the top rate from 75% to 60% and exemption of all but the top 5% of estates has resulted in an increased yield in real terms by almost a half.

I see the eyes of honourable gentlemen opposite light up. They are asking themselves, does that mean the government has introduced an incentive for the rich to die. I can assure my honourable friend that the increased yield of death duties does not appear to be the result of voluntary euthanasia by the very rich. The increased value of assets coupled, perhaps, with a somewhat lesser incentive to resort to ingenious means of avoiding tax seems to account for the increased yield.

But perhaps the single most telling example is the increased yield from top income tax rates.

In the last year of Labour government, 1978/9, - when top income tax rates were 83p in the £ on earnings and 98p on investment income - the richest 5% of taxpayers paid just 24% of all income tax revenues. Yet by 1987/8 - when top rates had been reduced to 60p - the proportion of tax revenues paid by the richest 5%



had actually risen to 29%.

Nor was this unforeseen. As early as 1975, when my Rt hon friend the Foreign Secretary Geoffrey Howe was Shadow Chancellor, explaining Conservative tax plans he spelled out quite explicitly - "lower tax rates on 'the rich' could lead to a greater share of our tax burden being borne by the rich." And so it came to pass.

My Rt hon friend had explained how Labour's punitive tax rates were depriving the exchequer of tax revenue. "There can be few people in Britain," he said in 1975, "who do not know, or know of, somebody who has either emigrated, or retired early, or closed his business, or worked a tax fiddle because of punitive tax rates."

An easing of those self-defeating tax rates has, as he predicted, produced a reversal of all those drains on the exchequer.

For example, the brain drain of the 1970s has begun to reverse. Last year the number of former expatriate Britons returning to Britain was a record. Talented and creative people who can generate jobs and prosperity are returning to this country which now rewards their expertise and enterprise instead of punishing it.

It is far more benefit to the Exchequer to levy 25% or 40% of their earnings than to get 98% of nothing because they have gone



abroad.

Most important of all has been the upsurge in new business formation. When punitive tax rates left small businessmen almost nothing to reinvest and meagre reward for their risk and effort, small wonder Britain had fewer small firms than any of our major competitors. Fortunately the reduction in top tax rates, doubtless reinforced by many other measures to encourage small business, has led to an explosion of enterprise. Between 1980 and 1986 the total number of business trading in Britain (after allowing for closures) increased by 179,000. That is an increase of about 500 every week. By no means all those new businessmen go straight into the top income group - but after a while many do. And the taxes they pay mean marginally less tax has to be levied on the average and below average income earner.

When wealthy investors paid 98p on each extra pound of income which they declared to the taxman it was worthwhile devoting immense time and expertise to tax avoidance. If no loophole could be found few would bother to invest any more for so paltry a reward. The reduction to 60% reduced the incentive to divert time and effort to the wholly unproductive practice of tax avoidance. But it still remained high. I am told the reduction in top rates to 40% has left one high paid group looking gloomy - the tax avoidance consultants. I am sure they will be able to turn their able minds to more socially productive work.

There is every prospect that the further reduction in top rates to 40% announced in this Budget will be just as successful as



the previous cut in 1979 in generating more revenue in the fullness of time. And that means more to spend on the NHS, benefits for the needy and other public services. I hope the Bishops of my Church, who are wont to discuss these matters, will take this into account before they launch any ill considered criticisms. After all, the analysis on which this Budget is based was perfectly familiar to the great Christian scholars of earlier centuries. The Great Spanish Theologian - whose works I am sure often provide you with spiritual sustenance - Pedro Navarette - put it rather pithily when he warned rulers:

"He who imposes high taxes receives from very few."

He was perfectly right. Our top rate of 60%, which gives so much vindictive pleasure to the Labour benches, in fact is paid by only 140,000 people - little more than half of one per cent of all taxpayers.

One reason there are so few top rate taxpayers is that many have found ways of sheltering their income from tax, so the counterpart of reducing top rates is to pursue perks and tax shelters, particularly those which benefitted the top rate payers and most distorted economic choices.

The noble Lord Kaldor, who used to be much in demand among socialists as a tax reformer, believed the rich would always find loopholes as long as top rates were high. He judged, if I remember rightly, that the only way to increase the miserable



yield of these top rates was to make them entirely voluntary.

In his view the sense of moral obligation would generate more revenue from the rich than the taxman could extract.

We are not being so radical as that. Instead we have taken steps to remove the forestry shelter, top tax company cars more fully, to tax all business entertainment, to tax capital gains as income, to remove top-slicing relief, and to focus the BES relief on smaller companies and much needed rented sector.



## Other Supply Side Measures

The Budget contains many other supply side reforms affecting specific sectors.

### OIL

#### **OIL MEASURES**

The oil sector has made an impressive recovery from the oil price collapse of 1986 - a success story in which I would like to feel that both the early repayment of APRT on fields before payback and the new reliefs we introduced in last year's Budget have played some part. The task now facing both the industry and government is to maintain that momentum, and this year we have introduced a number of measures in the North Sea tax regime designed to keep up the pace of North Sea and onshore exploration and development.

First, the new regime for post-1982 Southern Basin and onshore fields. The purpose of these changes, as my rt hon Friend said, is to make the tax and royalty regime for these fields more closely related to the profitability of individual developments. One result of this is that marginal developments will pay less in tax and royalty than they do under the existing rules. The oil industry is thus being given an opportunity to press ahead as fast as underlying conditions will allow with these developments. And that in turn must be good news for the offshore supplies industry.



Offsetting this abolition of royalties we are simultaneously reducing oil allowances on the same post 1982 fields. This will increase the Petroleum Revenue Tax take from the more profitable fields. As a result of this extra PRT and the potential advancement of development of some marginal fields we expect the measures to be broadly self financing over the life time of these fields. But in the first year there will be a net loss of revenues of about £50 million.

Second, disposals of oil licences. When last summer we debated this issue and its impact on exploration activity, I said I wanted to look at the special position of licence disposals at the exploration phase where no cash profit is realised. It is very important that tax should not discourage reorganisations of licence interests to transfer them into the hands of those companies best placed to explore and develop their potential.

Since the issue was last discussed in the House, we have had some very useful and detailed discussions with the oil industry. As a result we are now proposing a carefully-designed and targetted capital gains relief for disposals of licence interests taking place before consent has been given to go ahead and develop the block concerned. This relief will apply, not only to those disposals where the consideration includes an obligation by the purchaser to carry out a programme of exploration or appraisal work on that licence block, but also to swaps of one pre-development licence interest for another. It



will work by deeming considerations of this nature to have nil value for capital gains purposes. In this way it will get rid of the problems - for taxpayers and tax authorities alike - which arise when putting a monetary value on these non-cash receipts. It should be a useful simplification of this aspect of the tax system.

This new relief will, we believe, remove any tax impediment to the rationalisation of licence interests. And so it should ease the way for the full and timely evaluation of our oil and gas potential.

Finally, we are taking action to remedy a minor defect in the PRT treatment of tariffing arrangements. In general where one company receives a tariff from another company for the use of its platform or pipeline facilities, PRT is charged on the tariff income with PRT relief being available for any tariff-related costs of operating the facilities concerned. But at present the relief does not extend to circumstances where production has ceased from the field which owns the facilities, but tariff income in respect of that field's facilities still continues to be charged to PRT.

This asymmetrical result was never intended, and we propose to remove it. The forthcoming Finance Bill will allow a PRT deduction for tariff-related operating costs where production has ceased from the field owning the tariffed facilities. This will enable companies to enter into the sort of arrangements which make the best and most efficient use of existing facilities, without unnecessary - expensive - duplication.



### Inheritance Tax

One of the most powerful incentives to enterprise is the desire to build up and pass on an inheritance - be it a business or home or whatever - to one's children.

The supply side changes create the environment for the enterprise culture to flourish. It is reasonable that those who have responded successfully to the challenge should wish to pass on the fruits of their endeavour in good state to the next generation. The need to carve out of the business the wherewithal to meet too high a burden of inheritance tax frustrates this legitimate expectation and reduces the other incentives to build up the family business and other individual ventures on which much of our future national well being depends. Business property relief means that only half the value of a business property is taken into account for inheritance tax purposes. And the IHT payable on this can be paid in 10 equal instalments. These changes are not affected by the Budget.

This Government has taken a number of steps to reduce this kind of effect. Two years ago we abolished capital transfer tax on lifetime gifts, and last year we made a large increase in the threshold for Inheritance Tax and at the same time reduced the number of rates from seven to four.

The Budget proposals on Inheritance Tax announced by my Right



Honourable Friend of a new threshold of £110,000 and a flat rate of 40 per cent continue this progress. This further reform of Inheritance Tax will make the system simpler, reduce the burden overall, and keep more smaller estates out of tax.



### BES for Assured Tenancies

There is already evidence that high house prices in the South East are making it difficult for expanding firms to attract labour and provide jobs for those who wish to move from other regions.

The deregulation of rents under the current Housing Bill should enable landlords to make a reasonable return on housing in the South East at rents which will be affordable for manual workers. We therefore believe that it will provide a useful further spur to job mobility and general flexibility in the labour market. But it would take time for deregulation, by itself, to produce a substantial increase in the supply of private rented housing. So my Right Hon Friend proposes to extend the Business Expansion Scheme to companies specialising in letting residential property on the new assured tenancy basis. This should give a kick start to the provision of newly rented housing during the early years of deregulation. The extension of the Scheme will apply only to investments made before the end of 1993. We hope that by then the market for rented housing will be firmly established.



## ABOLITION OF CAPITAL DUTY

When the abolition of capital duty was announced by my Rt Honourable Friend it was clearly not the best known of taxes. I suppose it is a little like Archduke Ferdinand who only achieved public fame as a consequence of his demise.

But capital duty is, or rather was, a significant burden on business. It was levied at precisely the point at which a new company was formed or raised new equity capital. Its abolition will be wholly beneficial.

Owners of firms will be able to decide whether or not to incorporate without the worry of tax on the assets they put into the company. The Companies which need new money will be able to decide the best source without the bias of capital duty. If they decide to raise capital their costs will be up to 25 per cent lower.

Investors will also benefit from the proposal to end this tax on their investments. More of the money they pay for new shares will go into the company. Their stake in the company will be worth that bit more. With the abolition of the similar duty on unit trusts there should be similar benefits to investors who choose that form of investment.

In other words the Government is removing the barriers between companies and their supply of risk-bearing capital. It will then be up to companies to sell themselves to investors.



## STATEMENT FOR BUDGET DEBATE

### DISCLOSURE OF IMPORTERS' DETAILS

1. Mr Speaker, competitive and efficient markets rely on the free flow of information. Following the announcement in last year's Budget Debate, a consultative exercise was conducted during 1987 on a number of propositions involving disclosure of information about importers. The main proposal was that Customs and Excise should disclose by sale the names and addresses of importers listed against the commodity codes under which the products they import are classified. A majority of the comments were in favour of this proposal.
2. Following an inter-departmental review of the results of the consultative exercise I announced in a written reply to my hon friend the Member for Boothferry earlier today that the Government has decided to proceed with this proposal.
3. A new provision in the Finance Bill will enable Customs and Excise to extract information from statutory declarations made by importers or their agents on import entries. Customs will provide marketing agents each month with the names and addresses of importers listed against each of the 9



digit Commodity Codes as published in the Integrated Tariff of the United Kingdom (about 11,500 in all). Provision of this information should help firms to identify markets so helping to improve the effectiveness of marketing, market research and product development to the benefit of industry and consumer alike.

4. The charge to the marketing agents will be set at a level to cover Customs costs. The marketing agents will be free to publish the information in a form and at a price attractive to their customers.
5. We would hope to implement these arrangements from January 1989 subject to satisfactory conclusion of contractual arrangements with the marketing agents and implementing the necessary changes to computer systems. The arrangements will of course be kept under review.
6. Customs will continue the current arrangements known as suppressions. Under these arrangements they may, for example, combine information for two or more commodity codes when importers can demonstrate that publication of a more detailed breakdown would enable confidential information about their business activities to be identified either directly or by deduction.



PERORATION

Mr Speaker. I have demonstrated that this is a supply side Budget. A Budget which will powerfully reinforce the measures which have revitalised our economy over the last 8 years. That vitality is already bringing us prosperity, generating jobs and restoring national pride.

Eighteen months ago exactly, the honourable member for Dunfermline East, now Labour's Shadow Chief Secretary told the Guardian - and I quote:

"The Government simply cannot reduce unemployment by present economic policies."

Since then unemployment has fallen by nearly three-quarters of a million. That, Mr Speaker, is our answer to the honourable member.

Our policies are working. The people of this country know they are working. We were reelected in June to defend and extend the policies of success.

That is what this Budget does. I commend it to the House.



Tax cuts will boost consumer spending and suck in imports?

Negative approach to say that people should be cut so poor that they cannot buy foreign goods.

2. Forecast shows balanced growth with both non-oil exports of goods, and business fixed investment set to grow faster than consumer demands.

3. No overheating when Government plans a Budget surplus with no reduction in tax burden for 1988/89.

4. Will interest rates high.

5. Hippocritical of Opposition to complain of overheating when they have urged us to devalue the currency and increase our borrowing.

6. One member for Islington South and Finsbury has admitted that "there is a lot of evidence to show that most of the borrowing is being done not by individuals but by companies." (Tribune, 9 October 1987).

7. No problem in financing current account deficit of less than 1% of GDP, given international confidence in UK and size of net overseas assets.



## Budget Redistributes from Poor to Rich?

2. All 25 million taxpayers benefit from double indexation of allowances.

Basic rate cut reduces marginal rates for 94% of working age taxpayers.

Budget tax cuts worth nearly £5 a week to married man on average earnings, equivalent to 3% pay settlement.

3. Three-quarters of total cost in 1988-89 of income tax reductions due to allowances and basic rate changes.

4. Some Budget measures (eg Forestry) specifically directed towards removing tax breaks for those on high incomes.

Poor will benefit from creation of wealth and jobs by entrepreneurs with improved incentives.

5. Top 5% of taxpayers pay  $\frac{1}{3}$  more in real terms than in 1978-79, and pay a higher share of total income tax burden.



North South/South Divide? Regional Inequalities?

Government economic policy benefitting all regions. Unemployment has fallen in all regions over the last year.

2. Manufacturing productivity increased in Scotland by 5% a year between 1979 and 1986, compared with 3¼% a year in the UK as a whole.

3. Incentives (eg regional incentives, Urban Development Grants, Derelict Land Programmes) have helped the "North".



## MONETARY POLICY

### Line to take

#### Role of exchange rate downgraded in monetary policy?

No. Continue to play central role in both domestic monetary decisions and international policy co-operation.

#### Government no longer committed to exchange rate stability

UK seeking more stable exchange rates in co-operation with other governments. But stability has never implied immobility; adjustments needed from time to time.

#### Why no reference to particular importance of rate against deutschemark in Budget Speech or MTFS?

Resistance to exchange rate depreciation across range of currencies is essential anti-inflationary discipline. Exchange rate against deutschemark is particularly important to British industry, so Government naturally pays attention to it.

#### Does Government plan to cut interest rates in wake of Budget?

Never speculate about future interest rate movements.



UNCLASSIFIED



FROM: A P HUDSON

DATE: 16 March 1988

CHANCELLOR

## BUDGET WIND-UP

I haven't done a proper note for this meeting, because there doesn't seem any point.

2. The first thing to consider is what, if anything, we can do to give you any chance of getting a hearing at all. How do we structure the speech?
3. In terms of work, I suggest the outcome of the meeting should be to ask various people to write gobbets, which you can think about over the weekend. Among the obvious subjects are: the case for cutting tax; independent taxation; the strength of the economy; and the balanced budget. Perhaps Robert could do the first two, and Alex or I will do the last two. Andrew Tyrie and/or Nigel Forman could do some Labour bashing.
4. Do you then want material on anything else? CGT? Reductions in tax breaks? BES and private renting?
5. How do we handle the inevitable shouts about the NHS?
6. On Monday, I suggest we have Prayers at 9.00 or 9.15, instead of 10.30, so that you have the maximum clear time to work on the wind-up. Do you want another meeting then?

AMH

A P HUDSON

? VBL  
(why it exists)

Spoken sentences  
beginning with the article

A P HUDSON

~~How re 'rich' pms man~~

UNCLASSIFIED

High ground

Budget and  
Solutions -  
on my part -  
of G.H.'s part -  
then - generally  
What is said

CHANCELLOR OF THE EXCHEQUER

FROM:  
DATE:

OR

END-UP



CONFIDENTIAL

*pp*



PS/CHANCELLOR

FROM: G R WESTHEAD  
DATE: 17 March 1988

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

BUDGET DEBATE THURSDAY MARCH 17 : ECONOMIC SECRETARY'S WIND-UP  
SPEECH

I attach a near finalised version of the Economic Secretary's wind-up speech in the Budget Debate tonight. This does not yet include material on the BES concession.

*Guy Westhead*

GUY WESTHEAD  
Assistant Private Secretary



3652/28

FROM: A G TYRIE

DATE: 17 MARCH 1988

ECONOMIC SECRETARY

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

BUDGET DEBATE WIND-UP SPEECH

I certainly do not think that you should alter this speech one jot to take account of John Biffen's determination to play out a role in opposition. But you might find it useful to quote what John Biffen himself said about tax cuts and rates after the Budget in June 1979.

2. We are doing exactly what Biffen advocated at that time, by "allowing our tax system to approximate more to those of the economies of North America and Western Europe".

3. You might also have the opportunity to kill two (old) birds with one stone by quoting Healey, see the attached extract from Hansard.

Avi.  
A G TYRIE



[Mr. Biffen.] and then to turn to my responsibilities in terms of public spending.

I suggest to the Leader of the Opposition that the Budget is not reckless. Yes, it is bold and certainly in some senses it is stern, but I believe it is responsible.

**Mr. James Callaghan** (Cardiff, South-East): Stern?

**Mr. Biffen**: I said "stern", and I stand by that. I believe that in the area of monetary policy my right hon. and learned Friend has exhibited determined and prudent proposals designed to prosecute a monetary policy which will be a major determinant in the totality of the Government's economic policy over the year ahead. That is shown in the action that has been taken for the public sector borrowing requirement, for the M3 monetary aggregates and in the raising of the minimum lending rate. No one could look at that package and suggest that it was a soft option.

I should like to take up the point that was put to me by the Chancellor of the Exchequer—[HON. MEMBERS: "Oh."]—by the right hon. Member for Leeds, East. I must say that he has lost so much of his past style that it is a reflection on me that I had not instinctively slipped into referring to him as the right hon. Member for Leeds, East. I shall try to do better in future.

In answer to the point that he made, I cannot state what the future pattern of mortgage interest rates will be. The man most able to make an authoritative comment upon that is the chairman of the Building Societies Association. I understand that he has made a statement today to the effect that he does not see any reason why they should rise in the immediate future. Clearly any future rise—if there is to be one—would be related to how long the minimum lending rate stays at its present level. Certainly the right hon. Member for Leeds, East was long enough in the post of Chancellor of the Exchequer to know that no one would stand at this Box and speculate about that matter.

**Mr. Denzil Davies** (Llanelli): Since the hon. Gentleman said that the Budget, from a monetary point of view, is a stern one in respect of interest rates, would he not agree that interest rates in the end are affected by the general rate of inflation?

Could he give an assurance to the House that he would not allow interest rates to fall substantially—or, indeed, by any amount—below the general rate of inflation in the economy?

**Mr. Biffen**: I can give no such undertaking and the right hon. Member for Llanelli (Mr. Davies), who was a distinguished junior Minister at the Ministry, knows perfectly well that no one can stand at this Box and answer that kind of question.

**Mr. Rooker rose**—

**Mr. Biffen**: I will not give way for a moment. I am sure that we shall have plenty of opportunity to take this a stage further.

I want to turn for a moment to the speech of the right hon. Member for Leeds, East. I thought that his speech linked the economic debate we had on the Loyal Address and the Budget debate well. They run together as one, because we are already beginning to discuss broad philosophical divisions on the question of economic management.

The right hon. Member for Leeds, East said that the Chancellor of the Exchequer's figures did not add up socially, politically or psychologically and, therefore, they could not do so economically. Those are fighting words from the right hon. Gentleman, particularly in the light of tax changes which I think are a fundamental point of my right hon and learned Friend's Budget, namely, the determination to have a substantial and, perhaps, fundamental switch from direct to indirect taxation, thus allowing our tax system to approximate more to those of the economies of North America and Western Europe. The monetary tax packages are, effectively, the Budget. The second package will obviously cause a degree of controversy but I believe that the right hon. Member for Leeds, East tended to forget all too often in the past that he has shown a disposition to favour exactly the kind of switch that has been undertaken by my right hon and learned Friend the Chancellor.

I wonder whether the right hon. Member for Leeds, East recollects writing in *Barrons Magazine* on 27 September 1976:

"I definitely do think the present level of taxation serves as a disincentive and those rates must come down. We have the wrong

balance in this country between our direct and indirect taxation."

**Mr. Healey**: Of course I held those views and still do. I did a great deal to change the balance when I—[HON. MEMBERS: "Oh."] Oh, yes. On occasion I taxation under the Conservatives represented a majority of the revenue. I switched it to a minority during my period of office. I cut income tax repeatedly and on occasion I made—[HON. MEMBERS: "Oh."] Oh yes. On occasion I made increases in indirect taxation, but I always took account of the psychological effect of my actions on the British people. That is the failure of the present Government.

**Mr. Biffen**: The right hon. Gentleman went on to say:

"we can turn to more reliance on indirect taxes like VAT."

He will recollect that he was the Chancellor who cut VAT. Therefore, he really has a rather tawdry reputation in this area and I can understand his sensitivity.

What we are witnessing is the Labour Party regrouping. There is a retreat away from the policies that the right hon. Member for Leeds, East pursued while he was in office. He was kind enough to say that I had been one of the Labour Government's more generous critics over recent years. That is perfectly true. My monetaristic instincts led me to be even more charitable than my natural generosity would allow. However, this afternoon we heard quite a devastating denunciation of the extremes of monetarism, and it will not be long before "the extremes" is deleted from the actual phrase. We had talks about the right hon. Gentleman being able to work some kind of alliance with his hon. Friend the Member for Birmingham, Perry Barr (Mr. Rooker) so that relationships would be happier in this Parliament than in the last.

**Mr. Healey**: Truro.

**Mr. Biffen**: I beg the right hon. Gentleman's pardon, but I had not thought that the hon. Member for Truro (Mr. Penhaligon) had been a great participant in economic debates during the last Parliament. I now realise that the right hon. Member for Leeds, East is as bad on his geography as he is on his economics.

In the Queen's Speech we had, coming from the so-called moderate wing of the

Labour Party, the attack upon my right hon. and hon. Friends—undoubtedly by inference upon my right hon. and learned Friend the Chancellor of the Exchequer—regarding the social and moral values that motivated their policies. In particular I was struck by the speech of the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) on 16 May when he talked about

"the tyranny of private wealth and private power, but tyranny nevertheless."—[*Official Report*, 16 May 1979; Vol. 967, c. 228.]

This was in the context of Tawney's writings.

There is a very simple measure appropriate for any Member from Birmingham, and that is this: in the context of this Budget, will the blue-collar Birmingham worker be corrupted or become the agency of tyranny by the substance of a 30p basic tax rate and the prospect of a 25p tax rate?

**Mr. Rooker**: And 17½ per cent. inflation.

**Mr. Biffen**: The hon. Member for Perry Barr points out the prospective rate of inflation and we shall doubtless have many opportunities, as the weeks revolve into months and years, to see whether inflation in this Parliament, under this Government, will bear comparison with the rate under the last Government.

**Mr. Eric S. Heffer** (Liverpool, Walton): We shall remember that.

**Mr. Biffen**: I expect this to be a place of long memories. I make these preliminary points because I believe that what the country is seeing, and what is being seen in this House, is a fairly speedy retreat by the Labour Party from the stance that it adopted during the last couple of years before the general election. In other words, there is a great desire to get back to the world that existed before the IMF letter.

**Mr. Harry Ewing** (Stirling, Falkirk and Grangemouth): Would the right hon. Gentleman accept that he is being just a bit unfair, particularly to the Labour Party? I do not complain about his unfairness to the Labour Party but I certainly do not expect it from him. The case of the Labour Party and the Labour Government was that if we contained inflation at 8 per cent. we felt we had a right to ask the trade union movement



From: Nigel Forman.  
18th March 1988.

Puf

To: Chancellor.

Budget Debate Wind-Up.  
21st March 1988.

✓  
I drew a some of  
this, but you could  
use more

A

1. Possible draft for opening section.

1. My Budget this year is simply the latest stage in the long term economic policy which has been pursued consistently by this Government for the last nine years. It is a successful policy and one which has created the conditions for the longest period of sustained economic growth since the war. This has helped to create the extra wealth and the extra revenue out of which it has been possible to increase public spending on our priority programmes and now to eliminate public borrowing as well.
2. My predecessor and I have been able to reduce the standard rate of income tax in seven (?) of the last ten Budgets. My RHF took the courageous decision in 1979 to abolish the Socialist controls on capital movements, pay, prices and dividends. I was able to introduce a comprehensive and radical reform of corporate taxation in 1984. Between us we have abolished a total of (?) taxes in nine years. And this year I have been able, within a prudent fiscal and monetary framework, to recast the structure of personal taxation and to initiate a long overdue move to fiscal justice between men and women.
3. This policy, which has been so consistently pursued since 1979, has delivered the goods for the British people. So much so that we are now top of the European growth tables. We have unemployment falling faster than at any time since the war. We have got inflation under control and we intend to reduce it still further. We have now achieved a Budget surplus and in future we intend to make balanced Budgets the rule rather than the exception in this country.



4. Our record of economic success has enabled the country to enter a virtuous circle of lower borrowing and lower income tax rates which help to create better economic conditions for the private sector which then contributes more revenue to the Exchequer which in turn enables us to afford increased public expenditure on our priority programmes.

5. But our track record of economic success has done much more than this. It has transformed the performance of the British economy and, in the wake of this transformation, brought about nothing less than a profound cultural change in the attitudes and behaviour of the British people. Where there was bitterness and recrimination in industrial relations in the 1970's, there is now a new spirit of cooperation and determination to work together. Where there was a tendency to expect failure or at any rate disappointment in world markets, there is now confidence that our firms will be able to compete in export markets and hold their own against the challenge of foreign competition here at home. Where there was bureaucracy and Socialist intervention which used to stifle the best efforts of industry and commerce, there is now a buoyant and expanding private sector which is stronger and larger than before thanks to the framework for expansion provided by our policies and the success of privatisation. Indeed, I do not think it is an exaggeration to say that at last this country is experiencing an economic miracle comparable in significance with that enjoyed by France, West Germany and Japan before us.

6. I can assure the House tonight that we shall stick to these tried and tested policies which have brought so much economic success and prosperity for our country. Indeed, I cannot resist pointing out to the party opposite that it they who are out of step - out of step with their Socialist comrades overseas, whether in France, Spain, Sweden, Australia or New Zealand. In many ways they are now so old-fashioned that they appear to be stuck in a sort of 1970's time-warp from which they seem both unwilling and unable to escape. By contrast, we on this side of the House are the truly modern and



progressive party, we have all the new ideas, we have the right policies and the determination to carry them through. It is this which has transformed not only the performance of the economy, but also the character of our society.

7. Nowhere is this more evident than in the contrast between our belief in the virtues and rewards of a low tax, enterprise economy, and Labour's belief in a high tax, high borrowing economy which may be sustainable for a year or two but which, as sure as eggs is eggs, always ends in tears - as we saw in 1964-67 and again in 1974-76.

8. Perhaps the House will allow me to summarise the essence of our belief on this side in the virtues of low rates of income tax, balanced Budgets, and a reduced but more efficient public sector. Of these three pillars of our economic policy, the most significant for our purposes tonight is the Government's commitment to reducing the rate of income tax for all tax-payers and to getting the standard rate down still further over the years ahead.

9. By getting income tax down, we enable the people of this country to keep more of their own money. Need I remind the party opposite that Budgets are not occasions when the Chancellor of the day graciously doles out financial rewards to the people of this country. Budgets provide the opportunities, in a well run and prudently managed economy, to see that people keep more of what they have earned so that they can then spend it, save it or invest it as they choose.

10. By getting income tax down, especially at the higher rates, we enable the entrepreneurs and the wealth creators in our society to build up their firms and so create more output, more jobs and, of course, more revenue for the Exchequer with which to pay for the improved public services which we all want to see.



11. Getting income tax down is also morally desirable, since it increases people's disposable income - which has been rising at a steady 3% a year for the last (?) years - and so gives them more freedom, more effective choice than before. With lower tax rates, people have more to invest in their families, their homes and their communities (quote figures on growth of charitable giving?). With lower income tax they are freer to provide for their own pensions, to invest in shares, to pay for private education or health care, to travel and broaden their experience. Indeed, the evidence of history and from many different countries around the world suggests that there is an important link between the extension of economic and political freedoms. We on this side understand the point and over the last nine years we have demonstrated our ability to put it into practice.



Possible draft for peroration.

1. Mr Speaker, this has not been - as the party opposite has tried to claim - a Budget for the rich. It has been a Budget for all the people. It has left more of the nation's growing income and wealth to fructify in the purses and pockets of the people, and it has created the conditions for further economic growth in future. This is the real supply side justification for lower taxes, balanced Budgets and appropriate levels of public spending on the essential public services.

2. This Budget is the latest in an unbroken line of ten Conservative Budgets presented to this House by my RHF for Surrey East and myself as part of the Government's consistent, long term policy. It has proved to be a highly successful economic policy which has delivered the goods by raising the living standards of the British people to their highest ever levels. I commend it to the House and invite my RH & HFs to support it in the lobby tonight.

7N7



*Need more  
analysis X*



FROM: FINANCIAL SECRETARY

DATE: 18 March 1988

CHANCELLOR

*CL  
Amend to late to  
incorporate as of this.  
Ad*

## BUDGET DEBATE: WIND-UP

Could I suggest 3 points which would be worth dealing with on Monday in the wind-up.

i. UEL: Peter Lilley extracted from Chris Smith Labour's intention to abolish the UEL. It would be worth exposing this again more widely on Monday.

ii. Cost of Package: I am sure it is worth restating that three quarters of the cost goes on the basic rate cut and on personal allowances.

*X*  
iii. Non-Taxpayers: Both Gould and Brown constantly use the line that the Budget is irrelevant to "12 million non-taxpayers who are the poorest in our society". This is a lie and a rather potent one. Not all non-taxpayers are very poor or even poor. Some are well off or living in well-off households which benefit from tax cuts. These include part-timers, married women and young people living at home. Indeed only 400,000 of 11 million (not 12) are in full-time work.

2. Of course many non-taxpayers are elderly. The fact that many do not pay tax is not unconnected with this Government taking many out of tax through the age allowances. Indeed the tax threshold for married pensioners is at the highest level since the 2nd World War.

3. Gould has repeatedly used the line about non-taxpayers on TV. Brown has made several speeches on it. Four crisp sentences from yourself would destroy their "factoids".



4.' I did prepare some material myself on this which I attach.  
It is too long and dense but there may be points you could  
use.

*N*

NORMAN LAMONT



NON-TAXPAYERS

*What I  
have done at  
this stage with*

We have heard lots of accusations today that this Budget does nothing to help the very poorest in our society and even those it does help find their gains eliminated by the Social Security Reforms.

Let me say that the best thing a Budget can do is to take people out of tax altogether, and for those not paying tax, to keep them out of tax. Let us not forget that 1.7 million people have been taken out of income tax completely under the Government. The basic allowance is now over 25% higher in real terms than in 1978/79; and the married man's allowance is at its highest real value since Dunkirk. !

But the Party opposite bury their heads in the sand and ignore these facts. They never tire of telling us how millions of people in this country are living in abject poverty. They seem to regard us as a third-world nation with children dying on the streets through starvation. It is in their interests to tell everybody how poor they are, to whip up a frenzy of dissatisfaction quite at variance with reality.

In 1988/89 there will be nearly 11 million adult non-taxpayers in this country. The Party opposite speaks as if these people are living the the deepest poverty. But only 0.4 million of these people are of working age and in full-time employment. Many non-taxpayers are non-working or part-time wives or young people living in families where the main earner is a taxpayer and will benefit substantially from the Budget proposals; many



others are elderly people, kept out of tax by the record levels of age allowances. Creating non-taxpayers and keeping people out of tax is not something which should cause us pained anxiety and guilty consciences - it is something to shout about and that is what we do. Do the Party opposite believe that the 780,000 people taken out of tax by the Budget have been born into poverty?

But what of the low-paid who pay tax? The Labour party does not care two hoots that even under our proposals the married man on just over £4000 has to pay tax. They care not a jot that our proposals will increase the take-home pay of the married man on half average earnings by £2.43 per week, and by £3.66 per week for the man on just three-quarters of average earnings. "Chicken-feed" they say. "Not worth crossing the road for", they shout! Well it may not seem like a lot to the champagne socialists sitting opposite - but these were the very people that said that civilisation as we know it was at an end when prescription charges were increased by 20p.

Now I wish to respond to the points made about the social security changes.

Most people, I suspect, will think it extraordinary that there are people who both pay income tax and receive benefits. It remains our objective to float people off benefits so that public spending is genuinely targetted on those with the greatest needs. The best way to do this is to reduce the taxes on the low-paid as we are doing. This Budget will take over 50,000 out of the benefits system altogether. And that is very good news indeed.



Not only will these people be better off as a result of the Budget, but also their effective marginal rates will fall dramatically giving them better incentives in the future.

Overall 1 million tax units who are in receipt of income related benefits will receive tax cuts of £1 per week on average. It is true that their benefits will be reduced as a consequence. But that is the result of the more sensible basis that we have introduced for the calculation of entitlement to benefits. In future, entitlement to income-related benefits will be assessed on the basis of net incomes (after tax and national insurance). This means that no longer can someone lose more in benefit than his extra income from working harder. And it is far better for people to keep more of their own earnings and to be less dependent on state benefits.

Our help for low income families does not stop at the income tax reductions. From 11 April, Family Credit will be available to almost twice as many working families as Family Income Supplement, its predecessor. We will be giving an extra £200m a year of benefits to those families.

Concerned though we all are with the position of those with low incomes and on benefits, we must not concentrate on them to the exclusion of other low earners. Far more people earning less than £100 a week will keep the whole of their income tax reductions than will have some of it offset by reductions in benefits - 4 million against ¼ million.



## The Elderly

[A number of members have suggested that this Budget is irrelevant to be elderly]. That is absolute claptrap. <sup>711</sup> In fact this can rightly be called a Budget for the elderly. We will have in 1988/89 the highest real tax threshold for elderly married couples since the Second World War. The age allowance will be over 16% higher in real terms than in 1978/79, and over 20% higher for the over-80s. Indeed the real value of the age allowances will be higher than ever before. These measures will continue to ensure that two-thirds of the elderly pay no tax at all. But that does not mean that the Budget does not help the elderly. It is precisely because we have continuously increased the age allowances that we have kept the elderly out of tax. An elderly couple can now have income over and above the basic state pension of up to £31 per week before paying a penny of tax. Compared to the position under the last Labour Government that represents a 40% increase in real terms.

As a result of this Budget, and the increases in the age allowances, about 200,000 fewer elderly people will pay tax in 1988/89. Overall some 15% of the cost of the Budget package will go to the elderly and this gives a measure of our commitment to this deserving group. If we had simply kept Labour's regime of 1978/79 and indexed it for inflation, the elderly would now be paying an extra £3 billion in tax. And the way to help those elderly people, who despite the record real levels of the age allowances have sufficient income to be paying tax, the way to



help these elderly taxpayers is not as the labour suggests to decry tax cuts. There remain 2,500,000 elderly taxpayers of whom 92% pay tax at the basic rate. For these people we are bringing the tax rate down and we shall continue to do so. Let no-one be fooled by the party opposite that this Budget does nothing for the old. It cuts tax for all elderly taxpayers, and keeps the rest out of tax altogether, including 360,000 old people who would have had to pay tax if Labour's 1978/79 regime had simply been indexed for inflation.

And the Budget too, contains radical new proposals for completely overhauling the tax treatment of married couples. These proposals will have a considerable impact on the elderly married, both husbands and wives.

Many elderly wives, for example, receive a National Insurance retirement pension on the basis of their husband's contributions because they have spent much of their working lives bringing up a family. Under the present system the wife's earned income allowance is not available to set against this kind of pension. However, under Independent Taxation the new wife's personal allowance will be available against this pension so that a woman who has no other income will pay no tax at all.

Moreover under independent taxation elderly married women will become eligible for age allowance in their own right for the first time. This means that where both partners in a couple are elderly they will in future both qualify for age allowance. On top of that the MCA they receive will be higher for younger taxpayers and linked to the age of the older partner. And they



will also each have separate income limits. As a result of all these dangers nearly 900,000 elderly wives will pay less tax, 130,000 more elderly married men on modest incomes will qualify for age related allowances, and overall 160,000 elderly couples - nearly 15 per cent of the total - ~~will~~ be taken out of tax altogether.



FROM: N I MACPHERSON  
DATE: 18 MARCH 1988

MR CULPIN

# ABOLITION OF THE UEL

Some answers to the questions you put to Mr Sparkes.

2. The upper earnings limit was introduced in 1961, as part of the graduated pensions system. Graduated contributions were paid, on top of the stamp, at a rate of 4.25 per cent on earnings between £9 and £15 a week. The 1975 Social Security Pensions Act replaced graduated pensions with SERPS.

3. The 1975 Act laid down that the UEL should be between 6.5 and 7.5 <sup>Knes</sup> the LEL. The LEL is fixed at the level of the single pension rounded down to the nearest £1. However, the UEL had steadily increased as a percentage of the LEL under the graduated scheme:

## Ratio of UEL to LEL

1961	1.7
1963	2
1966	3.3
1971	4.7
1972	5.3
1973	6
1974	6.9
1975	6.3
1976	7.3
1977	7
1978	6.9
1979	6.9
1980	7.2
1981	7.4
1982	7.5
1983 to 1988	Range of 7.2 to 7.5

← SERPS in place

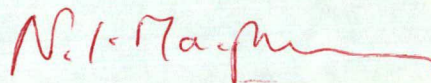


4. Under reformed SERPS, a contracted in person's additional pension is 20% of average lifetime earnings between the LEL and UEL. A contracted out person's GMP is the same, but the occupational pension scheme pays it (except for upratings over 3 percent p.a) in exchange for a combined employer/employee rebate of 5.8 per cent.

5. Let us assume the UEL was abolished and no cap put on SERPS. Around a third of those earning above the UEL are contracted in. In the long run, the additional cost of their pension would be around £1 billion p.a. if their earnings remained unchanged (which they clearly would not). There would be little increase in expenditure on those who were contracted out, but there would be less revenue coming in from them since their 9 per cent NIC rate would be offset by a 5.8 per cent rebate. I would avoid giving specific numbers on this; if you do want to, we will have to talk to GAD. You could however say something unspecific like 'long run SERPS expenditure would increase by £billions'.

6. A shadow UEL would be necessary for the additional components of Invalidity Benefit (IVB) and Widow's benefit as well as for the AC of Retirement Pension (SERPS). The IVB AC is expensive; we are already spending £300 million on it and this will rise to over £1 billion by the end of the century

7. Abolishing the UEL/UPL with a 9 per cent rate above it would bring in around £1.9 billion in a full year. Abolishing the UEL and leaving the self employed's UPL in place would bring in £1.5 billion.



N I MACPHERSON



2718/21

CULPIN

FROM: ROBERT CULPIN  
DATE: 18 March 1988

MR A C S ALLAN

cc: Mr Scholar  
Mr Pickford  
Mr Hudson

**THE BUDGET IN CONTEXT (AKA 9 YEARS OF TORY MISRULE)**

**Income Tax**

A third to a quarter; on to a fifth.

Nine rates to two.

83 (plus 15) to 40.

Allowances up 25 per cent real.

83/40  
33/25  
52/35  
42/25  
15/0

**Company Tax**

52 to 35.

Small companies 42 to 25.

VAT cash accounting.

**Capital taxes**

Seventeen CTT rates on life/fourteen on Death to one IHT.

Threshold more than doubled in real terms.

CGT indexed 1982. Extended 1985. Completed 1938.



Aligned with corporation tax 1987, income tax 1988.

### **Fives Taxes Abolished**

Investment income surcharge.

National insurance surcharge.

Development land tax.

Capital transfer tax.

Capital duty.

### **Base Broadened/Playing Fields Levelled**

Corporation tax stock relief and initial allowances.

Life assurance premium relief (for new policies).

Composite rate extended.

[VAT]

Cars.

Forests.

[Home improvement loans]

### **Enterprise and Labour Market**

Business expansion scheme 1983. Private renting 1988.

NICs at bottom end.

Profit related pay.

Personal pensions.



## **Share Owning Democracy**

Two new schemes for employees, and extension of existing reliefs.

Personal equity plans.

Stamp duty on shares from 2 per cent to  $\frac{1}{2}$  per cent.

## **Charities**

Unlimited relief for company and individual donations.

Payroll giving.

Umpteen VAT concessions.

## **The Family**

Independent taxation: two centuries of Green Papers; action this Day.

Penalties on marriage abolished.

Maintenance and covenants simplified.

## **Non-tax supply side**

Laundry lists in EPRs.

## **Tax burden**

Total failure - oops.



ROBERT CULPIN