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PART. A

1989 BUDGET
PRESENTATION
AND BROADCAST.

13-3-89

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Budget Presentation

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S.

→ Jonathan

Prof

FROM: MRS JUDITH CHAPLIN
19th January 1989

CHANCELLOR

*Re X, it's actually
pre-1973 was wrong
that he was in
adv. (A) in my
opinion it's
a fair point.*

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Tyrie
Mr Call

CHANCELLOR'S BUDGET SOUNDINGS: 18 JANUARY

Those present:

**Sir Peter Blaker, Dame Peggy Fenner, Sir Philip Goodhart
Rt Hon Michael Jopling, Robin Maxwell Hyslop**

Sir Peter Blaker stressed that the Chancellor should continue with his policy of cutting taxes. He is unhappy that the rates of CGT have been aligned with those of IT, as CGT inhibits activity in capital markets. He would like measures to increase the volume of savings rather than those which would affect the structure of savings.

Michael Jopling agreed with the importance of continuing to cut taxes, but stressed that the date of an election year should always be borne in mind when economic policy decisions are being made. He hopes that PEPs can be improved as he considers them a "super idea". He is also concerned at the tax treatment of land owners compared with farmers.

He urged the Chancellor not to be deflected from his current interest rate policy, which appears to be working even if with painful results.

Dame Peggy Fenner agreed with Michael Jopling's point on interest rates, although she expressed concern at the increase of new and higher mortgages during the period between last year's Budget and the ending of dual MIR in August. She supports further tax reduction, but through raising thresholds rather than reducing the basic rate.

Sir Philip Goodhart said that as there is clearly a substantial surplus it should be used for positive measures. He suggests that the CGT threshold should be raised, although the 40 per cent rate

ould continue. He also supports the point made by Sir Peter Horder in the Debate on the Autumn Statement that everyone should receive a tax relief equivalent to the amount allowed for MIR, even if they had no mortgage. This would particularly benefit the elderly. He, too, wished for tax reductions to be concentrated on raising thresholds, so that this year's Budget will be seen to be for the poor as opposed to last year's for the rich.

Robin Maxwell Hyslop also supports thresholds rather than the basic rates because, he said, any basic rate reduction is spent on imports as this country is particularly easy to import into because of the wholesale structure and because of our low propensity to buy our own goods. He believes the base year for CGT should be brought forward as a simplifying measure. He also urges the Chancellor to deal with the problems of land owners selling land below value for low cost housing and then being charged CGT on the real value. He suggests a massive increase in tobacco tax for the benefit of the passive smoker (two-thirds of electors), which should be offset by a massive decrease in unleaded petrol tax so as not to affect the RPI.

He urges a number of measures to benefit small businesses: there should be a threshold for depreciation for small firms, and unincorporated small businesses should be allowed to offset the cost of preparing their tax returns as most need professional advice. He is also concerned about the effect of VAT on village halls, as the Liberal Party with their community politics would take up this issue.

X | He said that the 1974 Conservative Manifesto had promised to help war widows of the First World War, but the promise had not been implemented and this should now be done, particularly as it would cost very little. Peggy Fenner also supports this, but suggested that the reduction in the Armed Forces Widows' pension in 1973 should now be made good. Robin Maxwell Hyslop did not support that because it would also affect police and firemen's widows.

dc
JUDITH CHAPLIN

Tony P...

FROM: MRS JUDITH CHAPLIN

26th January 1989

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Tyrie
Mr Call

CHANCELLOR'S BUDGET SOUNDINGS: 25 JANUARY

Those present:

Dame Elaine Kellett-Bowman, Sir Hector Monroe, Sir Anthony Meyer, Sir Neil MacFarlane and Sir Michael McNair-Wilson

Sir Hector Monroe favoured a steady-as-you-go Budget and he expressed concern that high interest rates could damage industrial investment. He also urged that the increase in excise duty on whisky should be no more than a normal increase, recognising that the Scotch whisky industry had been well treated in the past.

Sir Anthony Meyer was concerned about the high marginal rate of tax on low earners caused by the removal of means-tested benefits interacting with tax. He suggested a reduced rate band. The tax on tobacco should be increased substantially on health grounds.

Sir Michael McNair-Wilson expressed concern that credit was too easily available and now many would be unable to meet their commitments due to high interest rates. Various options on credit control were discussed.

Sir Neil MacFarlane believes that the low price of alcohol is causing social problems and therefore the duty should be increased. Stamp duty on houses should be reduced. Measures to encourage lotteries should be introduced and he wondered if there could be some relaxation of the duty on football pools as a quid pro quo for the introduction of identity cards.

Dame Elaine Kellett-Bowman agreed that stamp duty on houses should be reduced. If there was to be an income tax reduction it should be on thresholds rather than on the basic rate to help the low paid. She said that the rate of capital gains tax was too high on houses and mentioned that it penalised those inheriting their parents' houses. She said that house prices had risen substantially since 1982. (The base date for those inheriting houses would not be 1982 but the value at the date of death.) She had also been asked to mention that the three per cent of dividends limit for corporate gifts should be increased.

Jc
JUDITH CHAPLIN



From Tony FAVELL Tony. PWP



Am:

PRE-BUDGET SOUNDINGS

PPSs - Thursday, 26 January 1989

Attending:

James Arbuthnot Esq MP
Tony Baldry Esq MP
Spencer Batiste Esq MP
Jim Couchman Esq MP
Jeremy Hanley Esq MP
Robert Hayward Esq MP
Michael Jack Esq MP
Roger King Esq MP
Mark Lennox-Boyd Esq MP
Andrew Mitchell Esq MP
Patrick Thompson Esq MP
John Ward Esq MP

David Amess Esq MP
Andy Stewart Esq MP
Graham Bright Esq MP
Patrick Ground Esq MP
David Harris Esq MP
Kenneth Hind Esq MP
Robert Key Esq MP
Greg Knight Esq MP
Andrew MacKay Esq MP
David Sumberg Esq MP
Peter Thurnham Esq MP
Mark Wolfson Esq MP

The vast majority spoke in favour of doing something for the low paid, although they were divided as to how this should be done. Speaking in favour were Andrew MacKay, Graham Bright, James Couchman (who is particularly keen on reform of NI, which he described as a "cliff-edge tax"), Greg Knight, Robert Key (who said that if nothing were done it would be a gift to the Democrats), Patrick McLaughlin, Spencer Batiste, Robert Hayward, Patrick Thompson, Jeremy Hanley, Mark Wolfson, Michael Jack (who made a special plea not to forget the pensioner), Andrew Mitchell, Kenneth Hind, Tim Wood, James Arbuthnot and David Harris.

There was general approval for further reduction of the national debt and for good publicity to accompany it. Those to give a special mention were Andrew MacKay, Patrick Ground (who suggested a repayment of £10 billion pounds) and Andrew Mitchell.

Several (with one exception, Andrew Mitchell, who is totally opposed) favoured further incentives for unleaded petrol including Andrew MacKay, Greg Knight (who also was in favour of fiscal help for the safe disposal of CFCs), Jeremy Hanley (who favoured help through reduced road fund tax for appropriately adapted cars) and Mark Wolfson (who is in favour of encouragement of green issues wherever possible).

Some favoured a reduction in the basic rate of income tax



including John Ward (1p), Patrick Ground (1p) and Jeremy Hanley (no amount stated). Those who stated they were not in favour were David Sumberg and James Arbuthnot.

There appeared to be a general consensus that savings should be encouraged.

Those making a specific plea for private savings were Tony Baldry anxious for tax relief for PEPs at the time of investment, Spencer Batiste (who wanted a boost to the Enterprise Allowance Scheme), John Ward (who mentioned PEPs), Patrick Ground ("simpler savings schemes", inheritance tax level to be limited and an incentive to split up estates), Patrick Thompson (anything to support the family unit), Jeremy Hanley (raise the inheritance tax limit and private business to be taxed on an actual basis), Andy Stewart (reduce the period for the writing off of farm buildings), Ken Hind (encourage private saving), Mark Wolfson (radical saving attractions through tax relief at the time of saving), Michael Jack (safe government havens bearing in mind Barlow Clowes), David Harris (encouragement to the elderly to unlock capital invested in homes).

Those who made a specific plea for small companies were Graham Bright (who suggested a corporation tax-free government bond which could be cashed as and when required for R & D in particular), Patrick Thompson (who was also anxious that research be encouraged) and Michael Jack (who proposed a scheme to encourage companies to link up with schools to combat the skills shortage).

James Couchman wanted the £8,500 perks limit to be raised. Andrew Mitchell was opposed to any change.

In favour of increasing the stamp duty limit were Tony Baldry, Rob Hayward, Jeremy Hanley.

No-one was in favour of increasing the mortgage interest relief level. Those who said they were opposed were Robert Hayward, John Ward, Andrew Mitchell, Ken Hind, James Arbuthnot (if it could not be abolished altogether).

In addition one or two said that they would like to see something done to help charities. David Sumberg was anxious to reduce the number of losers when the community charge was introduced and Andrew Mitchell reminded us that there was now a tradition in every Lawson budget to abolish a tax.

John Ward favoured an increase in Excise Duties and Rob Hayward was against ("inflationary")

Mark Wolfson wanted encouragement for British Shipping.

Tony pop

FROM: MRS JUDITH CHAPLIN

27th January 1989

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Tyrie
Mr Call

CHANCELLOR'S BUDGET SOUNDINGS: 26 JANUARY

Those present:

James Arbuthnot, David Amess, Spencer Batiste, Tony Baldry, Graham Bright, Jim Couchman, David Davis, Patrick Ground, Jeremy Hanley, David Harris, Robert Hayward, Kenneth Hind, Michael Jack, Robert Key, Greg Knight, Mark Lennox-Boyd, Andrew Mackay, Patrick McLoughlin, Andrew Mitchell, Phillip Oppenheim, Andrew Steward, David Sumberg, Patrick Thompson, John Ward, Mark Wolfson, Tim Wood

Andrew Mackay said the Government should give more publicity to and take more credit for the reduction in the National Debt. If there were to be tax reductions they should be concentrated on helping the lower paid, possibly through lower NICs. He suggested a wider differential for unleaded petrol.

Graham Bright thought that any surplus should be used to help businesses, particularly for R&D and perhaps to introduce an allowance before corporation tax became payable for small companies.

Jim Couchman agreed that any tax reductions should be concentrated on the lower paid by increasing thresholds both of tax and NICs, which should also be smoothed to rid of the high marginal rates. The £8,500 limit for benefits should be increased.

Greg Knight said it was important to get interest rates down as quickly as possible. On tax reduction, he would like thresholds to be increased but also basic rate to be reduced if possible. There should be tax relief for safe disposal of CFCs.

Robert Key agreed that tax reductions should be concentrated on the low paid.

Patrick McLoughlin said the threshold for stamp duty on houses should be increased, perhaps only for first-time buyers. He wants PEPs revived, possibly through front-end relief, to help savings. He said that charities were worried about the VAT imposition due to the European Court decision.

Robert Hayward agreed that PEPs should be revived and that there should be a greater differential for unleaded petrol. He said that excise duties should not be increased because of their effect on the RPI.

Spencer Batiste said that any tax reduction should concentrate on removing the poverty trap; that relief should be given to encourage one-off giving to charities; and that the Enterprise Allowance scheme should be made more attractive to discourage people entering the 'Black Economy'.

John Ward said that the duties on both drink and tobacco should go up substantially; that the £30,000 limit for mortgage relief should not be increased; and that measures should be taken to revive PEPs. He hopes it will be possible to take 1p off the standard rate.

David Sumberg said the expectation is that the Budget will be an unexciting one. Any measures need to take into account the Community Charge in a couple of years.

Patrick Ground agreed with the importance of publicising the repayment of debt. He would like a penny off the basic rate and encouragement of savings by simplification of savings schemes, perhaps by upfront relief. The IHT threshold should go up. He said decisions on Child Benefit have now become a mess and perhaps we should revert to having child allowances.

Patrick Thompson supported help for the low paid and the stressing of repayment of the National Debt because politically attractive. He would like additional tax relief for training if that were possible.

Jeremy Hanley would like measures to encourage savings and to help charitable giving by increasing the payroll giving limit. He would like the standard rate to be reduced and the limit for MIR to be

increased to £50,000. The stamp duty on houses limit should be increased to £50,000 and the £8,500 benefit limit should be scrapped. The Government should look at what were genuinely allowable expenses. VED should be increased for those who did not convert their cars to lead-free petrol. Unincorporated businesses should be moved from preceding year to an actual basis.

Andrew Mitchell thought thresholds should be increased and that at least one tax should be abolished in the Budget. The tax on car benefits should be increased, but he did not think there should be an increased differential for lead-free petrol.

Andy Stewart said capital allowances for agricultural buildings should be improved.

David Davis hoped there could be a penny off the basic rate and that hospital broadcasting equipment could be zero-rated.

Kenneth Hind said it should be a cautious Budget with measures to encourage savings such as the improvement of PEPs. As industrial investment was so important, could there be a reduction in CT which would help offset interest rate increases. Any IT reduction should be through thresholds and the threshold for MIR should not be increased beyond £30,000.

Tim Wood also thought that any reduction in personal tax should be through thresholds and by altering NICs at the bottom end. He agreed with targeting benefits, but felt that the changes often operated in a crude way and that the whole tax/benefit mix should be looked at again.

James Arbuthnot praised last year's Budget, but said that IT rates should not be lowered this year. If thresholds were raised it should be NICs thresholds because of the high marginal rates of tax. In the long run NICs should be abolished. The threshold for mortgage interest relief should be frozen or MIR should be abolished. He favoured a "quiet" Budget.

Mark Wolfson agreed that help should be targeted on the low paid and that the mortgage interest relief threshold should be as now. He wanted measures to encourage savings and also measures to encourage the British shipping industry.

Michael Jack did not support the view on NICs as they gave no help to pensioners. National savings should be publicised as a "safe haven" after the stock market fall. 3½ per cent War Loan should be repaid. Measures should be taken to encourage skills training in computers.

David Harris said that if there was tax reduction it should be thresholds not a penny off, which was no longer attractive. He would like a way found to support the Butterfill amendment so that the elderly could unlock their housing asset.

Phillip Oppenheim said the most important thing was the fight against inflation. If there is money available it should be used to reduce the basic rate, and savings should be helped by a lower tax on all investment. He would not support a wider differential for lead-free petrol.

Jc

JUDITH CHAPLIN

Jonathan *JMP*

CHANCELLOR

*Thank u.
I can't recall who
said X, but a
hand thank!*

FROM: MRS JUDITH CHAPLIN
31st January 1989

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Tyrie
Mr Call

CHANCELLOR'S BUDGET SOUNDINGS FOR MINISTERS AND WHIPS: 31 JANUARY

Those present:

Robert Atkins, Peter Bottomley, John Butcher, Sydney Chapman, Christopher Chope, Eric Forth, Alan Haworth, Robert Jackson, John Lee, Richard Luce, Sir Nicholas Lyell, Francis Maude, Wyn Roberts, Tim Renton, Angela Rumbold, John Taylor, Donald Thompson, David Waddington

John Lee suggested that one of the ways to revive PEPs was to link them to privatisation issues.

Robert Jackson said it would be difficult to reduce tax this year. Whilst recognising there were already substantial reliefs for charitable giving, he would like them simplified and extended and given further prominence in the Budget.

Tim Renton said the threshold for mortgage interest relief should not be increased, but he wanted income tax thresholds increased as much as possible to take the low paid out of tax. The earnings rule for pensioners and the severely disabled should be relaxed.

Richard Luce said the highest priority must be reducing inflation, but if there was scope for income tax reduction it should be through increasing thresholds. He accepted that substantial reliefs had already been given for charitable giving, but he would like a relief for one-off giving.

Angela Rumbold said the Government should stick to its policy of reducing tax as much as possible. This encouraged people to work rather than live on benefit. She also supported the relaxation of the pensioners' earnings rule.

Sydney Chapman said that help should be given to the low paid by raising the NICs threshold. He supported tax concessions with charitable giving. He also said the Government should buy rather than rent offices.

John Butcher supported help for the low paid in this Budget.

Peter Bottomley said the Government should spell out more clearly how much people's income is taxed and how much isn't. He wanted more open discussion of the role of benefits and appeared to support child benefit for all, but not MIR. He would like to see further measures to encourage employee share ownership.

Donald Thompson said there should be further tax reduction, either through lower tax rates or lower NICs. Officials should give a clearer indication of the effect of changes - there should not have been a gap between the announcement and the actual removal of double MIR relief.

X David Hunt said that the capital gains tax rate was now too high and was discouraging a sensible rearrangement of investments. War widows and the war disabled should receive further help.

Robert Atkins said the Budget should introduce further support for environmental issues. It should also offer incentives to industry, perhaps through increasing the rates allowed for capital depreciation.

Chris Chope said that attack is the best form of defence and therefore the Chancellor should continue to reduce basic rates of tax.

Nicholas Lyell said that too many people believed the tax reductions last year had caused the high interest rates now. More help should be given to pensioners who had only the basic pension and were the most disadvantaged group.

Francis Maude said if there were a choice between lowering interest rates or reducing tax he would prefer to see tax reduced. This

should be by reducing the basic rate, not increasing thresholds, as it was not desirable to take substantial numbers of people out of tax altogether. He would like the Chancellor to continue with his policy of abolishing a tax a year, and he suggested either IHT or stamp duty.

Jc

JUDITH CHAPLIN

→ Tony
CONFIDENTIAL

FROM: A G TYRIE
DATE: 2 February 1989
cc: Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mrs Chaplin
Mr Call

CHANCELLOR**THE CHANCELLOR'S PRE-BUDGET SOUNDINGS: 1ST FEBRUARY 1989**

Present: Rt Hon Timothy Raison MP
Sir David Price MP
Sir Michael Shaw MP
Sir Fergus Montgomery MP
Sir George Young MP
Sir Giles Shaw MP
Sir Julian Ridsdale MP
Sir James Spicer MP

The Rt Hon Timothy Raison wanted to see a rise in thresholds which he felt would ease concerns over the freezing of child benefit. He suggested more than revalorising excise duties to compensate, if necessary. Mr Raison wanted every effort to be made to soften the impact of the EC court judgement on VAT for charities. Mr Raison thought that provision of tax relief for health insurance was a bad idea.

Sir David Price counselled caution, particularly on any reduction in interest rates. The private sector deficit on the current account was not of an economic concern; it was important to persuade market makers of that. In the light of '1992' Sir David wondered whether we might need to look again at our treatment of capital allowances.

Sir Michael Shaw wanted to see a rise in thresholds. He did not think that the CGT reform last year was a great simplification and that the 40% marginal rate was now locking people in. He wanted to see lead free petrol spread as quickly as possible.

Sir Fergus Montgomery wanted to see something done for the poorly paid, possibly a rise in thresholds.

Sir George Young thought that any reductions in income tax should be done through the basic rate, not thresholds, which would have much more political impact. He thought that the climate had changed on excise duty and that there was now scope for a substantial hike. Although not a budgetary matter Sir George asked for a rigorous examination of the Ryrie rules, which were inhibiting the redress of bottlenecks in the infrastructure.

Sir Giles Shaw wanted to see a rise in thresholds. He queried the rationale for relief for pensioners' medical insurance. He asked the Chancellor to look at the problem of dematerialisation and also the problems for charities caused by the EC judgement on VAT. He thought that next year the Chancellor should remind everyone of the benefits of independent taxation once more.

Sir Julian Ridsdale wanted to see a boost for the engineering industry, possibly with the reintroduction of 100% capital allowances. He thought that the indexation of CGT was very complex.

Sir James Spicer wanted to see a rise in thresholds. He thought that the anomalies in service pensions should be redressed. Sir James wanted to see a reduction in corporation tax to encourage more equity finance and retentions. He asked the Chancellor to look at the CGT treatment of land for Housing Associations. He thought more help should be given to forestry.


A G TYRIE

CONFIDENTIAL

FROM: A G TYRIE

DATE: 9 February 1989

cc: Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mrs Chaplin
Mr Call

CHANCELLOR

CHANCELLOR'S PRE-BUDGET SOUNDINGS: 8 FEBRUARY 1989

Present: Sir Dudley Smith MP
Rt Hon Julian Amery MP
Sir John Stradling Thomas MP
Sir Dennis Walters MP
Sir John Stanley MP
Sir Peter Emery MP
Sir Gerard Vaughan MP

The Rt Hon Julian Amery thought that interest rates would need to be kept high and that pressure should be kept up on inflation. There should be no reduction in the income tax rate though perhaps, £3 to £5 billion could be given away on thresholds and loose ends such as War widows etc. Mr Amery thought the budget should emphasise people's right to keep their own money as a response to Labour's change in emphasis from the language of compassion/caring to the language of rights.

Sir Dudley Smith thought there was merit in further tax reductions. The earnings rule should be abolished. We should "go easy" on the excise. The fight against inflation, of course, remained paramount.

Sir Gerard Vaughan wanted to see thresholds raised and a penny off the income tax, the abolition of the earnings rule and some gesture towards savings, within the context of a budget that was clearly anti-inflationary.

Sir Dennis Walters wanted to see the earnings rule abolished and a gesture for pensioners below the age of 75, possibly with a spending measure. He noted that, although the battle against inflation was important, mortgage rates were biting.

Sir Peter Emery thought the fight should be kept up against inflation and that a virtue should be made of further repayment of the national debt. The living standards of pensioners should be raised across the board, probably with a rise in the basic pension. Rising house prices were now putting more and more people into IHT which would need redress. The differential for lead free petrol should be widened. Taxation on company cars should not be increased, the owners were our people. A penny off the basic rate should be considered.

Sir John Stradling Thomas suggested that the possibility of abolishing direct taxation and its replacement by an expenditure tax might be looked at again.

Ref.
A G TYRIE

LIST OF QUESTIONS

The list is in six sections.

- I General Questions
- II Savings (General)
- III Other Budget tax measures. (Covers everything which will be in Table 1.1 and Chapter 4 of the FSBR - but not the more detailed material in the Annex to Chapter 4; nor non-tax measures such as Keith and taxpayer confidentiality).
- IV Life Assurance
- V Pensions
- VI Why didn't you? - Items not in the Budget.

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CHANCELLOR

FROM: ROBERT CULPIN
DATE: 16 February 1989

cc: Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Anson
Dame Anne Mueller
Mr Wicks
Mr Hardcastle
Mr Byatt
Mr Scholar
Mr Riley
Mr Sedgwick
Mr A C S Allan
Mr Gieve
Mr Gilhooly
Mr Matthews
Mr Pickford
Mr Macpherson
Miss Simpson
Miss Wallace
Mrs Chaplin
Mr Tyrie
Mr Call

SECRET

Sir Anthony Battishill)
Mr Beighton) IR
Mr Isaac)
Mr Painter)
Mr Unwin) C&E
Mr Jefferson Smith)

B.L.C.

BUDGET PRESENTATION

It might be helpful to have a first look at presentation at Monday's Overview.

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2. Much will depend on how big a debt repayment we show for this year and next; and on whether you reform national insurance contributions, or pursue other possibilities. But this first note is limited to the Scorecard package as it stands. It does not rehearse the familiar bull points on the economy, though you will certainly want to take the opportunity to drive them home; nor does it go into defensive points on taxation - there will be time for that when we have got a framework for the positive ones.

3. The strongest points on the tax side are probably:

- further reform
- further encouragement to share ownership
- further repayment of national debt.

As this implies, it will be a year to stress the continuity of policy. The Government's tenth anniversary will be coming up. You will be able to set the Budget in the context of a decade of tax reduction and tax reform, and a decade of prudence and caution.

4. In particular, it would be appropriate to remind people that some of the reforms in your last Budget have yet to work their way through. Independent taxation comes into force next year.

5. As always, we shall want to draw out a number of themes to help group particular measures. I attach a short list of illustrative suggestions. It is meant only as a start. You might like to run through it at the Overview. Suggestions for improvements could help considerably with briefing.

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6. Subject to what happens on national insurance, what will matter for most people is what happens to income tax and excise duties. That is bound to affect pretty well everyone who pays tax. The simple story will be that there is nothing on beer or cigarettes, etc, but we are spending £1½ billion on raising the starting point for income tax.

7. It is less obvious, at the moment, what is the short slogan for the 6 o'clock News. It may not be quite as snappy as "hat trick" in 1987 or "radical reform/balanced Budget" in 1988.

8. In very broad terms, the main risks at the moment seem likely to be:

- nothing in the Budget/run out of steam
- lost courage of convictions/shows don't believe defence of last Budget
- measures intrinsically hard to grasp: is the pensions stuff, for example, a mouse which hurts no-one or a radical reform which will change the habits of the nation?

9. The immediate priority is to work up the presentation of many of the specific measures on their own merits. The encouragement to use unleaded petrol is an obvious example; the reform of pensions is another - which seems likely to come as a complete surprise; and life assurance, as we have discovered, is sui generis. The problem here is to explain the measures clearly and persuasively. For the time being, work on this is focused on the speech.

10. Work is also in hand on press notices and briefs. Press notices are on the Overview agenda on 27 February.

11. There will again be a Budget in Brief (aka EPR).

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*Limit on
policy
how much
top rate
assess*

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12. We need to bear in mind that we shall get the results of the annual share ownership survey on 24 February. That will clearly be relevant to the presentation of the tax measures to promote wider share ownership.

13. When we have got a bit further with positive points for the speech and briefs, and with packages like those in the attached list, we can turn to defensive material. If you think it would be helpful, FP will circulate the usual list of awkward questions next week.

SECRET



ROBERT CULPIN

*with
figures
attached
(for new
options)*

B.L.O.

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BUDGET THEMES

Tax reform

(a) Abolition

Stamp duty on shares

(b) Simplification/deregulation

VAT - bad debt relief, easier registration, etc

SB

VED - over 70 rates abolished

PEPs

Pensions

Close companies

COBO

Abolition of transactions tax (stamp duty)

WSO

Receipts basis for Schedule E

Unincorporated businesses' set-off of trading losses against CGT

SB

Sub-contractors tax scheme

SB

[When was in Mr. [unclear], [unclear]]

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(c) Base-broadening

Not a separate list

Life assurance - lower rates on broader base

Pensions (b)(2) [cf 1987 limits on lump sum] [abolish?]

Abolition of CGT gifts deferral (2)

Cars (2)

Freezing CGT exemption ~ in the light of Govt

Relocation expenses ~ don't mention

(d) Reforms made possible by, or following, 1988 Budget

Pensions

Close companies

Abolition of CGT gifts deferral

Cars

Share ownership

PEPs

Stamp duty

Employee share schemes

ESOPs

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Other savings *business*

Pensions

Unit Trusts

Life Assurance

Independent taxation

Small business

Corporation tax: small companies' limits

VAT: bad debt relief, easier registration, etc

Revaluation of VAT threshold

Relief for pre-trading expenditure

Unincorporated businesses' CGT

Sub-contractor tax scheme

Charities

Payroll giving

VAT lollipops

Protection from ECJ judgement

Exempt from abolition of CGT gifts deferral

Solution to national trust problem

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Pensioners

Earnings rule

Age allowances: withdrawal rate, over 75s

Health insurance

[Freeze on excise duties]

Participation

Profit related pay

Employee share schemes

Personal pensions

Shift from institutional to more direct forms of savings

Prudence and caution

Some reductions needed just to offset drag

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MP
COPY NO: 20 OF 24 COPIESFROM: C J RILEY
DATE: 16 February 1989

CHANCELLOR

cc Chief Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Culpin
Mr Sedgwick
Mrs Lomax
Mr S Davies
Mr Gieve
Mr Mowl
Miss Simpson
Mr Patterson
Mrs Todd
Mr Hibberd
Mrs Wright
Mr Savage
~~Miss Wallace~~
Mrs Chaplin
Mr Tyrie**THE PSDR PATH IN THE MTFS**

Peter Sedgwick sent you yesterday a submission on the PSDR in 1988-89 and 1989-90. This note is about the path in the medium term. It sets out very briefly some alternatives; we aim to get a fuller submission on the medium term fiscal projections to you next week.

2. Three possible options are presented in the attached table, taking off from the 1988-89 figure in the Sedgwick note and assuming for the moment that you will want to show the PSDR excluding privatisation proceeds unchanged in 1989-90. They are:

Option 1

The PSBR comes back to 1% of GDP (£6 billion) by 1992-93, a reduction of £6½ billion on the figure shown for 1989-90. The reduction would, of course, be bigger if you went for a more central figure in 1989-90.

Option 2

The PSDR excluding privatisation proceeds comes back to zero by 1992-93. This is very similar to option 1; the PSDR including privatisation proceeds comes down to £5 billion ($\frac{1}{4}\%$ of GDP).

Option 3

A balanced budget - i.e. a zero PSDR - by 1992-93. This involves a reduction in the PSDR of £12½ billion (or more) over the medium term.

3. If you want to avoid signalling that a large pot of money is available for public expenditure increases, there is much to be said for options 1 and 2. The stories in the two cases would have to be slightly different, however.

Option 1

- The norm in the longer term is a balanced budget - i.e. a zero PSDR;
- the large PSDR we are running at present reflects very favourable cyclical influences, which will tend to unwind as the economy reverts to a more sustainable path. Given the degree of uncertainty it is sensible to err on the side of caution and only move gradually towards a balanced budget;
- it is also sensible to take account of the current high level of privatisation proceeds. They are not available for spending and are better used to repay debt;
- given the continuing strength of domestic demand, and with the private sector in deficit, a prudent fiscal stance will help to retain the confidence of markets.

Option 2

- The norm in the longer term is a balanced budget - i.e. a zero PSDR;
- it would be wrong to bring the PSDR right back to zero while privatisation proceeds remain substantial. They are not available for spending, and should be used to repay debt;
- as privatisation proceeds decline relative to GDP, it will be right to come back to budget balance. In the meantime we should aim for a balanced budget excluding privatisation proceeds;
- the large PSDR we are running at present reflects very favourable cyclical influences, which tend to unwind as the economy reverts to a more sustainable path. Given a degree of uncertainty it is sensible to aim on the side of caution and only move gradually towards a balanced budget;
- given the continuing strength of domestic demand and with the private sector in deficit, a prudent fiscal stance will help to retain the confidence of markets.

4. In both cases we would have to explain why the medium term objective has changed since last year. With option 1 we can argue that the Government has always adopted a gradualist approach to fiscal policy, and caution also suggests not returning zero too quickly.

5. If option 2 were adopted we would say that we have decided to take account of privatisation proceeds explicitly in assessing the speed with which we approach the balanced budget. The gradualism and caution arguments would also be relevant. In response to the charge that we had not properly allowed for asset sales, because we have ignored sales of land, council houses etc, we would presumably have to argue that these have somewhat different economic effects.

6. Option 3 would of course be easier to justify in relation to the norm of a balanced budget. The story might go as follows:

- The longer term norm is a balanced budget, and the path in the PSBR is consistent with this;
- the path is entirely stylised, and as usual the PSDR to be set in future Budgets will be reviewed in the light of circumstances at the time;
- the large PSDR we are running at the present reflects very favourable cyclical influences which will unwind as the economy reverts to a more sustainable path. Given the degree of uncertainty it is sensible to err on the side of caution and only move gradually towards a balanced budget;
- given the continuing strength of domestic demand and with the private sector in deficit, a prudent fiscal stance will help to retain the confidence of markets.
- thus the stylised path very definitely does not imply a large pot of money available for public expenditure.

7. The force of the cyclical argument will obviously depend on the path of GDP which we publish. If we show growth rates of 2% per annum in the next two years, followed by 2½% thereafter, this would imply a cumulative shortfall of about 1½% relative to trend. Even with a fairly high cyclical response, it is unlikely that this would reduce the PSDR by more than £5 billion - i.e. less than half of the 1989-90 level.

8. With option 3 we might face the charge that we had not been sufficiently cautious, given high asset sales and the private sector's deficit. On the former, we would argue that even if the contribution of all asset sales were discounted, the ratio of debt to GDP would still be falling. On the latter, we would say we think it unlikely that the private sector will remain in deficit throughout the medium term; saving is likely to recover and the growth of investment diminish.

9. You may like to consider the medium term path at your meeting on the PSDR now scheduled for Monday afternoon.

A handwritten signature in black ink, appearing to be 'C J RILEY', written in a cursive style.

C J RILEY

OPTIONS FOR THE PSDR PATH IN THE MTFS

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>
<u>Option 1</u>					
PSDR - £ billion	14	12½	9½	7	6
- % of GDP	3	2½	1¾	1¾	1
PSDR excluding privatisation					
- £ billion	7	7½	4½	2	1
- % of GDP	1½	1½	¾	¾	¾
<u>Option 2</u>					
PSDR - £ billion	14	12½	9½	7	5
- % of GDP	3	2½	1¾	1¾	¾
PSDR excluding privatisation					
- £ billion	7	7½	4½	2	0
- % of GDP	1½	1½	¾	¾	0
<u>Option 3</u>					
PSDR - £ billion	14	12½	9½	4	0
- % of GDP	3	2½	1¾	¾	0
PSDR excluding privatisation					
- £ billion	7	7½	4½	-1	-5
- % of GDP	1½	1½	¾	- ¾	- ¾

Alex.
I don't fully understand Ch/Ex
comment! Can you amplify?

COPY NO 1 OF 26

FROM: S W MATTHEWS
DATE: 28 February 1989

2/3

CHANCELLOR

Handwritten notes in red ink:
[For WS
IR notes 9/10]
[Just before 28/2]

Large handwritten note in red ink:
This seems to be the conclusion of the IR talk, particularly as Mr Mackie's speech is in the IR notes. You may like to discuss at your presentation meeting. I'll show you a note on 28/2.

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Byatt
- Mr Scholar
- Mr Culpin
- Mr Riley
- Mr Gieve
- Mr Gilhooly
- Mr Pickford
- Miss Simpson
- Mr A Wilson
- Mr Ford
- Mrs Chaplin
- Mr Tyrie
- Mr Call

- PS/IR
- Mr Calder - IR
- Mr Eason - IR
- Mr Mace - IR

BUDGET PRESENTATION : EFFECTS ON LIVING STANDARDS

We would welcome your guidance on a presentational point arising from the fact that the changes in employee NICs will not be implemented until October 1989.

2. In Budget Day press releases, replies to PQs and other briefing we will be presenting figures showing, for various family types and income levels, the reduction in income tax and NICs due to the Budget, changes in average rates of income tax and NICs, changes in income after tax and NICs, changes in real take home pay and so on. This raises the question of whether we should use average figures for 1989-90, or figures for the second half of the year, after the reductions in employee NICs have been implemented.

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3. The answer may depend on the circumstances. Thus, where we are seeking to show the objectives of the Budget per se, we would use figures based on the post-October regime - in effect, treating the delay in implementing the NIC package as an unavoidable transitional problem, which does not matter in the longer term. In other circumstances, we will be interested not so much in presenting the (longer term) effects of the Budget, as in describing the position in 1989-90. In these cases we would take the average of the pre- and post-October NIC regimes.

4. The choice of presentation will also depend on how much emphasis you want to put on the reduction in the burden of taxes and NICs and the gain in real take home pay as a result of the Budget. Focusing on the figures for the second half of the year after the NIC changes have been implemented would best achieve this, since it will show bigger gains from the Budget, lower tax burdens and larger increases in real take-home pay. If, on the other hand, you want to play down suggestions of a "give-away" Budget, you may prefer to focus on the average figures for 1989-90 as a whole. As the attached table indicates, there would still be a fall in the burden of income tax and NICs, at all income levels and for all the usual family types, between 1988-89 and the average for 1989-90.

5. There are no clear-cut precedents from previous occasions when NICs were changed in the middle of a financial year. In the case of the NIC changes in the 1985 Budget the problem did not arise so acutely, since they only affected people with less than half of average earnings - the lowest multiple which we usually quote. In the forthcoming Budget, by contrast, all people with earnings above the LEL will benefit from the reduction in NICs.

6. In the Inland Revenue's 1985 Budget press notices, figures for the effects of the Budget on payments of tax and NICs and on the percentage of income taken in taxes and NICs were worked out on the basis of the regime in the second half of 1985-86, after the NIC changes had been implemented. On the other hand, replies to PQs about the burden of tax and NICs or about living standards have generally taken the average rate of income tax, NICs, child benefit

BUDGET SECRET

over the financial year as a whole, whenever there have been changes within the year.

7. The Inland Revenue are proposing (as in 1985) to use figures for the post-October regime in their press release on "Income Tax" (see Mr Mace's submission of 24 February on NICs Reform). This is fine for the (static) estimates in tables 6 and 7 of the reduction in income tax and NICs in £ per week and as a percentage of income at given fixed levels of income (£50 pw, £60 pw etc).

8. There is a complication, though, in the (dynamic) comparisons in tables 9 and 10, which compare the percentages of income taken in tax and NICs in 1988-89 and post-October 1989, on the assumption of 7½ per cent earnings growth between 1988-89 and 1989-90. Some inconsistency arises from the fact that earnings growth will be higher than 7½ per cent between 1988-89 and the second half of 1989-90. In the interests of clear and straightforward tables this complication is perhaps best ignored. If, however, we were to use the post-October basis for presenting all the material on tax burdens and living standards, we could hardly ignore this problem and would have to devise new assumptions for the growth of average earnings and retail prices between 1988-89 and the second half of 1989-90.

9. Our recommendation would be to use post-October 1989 figures where the objective is specifically to set out what the Budget is intended to achieve, as in the Inland Revenue's press release and in the Budget Statement. In other briefing, where the objective is to give an historical perspective on the growth of real take home pay or living standards, changes in the burden of tax and NICs over time and so on, we would instead use average figures for 1989-90. In the attached table, for instance, we would thus use the second set of numbers, ie the financial year average for 1989-90.

SM.

S W MATTHEWS

C COMBINED EFFECTS OF INCOME TAX AND NICS

Factual

Table 4 Percentage of earnings paid in income tax and NICs

Multiples of average male earnings ⁽¹⁾									
	$\frac{1}{2}$	$\frac{3}{4}$	1	$1\frac{1}{2}$	2	3	4	5	
<u>Single</u>									
1978-79	23.6	28.9	31.5	33.3	33.7	39.8	46.5	52.2	
1988-89	24.1	27.4	29.1	28.9	30.5	33.7	35.3	36.2	
1989-90 *	$\frac{22.0}{23.1}$	$\frac{26.0}{26.8}$	$\frac{28.0}{28.5}$	$\frac{28.2}{28.5}$	$\frac{29.9}{30.2}$	$\frac{33.3}{33.5}$	$\frac{35.0}{35.2}$	$\frac{36.0}{36.1}$	
<u>Married with one earner and no children</u>									
1978-79	16.0	23.8	27.8	30.8	31.4	37.5	44.5	50.5	
1988-89	18.5	23.7	26.3	27.0	28.2	32.2	34.1	35.3	
1989-90 *	$\frac{16.4}{17.5}$	$\frac{22.2}{23.0}$	$\frac{25.2}{25.7}$	$\frac{26.3}{26.6}$	$\frac{27.7}{28.0}$	$\frac{31.8}{32.0}$	$\frac{33.8}{34.0}$	$\frac{35.1}{35.2}$	
<u>Married with one earner and one child(2)</u>									
1978-79	9.1	19.2	24.3	28.5	29.6	36.1	43.5	49.6	
1988-89	12.8	19.9	23.4	25.1	26.8	31.2	33.4	34.7	
1989-90 *	$\frac{11.1}{12.2}$	$\frac{18.7}{19.5}$	$\frac{22.5}{23.0}$	$\frac{24.5}{24.8}$	$\frac{26.3}{26.6}$	$\frac{30.9}{31.1}$	$\frac{33.2}{33.4}$	$\frac{34.6}{34.7}$	
<u>Married with one earner and 2 children(2)</u>									
1978-79	2.5	14.6	20.9	26.2	27.89	34.8	42.4	48.8	
1988-89	7.1	16.1	20.5	23.2	25.4	30.3	32.7	34.2	
1989-90 *	$\frac{5.8}{6.9}$	$\frac{15.2}{16.0}$	$\frac{19.9}{20.4}$	$\frac{22.8}{23.1}$	$\frac{25.0}{25.3}$	$\frac{30.0}{30.2}$	$\frac{32.5}{32.7}$	$\frac{34.0}{34.1}$	

(1) Full time adult males (all occupations). (£273.20 a week in 1989-90 with $7\frac{1}{2}$ per cent earnings growth.)

(2) Under 11 and netting off child benefit. (See Table 2 footnote 2.)

*

In each case the first figure gives the percentage of earnings paid in income tax and NICs after the implementation of the October 1989 changes. The second figure gives the financial year average.



PPS

Mr. Grieve - IBT
 Miss Simpson - EB
 Mr. Denison - GEP2
 Mr. Flannagan - FP

Treasury Chambers, Parliament Street, SW1P 3AG
 01-270 4520

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

1st March 1989

Dear Roy,

BUDGET PUBLICATIONS : TUESDAY 14 MARCH 1989

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

2. The following documents will be published on Budget Day Tuesday 14 March 1989. Copies will be deposited with you at the Vote Office (marked with the appropriate embargo) during the course of the day and I should be grateful if you would release them when (but not before) the Chancellor sits down at the conclusion of his Budget Statement.

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

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

Yours,
Bryan

B O DYER
 Parliamentary Clerk

⇒ Mike
 planning round
 conf
 Mike
 27/2



⇒ Mike ⇒ Jonathan
 Pse confirm.
 27

CHANCELLOR OF THE EXCHEQUER'S OFFICE: MEETING

SUBJECT	BUDGET PRESENTATION Provisional to be confirmed later today / or tomorrow.
DATE	WEDNESDAY 1 MARCH
TIME	2.30 - 4.00 PM
VENUE	Chancellor's Room, Treasury/No. 11/Conference Room/House of Commons
PAPERS	AS FOR OVERVIEW 27/2
THOSE ATTENDING	<div style="display: flex; justify-content: space-between;"> <ul style="list-style-type: none"> ✓ CST ✓ ✓ IEST ✓ ✓ PMG ✓ ✓ EST ✓ ✓ SIR P MIDDLETON ✓ ✓ SIR T BURRY ✓ ✓ MR SCHOLAR ✓ ✓ MR CULPIN ✓ ✓ MR GIEVE ✓ ✓ MR PICKFORD ✓ ✓ MR RILEY ✓ ✓ MISS SIMPSON ✓ ✓ MRS CHAPLIN ✓ ✓ MR TYRRE ✓ MR CALL ✓ <div style="border: 1px solid black; background-color: yellow; padding: 2px;">CC MR ACS ALLAN</div> </div>

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REF NO.
COPY NO.

19. OF 19.

**NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM
HM TREASURY AT 2.30 PM ON WEDNESDAY, 1 MARCH 1989**

Present:

- Chancellor
- Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Scholar
- Mr Culpin
- Mr Riley
- Mr Gieve
- Mr Pickford
- Miss Simpson
- Mrs Chaplin
- Mr Tyrie

BUDGET PRESENTATION

Papers: Mr Culpin's notes of 16 and 24 February; draft Press Notices.

The Chancellor invited the meeting to consider the points on presentation set out in Mr Culpin's note of 24 February. The NIC cut of £3 a week should be emphasised. He would, however, prefer not to stress the fact that excise duties were not being increased. The first was an aspect of the long-term policies of the Government; the second largely conjunctural. The Budget's contribution to continuing tax reform should be stressed, with (in this order) the changes to NICs at the lower end, to pensions, and to life assurance. Some emphasis could also be given to the contribution to wider share ownership, through the reform of stamp duty and through other minor measures; and to the continuing contribution to debt repayment. The maintenance of the tax burden

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should be presented as demonstrating the need for prudence and caution.

2. The Chancellor said that there was a particular difficulty in explaining why the changes to stamp duty would take effect only on 1 April 1990. (The delayed effect of the NIC changes could be readily justified by reference to 1 October as the earliest practicable date for such changes). There was some discussion of this point. It was agreed that the principal factor, for presentational purposes, was the TAURUS timetable, combined with the need to take full account of any proposed changes before the new systems were put in place.

3. There was considerable discussion of the appropriate pattern for the PSDR and the tax burden, over the two years, in the context of the medium-term policy objectives of a balanced budget and a reduced tax burden. Amongst the main points made were:

- (i) the PSDR figure for 1989-90 might seem disappointing, since outside forecasts were generally for a much higher surplus;
- (ii) the likelihood was that there would be very little, if any, fiscal adjustment in 1990-91, even with a PSDR reduced to £8 billion;

4. There was some discussion about whether any Budget measures should be dropped. It was noted that the proposed NICs changes could be presented by hostile commentators as casting doubt on the 20p objective for income tax. A reduction in the second year cost of the package of at least £1 billion might be necessary to overcome this. On the other hand, it would always be open to the Government to eg increase indirect taxes next year to provide room for further reductions in income tax. If the NICs proposals were dropped, the package would lose coherence. It was agreed to keep

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the package as at present. Nothing would be said in the Speech about the 20p target for the basic rate of income tax; the objective could be reaffirmed in appropriate terms in the Budget debates or elsewhere.

5. The Chancellor invited comments on the presentation of the specific measures. There were two particular areas of difficulty: pensions, and life assurance.

6. On pensions, the Chief Secretary suggested that the changes should be presented as a secondary part of the reform package, with the NICs changes as the major reform. Key points should be: the changes continued the strategy of widening choice and encouraging personal provision for retirement; they were deregulatory; the limits applied to tax relief, not to pensions themselves - which could be of any size; the tax distortion would be removed, thus levelling the playing field; the self-employed would be helped; and there would be no further changes this Parliament. After some discussion, this presentation was generally agreed. It was agreed, however, that rather than say there would be "no further changes", we should say at most that there would be no further major changes. It was also agreed that the "level playing field" point should not be emphasised; we should instead say that relief was being limited because the tax treatment of pensions was so generous that it was right in itself to limit it through the cap. We should not point up the eventual impact of the reform, though it should be made clear that revalorisation would be in line with prices, not earnings. Something might also be made of the contribution which the reforms would make to job mobility, once the transitional period was completed.

7. On life assurance, it was agreed that the Budget Speech should make clear that the bulk of the package would be

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implemented this year. The remaining changes, which required further consultation, were essentially technical.

8. The Chancellor, summing up the discussion, invited Mr Culpin to provide some suggested answers to the questions annexed to his paper of 24 February. Comments on the Press Notices should be circulated in writing.

A handwritten signature in black ink, appearing to be 'J M G TAYLOR'.

J M G TAYLOR
Private Secretary

2 March 1989

Distribution

Those present
Mr Call

B.L.O.

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²⁹
COPY NO OF 27

FROM: J M G TAYLOR
DATE: 2 March 1989

*May see PPS
PL
MP*

MR MATTHEWS

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Byatt
- Mr Scholar
- Mr Culpin
- Mr Riley
- Mr Gieve
- Mr Gilhooly
- Mr Pickford
- Miss Simpson
- Mr A Wilson
- Mr Ford
- Mrs Chaplin
- Mr Tyrie
- Mr Call

- PS/IR
- Mr Calder IR
- Mr Eason IR
- Mr Mace IR

BUDGET PRESENTATION: EFFECTS ON LIVING STANDARDS

The Chancellor was grateful for your note of 28 February.

2. He agrees with your conclusion, ie

- (i) to use post October 1989 figures where the objective is specifically to set out what the Budget is intended to achieve;
- (ii) use average figures for 1989/90 where the objective is to give an historic perspective on the growth of real take-home pay or living standards, changes in the burden of tax and NICs over time, and so on.

J M G TAYLOR



COPY NO

OF

27

FROM: J M G TAYLOR

DATE: 2 March 1989

MR MATTHEWS

A large, stylized handwritten signature in black ink, possibly reading 'PMP'.

cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Byatt
 Mr Scholar
 Mr Culpin
 Mr Riley
 Mr Gieve
 Mr Gilhooly
 Mr Pickford
 Miss Simpson
 Mr A Wilson
 Mr Ford
 Mrs Chaplin
 Mr Tyrie
 Mr Call

PS/IR
 Mr Calder IR
 Mr Eason IR
 Mr Mace IR

BUDGET PRESENTATION: EFFECTS ON LIVING STANDARDS

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A handwritten signature in black ink, appearing to be 'JMG'.

J M G TAYLOR



Inland Revenue

BUDGET CONFIDENTIAL

Compliance and
Collection Division
Somerset House

Ch
This is a third Budget day
publication (XR gains & losses & interest
rate swaps or be the 2). I have asked
FST to
minute you formally

FROM: C D SULLIVAN
DATE: 2 MARCH 1989

These are detailed machinery proposals and the
document is now down to the minimum needed for
meaningful consultation with the industry.
JDK 2/3

1. MR ROBERTS
2. FINANCIAL SECRETARY

STARTER 451: SUBCONTRACTOR SCHEME: BUDGET PRESENTATION

1. At our meeting yesterday you asked us to review the Budget Day consultative document on subcontractors. I attach a rather shorter version, with less detail of the technical consequences of the voucher aggregation proposals. Particularly since we are likely to get comments just from representative bodies, we do feel it is important that the document gives an adequate account of what the various options would mean in practice.
2. I also attach a revision of the Budget Day Press Release. As with the consultative document, this drops the written mention of the summer phase of consultation. You were intending a brief mention of this in your Speech in the Budget Debates. We shall send you a suggested passage shortly.

- cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Culpin
Mr Gilhooly
Miss Hay
Mr Gieve
Mrs Chaplin
Mr Tyrie
Mr Call

- Mr Beighton
Mr Roberts
Mr Muir
Miss James
Mr Dunbar
Ms McFarlane
PS/IR
Mr Sullivan

BUDGET CONFIDENTIAL

3. We would be grateful to know if you are content for us to issue these revised documents on Budget Day.

C. D. Sullivan

C D SULLIVAN

DRAFT CONSULTATIVE DOCUMENT

SUBCONTRACTOR SCHEME : REDUCING PAPERWORK

1. The present deduction and exemption scheme for subcontractors in the construction industry was introduced in 1971 and substantially revised in 1975. Since that last major revision there has been a continuing shift from employment to self-employment in the industry. The number of certificated individual subcontractors has trebled. As a result the work involved in operating the scheme, both for the industry and the Inland Revenue, has grown very considerably.
2. Against this background, and in line with its commitment to deregulation generally, the Government set up last year an efficiency scrutiny to examine the scheme. They have authorised the Revenue to consult the industry on the proposals that follow in this paper. Subject to the results of this consultation, these matters could be covered in regulations made later this year and coming into effect on 1 April 1990.
3. The thrust of these proposals is to reduce the amount of paperwork the subcontractor scheme generates, while safeguarding and in some areas improving its effectiveness in deterring tax fraud. There is a balance between these objectives which it is essential to maintain.
4. Comments will be welcomed on the costs of complying with these proposals (summarised in the last paragraph) compared with the present system: and on whether there is room for any further reduction in these costs without opening up scope for abuse.

5. Comments should be sent to:

Inland Revenue
Room 17 New Wing
Somerset House
London
WC2R 1LB

to arrive by 31 May 1989.

Outline of present scheme

6. In general, contractors must make a deduction, currently at 25%, from payments to uncertificated subcontractors. This deduction is set against the subcontractor's tax liability under the normal Schedule D or Corporation Tax rules. However, subcontractors who are running a construction business and can demonstrate a good tax record may be issued with a certificate exempting them from deduction. Individuals, partners and small firms with exemption certificates are issued with books of vouchers. When a contractor makes a payment to a subcontractor, he should ensure that the payee correctly holds a valid exemption certificate. He should also make every effort to obtain a voucher. The voucher is pre-printed with the subcontractor's name and the voucher number. The subcontractor should fill in his certificate number, his business address, the name of the contractor and the gross payment; and date and sign the voucher before handing it to the contractor. The contractor should then, every week, forward all vouchers he has collected to the Inland Revenue's Liverpool Computer Centre for data processing.

Reduced voucher requirements for smaller payments

7. There are now well over 6 million vouchers prepared by subcontractors and sent to the Inland Revenue each year. This places a substantial processing burden on both the industry and the Department. The Government's aim is to reduce this burden so far as can reasonably be done.

8. However, vouchers are important in policing the scheme against fraud. So the proposals in this paper seek to reduce the submission of vouchers for small amounts, while giving better coverage where larger amounts are involved.

9. In 1987/88, almost 90% of vouchers submitted were for amounts of less than £2,000. In many cases, certificated subcontractors work mainly for one or two contractors and get frequent, sometimes weekly, payments. In such cases small payments could be aggregated onto one voucher with little loss of security, provided that a voucher was signed for the first
822.

payment under each contract and that another voucher was signed for any residual amounts at the end of the contract. For proposals effective from April 1990, a £2,500 trigger for a voucher might be appropriate. Thus, if there were an initial payment of £1000, a series of small payments totalling £2400, and a further (but not final) payment of £200, vouchers would be required when the £1000 and £200 were paid. This second voucher might show the £2600 total rather than leave part or all of the £200 over to the next aggregate voucher.

10. This proposal should substantially reduce the number of vouchers submitted. The extent of the reduction would depend on the proportion of small payments made under continuing contracts, rather than successive short-term contracts. It would also depend on both contractor and subcontractor understanding when they could properly defer vouchers.

Improving contractors' ability to obtain the vouchers that are still necessary

11. Some contractors use considerable resources attempting to obtain the vouchers required by the subcontractor scheme. Arguably, the legislation should provide more help to them in obtaining vouchers. The Government therefore propose to require a subcontractor to deliver, by the time of payment, any voucher which is still required under paragraph 9 above. If no voucher is delivered, the contractor should make a deduction from the payment.

12. Requiring vouchers at the time of payment could mean a meeting between representatives of parties to the contract. If there were substantial difficulties in such a requirement, other steps would be needed to cover the interaction with the aggregation proposal in paragraph 9 above.

13. One approach would be a voucher delivered to the contractor after the first small payment in the aggregation; retrieved for endorsement by the subcontractor on each subsequent small payment; and submitted to the Inland Revenue once the £2,500 trigger was reached. Another approach might be for the

822.

subcontractor to offer a voucher just before the payment taking the aggregate over £2,500 was due. Such a voucher would show the amount of the earlier payments and also the amount of the coming payment. A voucher of this sort would be a new departure. It would require the subcontractor to be confident of the amount he would receive. But it would allow a voucher and payment to be exchanged by post rather than by hand.

14. There would need to be machinery to encourage subcontractors to render vouchers aggregating small payments. This might involve the contractor making a higher than normal deduction from the first payment where no aggregate voucher was forthcoming, and from subsequent payments, until all the sums due in respect of the continuing payments and the past payments had been recouped.

Monthly submission of vouchers

15. Early submission of vouchers is part of the Revenue's monitoring system. However, if the industry found it more convenient, it would be acceptable to modify the present system so that vouchers were submitted on a monthly cycle rather than each week.

£10,000 limit for a voucher

16. Misuse of subcontractor documents can lead to false entries of large amounts on the vouchers. The amount of tax at stake for each voucher book and the temptations of document misuse, could be reduced if the payment that could be franked by each voucher was limited to, say, £10,000. Those who did receive payments of more than £10,000 would have to provide a voucher for each £10,000 or part thereof: or there would be a deduction from the excess. Most subcontractors receiving single payments larger than £10,000 are companies holding 714C certificates. Only 1.7% of vouchers submitted in 1987/88 were for more than £10,000. So it may be that this proposed tightening up would not cause unacceptable inconvenience.

Initial notification of payments to subcontractors with 714C certificates

17. 714C certificates are potentially more vulnerable to misuse, since no vouchers are necessary and the certificates incorporate no photographs. Notification to the Revenue of the initial payment on all contracts awarded to 714C holders could be a way to give the Revenue the information it needs quickly to detect fraud involving 714C companies without placing an undue burden on contractors, or coming close to the introduction of vouchers for 714C holders. All that might be required could be notification at the start of the contract by the contractor of the details of the subcontractor company and the expected date of first payment. This might be done within a month of the payment, when the contractor was submitting his vouchers for other subcontractors.

Possible changes to voucher scheme forms

18. Subcontractors will need a clear way of telling when a £2,500 figure for another voucher has been reached. Otherwise, they might give contractors unnecessary vouchers. That would reduce the simplification sought for the industry and the Revenue. Voucher books might therefore contain running total control forms. These could have sections to allow subcontractors to keep running subtotals of payments made since the last voucher was supplied and a running total of all vouchered amounts.

19. There have been suggestions that a control form should be provided for contractors' own use to record voucher submission. Many contractors will have their own record systems, often very sophisticated, and may prefer to continue to use these. But there might be advantage in making available forms to record details of vouchers submitted. Such forms would have provision for running totals of amounts paid to each subcontractor, details of all vouchers supplied by each and the date of submission to the Revenue's Liverpool Computer Centre.

Issue of certificates and vouchers direct to subcontractors

20. At present, an application for an exemption certificate is sent to the subcontractor's tax office where the necessary checks are carried out. The Revenue's Liverpool Computer Centre produce the certificate. The applicant is asked to collect it in person from the tax office so that his appearance can, for security reasons, be checked against the photograph on the certificate. (714C certificates bear no photograph. They are posted directly to the applicant.)

21. An alternative would be for the applicant to deliver his application in person to his tax office, so that his appearance could be checked against the photograph supplied at the outset. Approved applications would be passed to the Computer Centre to issue a certificate by post direct to the subcontractor. This would shorten the time taken to get a certificate into the applicant's hands. Applications for replacement voucher books would be speeded up in a similar way.

22. Such a speeding up would be welcome. However, if documents, especially certificates, went missing in transit, the subcontractor waiting for them could suffer inconvenience in getting replacements and in demonstrating that he was not responsible for any misuse. Tax offices already write to certificate applicants telling them that their application has been approved. So at the time certificates were issued, subcontractors could be asked to notify the tax office if their certificate had not arrived within a given period.

Reduction in deduction scheme paperwork

23. Many uncertificated subcontractors work for only one or two contractors, from whom they receive frequent small payments throughout the year, each accompanied by a form SC60. Each such form must be produced by the contractor and processed by the Revenue. At present, it is permissible to aggregate amounts paid under a contract, providing a SC60 is given at the end of the year. However, a mandatory minimum aggregation period of 3 months might be introduced for payments under a continuing

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contract to an uncertificated subcontractor. Under such a proposal, the subcontractor would not be able to demand an SC60 for a continuing contract more frequently than quarterly.

24. Relevant factors are:

whether it would be clear when the contract ended, especially where there was no formal written contract

whether subcontractors would be content to wait for evidence of deduction when seeking repayment or credit for deductions

that contractors would still be expected to remit deductions to the Revenue monthly.

Activities covered by the scheme

25. The legislation sets out the activities which are, or are not, construction activities for the purposes of the scheme. Such definitions are necessary for clarity and to include all appropriate activities. They must also be drawn so as to reduce the risk that activities will be wrongly described in an attempt to get round the scheme's requirements. There have been suggestions that, for example, the present treatment of tree-felling and of spoil removal from site are anomalous: and that there might be changes to the lists of inclusions and exclusions.

Conclusion

26. Ministers hope that the proposals in these areas will yield worthwhile deregulation gains, and resource savings both for the industry and the Inland Revenue, while safeguarding the effectiveness of the scheme against tax evasion.

27. The document seeks comments, in particular, on

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- the principle of, and the proposed options for, reducing the flow of 715 vouchers by aggregating small payments, other than the first and last under a contract (paras 7-10)
- the proposed requirement to deliver any necessary voucher by, rather than after, the time of payment (paras 11-14)
- monthly rather than weekly submission by contractors of vouchers to the Inland Revenue, and comments on the most convenient dates in the month for contractors to send them (para 15)
- a limit on the amount covered by a single voucher (para 16)
- initial notification of payments to 714C subcontractors (para 17)
- the value of possible changes to forms (paras 18-19)
- any difficulties subcontractors might see with the direct posting of documents (paras 20-22)
- mandatory rather than permissive aggregation of payments on to a form SC60 (paras 23-24)
- the activities covered by the scheme (para 25)
- the compliance costs of these proposals and any modifications

Comments should be sent to

Inland Revenue
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Somerset House
London WC2R 1LB

to arrive by 31 May 1989.

DRAFT PRESS RELEASE - 1 MARCH REVISION

SUBCONTRACTOR SCHEME: CONSULTATION ON REDUCING
PAPERWORK

The Chancellor has approved consultations on possible changes to the special regime for subcontractors in the construction industry. These changes are intended to reduce the burden of paperwork on the industry and the Inland Revenue while keeping safeguards against tax evasion.

2. The Inland Revenue are today issuing a consultative document. Subject to the results of consultation, the changes would come into force from April 1990. Views are sought by 31 May 1989.

DETAILS

3. Ministers are reviewing the subcontractor deduction and exemption scheme following an efficiency scrutiny last year. Views are now being sought on how to reduce the administrative burden of the scheme while retaining, and if possible improving, its effectiveness in controlling tax fraud. The consultative document is available from The Reference Library, Somerset House, Strand, London WC2R 1LB, price £1.10. It covers the following proposals.

Voucher requirements

4. At present, most subcontractors can be paid for their services without any immediate deductions from the payments. They are issued by the Inland Revenue with pre-printed books of vouchers. In order to be

paid gross by a contractor, a subcontractor should give the contractor a completed voucher for every payment. There are different procedures for large companies.

5. The consultative document suggests that:

- the first and last payments under a contract should remain supported by vouchers, but that no voucher be provided for intervening payments until the running total exceeds, say, £2,500.
- vouchers be provided by the subcontractor by the time of payment rather than within a week after payment
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- the Inland Revenue should be notified by the contractor of the first payment under a contract made to a subcontractor which is a large company with a '714C' certificate.

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are sought on making aggregation compulsory, so an uncertificated subcontractor might demand a form no more frequently than quarterly, where he was being paid under a single continuing contract.

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8. The legislation sets out activities which are, or are not, construction activities for the purposes of the scheme. There have been suggestions that there are anomalies, for example in the treatment of tree-felling or of removal of spoil from building sites. The consultative document seeks views on any aspects of the present definitions that could be clarified.

Compliance costs

9. Overall, these proposals should result in a significant reduction of paperwork, in line with the Government's commitment to deregulation. The consultative document specifically asks for views on the compliance costs of these proposals.

NOTES FOR EDITORS

1. There is a special regime for subcontractors in the construction industry. This regime does not extend to householders and others commissioning small works, but otherwise applies widely to self-employed subcontractors and those engaging them.

2. In general, contractors must make a deduction on account of tax, currently at 25 per cent, from payments to subcontractors. This deduction is set against the subcontractor's tax liability under the normal Schedule D or Corporation Tax rules. However, subcontractors who are running a construction business and can demonstrate a good tax record may be issued with a certificate exempting them from deduction.

Individuals, partners and small firms with exemption certificates are issued with books of vouchers. When a contractor makes a payment to a subcontractor, he should ensure that the payee correctly holds a valid exemption certificate. He should also make every effort to obtain a voucher. The voucher is pre-printed with the subcontractor's name and the voucher number. The subcontractor should fill in his certificate number, his business address, the name of the contractor and the gross payment; and date and sign the voucher before handing it to the contractor.

3. The contractor should then, every week, forward all vouchers he has collected to the Inland Revenue's Liverpool Computer Centre. Data processing then allows cross-checking with the tax accounts of the businesses involved.

4. The subcontractor scheme was introduced in 1971 to deter and detect substantial tax evasion endemic in parts of the construction industry. The last major revision of the scheme was in 1975. Since then, the number of subcontractors has increased sharply. The number of individuals with certificates has trebled. Well over six million "715" vouchers a year are now submitted.

5. The consultative document specifically asks for comments on compliance costs of the proposals, both relative to each other and to the present regime.

Meanwhile, a draft Compliance Cost Assessment for these proposals can be obtained from:

Inland Revenue
Deregulation Unit
Room 77
New Wing
Somerset House
London WC2R 1LB

DRAFT COMPLIANCE COST ASSESSMENT:
SUBCONTRACTOR SCHEME: REDUCING PAPERWORK

NATURE OF THE REGULATION

1. What is the origin of the regulation?

The proposals being exposed for consultation arise from an Efficiency Scrutiny commissioned by Treasury Ministers.

2. What is the problem requiring legislation? How severe is it?

The subcontractor scheme has remained broadly the same for more than a decade. The scheme remains necessary as an important deterrent to tax evasion. But where possible, it would be desirable to reduce the burdens it places on today's businesses and on the Revenue - such as the 6 million vouchers submitted each year. The consultations with the industry are aimed at finding ways of easing these administrative burdens while retaining adequate defences against fraud.

3. What is the existing regulatory provision, if any?

The existing scheme is now contained in Sections 559-567 Income and Corporation Taxes Act 1988 and in the Income Tax (Subcontractors in the Construction Industry) Regulations 1975 - SI 1960/1975, as amended. The scheme requires all those defined as contractors by the legislation, to deduct an amount in respect of tax and National Insurance Contributions from all labour payments they make to their subcontractors, unless the subcontractor has a special exemption certificate issued by the Inland Revenue. The contractor gives the subcontractor a form of receipt and forwards the amounts deducted to the Revenue. The sums deducted are

set against the subcontractor's liability under ordinary Schedule D Income Tax or Corporation Tax rules. Subcontractors who are entitled to exemption - except larger companies, where different procedures apply - give the contractor a signed voucher certifying the amount of the payment. These are forwarded to the Revenue weekly.

4. Are there alternatives to regulation? Why have these been rejected?

The existing scheme is a statutory defence against fraud. Non-legislative options would be wholly ineffective.

5. What timetable is proposed for the introduction of the new regulation? Must all measures be introduced at once or can these be introduced over a period?

Since these proposals are deregulatory it seems sensible to introduce them as soon as practicable for both sides. It is hoped that the regulations can be laid in the Autumn of 1989 to give the industry time to plan for the changes before implementation in April 1990.

6. Can the period of operation of the new regulation be limited?

No.

7. How will the regulation be enforced? By central government or through local authorities?

The new regulations would be enforced by the Revenue's PAYE Audit staff and the Board's investigation section as at present. Contractors who negligently or wilfully fail to deduct when they should may, as now, be required to reimburse the Revenue for any resulting

loss. Contractors and subcontractors who deliberately misuse scheme documents may be liable to criminal proceedings.

8. What specific provisions for small firms have been considered; such as exempting them from the regulation's requirements or other measures?

One of the proposals is specifically aimed at reducing the number of vouchers that small subcontractors have to complete. It is also proposed to provide special forms to help small firms - contractors and subcontractors - to keep proper scheme records.

9. What consultations have there been with business? Are there any concerns raised by business which have not been met? If so what are they?

The Efficiency Scrutineer consulted construction industry businesses and representative bodies before reporting to Ministers. A consultative document is being issued on Budget Day.

IMPACT ON BUSINESS

10. Are certain sectors of industry or companies of a certain size likely to be particularly affected by the regulation? Please state the numbers of companies or establishments and employees which will be affected.

There are around 800,000 businesses in the construction industry ranging from PLCs to one-man firms - predominantly the latter. All should benefit to some extent from the changes. But the small certificated business will perhaps benefit the most.

11. What will businesses have to do to comply with the regulations? How will this compare with their current practices?

Essentially businesses would have to do only what they do now; but less often.

12. What additional resources or work will businesses be faced with in modifying their behaviour to comply with the regulation. What will this cost (a) a typical business and (b) industry as a whole?

Businesses may need to review their procedures, but the proposals should result in resource savings overall. The consultative document specifically asks for the industry's views on compliance cost effects.

BENEFITS

13. What will be the benefits to the UK economy as a whole, to the Government objectives, to consumers, employees, traders or enforcement authorities?

These proposals represent another step in the Government's deregulation drive. By reducing administration in both industry and the Revenue, they should reduce business costs whilst streamlining Government procedures. There may also be some improvement to the security of the subcontractor scheme with a resultant improvement in tax revenue.

MONITORING AND EVALUATION

14. What steps are being taken to measure the effectiveness of the new regulation in meeting its objectives? When will the regulations be reviewed?

A preliminary assessment of the effectiveness of any new measures introduced as a result of consultations would not be possible until they have been in place for at least a year. Appropriate statistics will be kept and the Revenue intend to seek the views of industry.

Mary Hay

FROM: MARY HAY

DATE: 3 March 1989

- 1. MR CULPIN 3/3
- 2. FINANCIAL SECRETARY

cc PS/Chancellor
 PS/Chief Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Mr Gilhooly
 Mr Gieve

*(I have asked FST to
 minute you & clear all
 this formally).*

Mr Roberts IR
 Mr Sullivan IR
 PS/IR

STARTER 451 : SUB CONTRACTORS SCHEME : BUDGET PRESENTATION

*15 H10
 02 ->*

Mr Sullivan's note of 3 March attached a draft consultative document and press release. *below.*

2. The draft document has been shortened in accordance with your request at your meeting on 1 March. The Press Release has been amended to omit any mention of further consultation on the more substantive policy questions arising from the scrutineer's recommendations on the eligibility rules.

3. If (as you favoured at your meeting) you decide to go ahead with a consultative document and press release on Budget day the press release will not be of general interest, and interested parties will be sent or can buy the consultative document. It would not seem necessary to spell out the proposals in such detail. You may wish to consider a shorter press release. I therefore attach ^a copy of the draft press release with suggested manuscript amendments, which you may wish to consider.

4. As I only received my copy of the press release this afternoon, I have not been able to clear my amendments with the Revenue.

Mary Hay

MARY HAY

DRAFT PRESS RELEASE - 1 MARCH REVISION

SUBCONTRACTOR SCHEME: CONSULTATION ON REDUCING
PAPERWORK

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paid gross by a contractor, a subcontractor should give the contractor a completed voucher. ^(Vouchers are issued by the Inland Revenue.) ~~for every payment.~~
~~There are different procedures for large companies.~~

5. The consultative document suggests that:

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- the first and last payments under a contract should remain supported by vouchers, but that no voucher be provided for intervening payments until the running total exceeds, say, £2,500.
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Details of payments and deductions have to be notified to the Revenue. The consultative document puts forward a proposal to restrict notification to a quarterly basis.

are sought on making aggregation compulsory, so an uncertificated subcontractor might demand a form no more frequently than quarterly, where he was being paid under a single continuing contract.

Direct issue of certificates and vouchers

7. The consultative document proposes that all certificates and vouchers be ~~posted direct to the subcontractor who has asked for them~~, rather than being routed through the local tax office. ^{issued centrally}

Activities covered by subcontractor scheme

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BUDGET CONFIDENTIAL

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fst.jf/Robert/6.3



FROM: R C M SATCHWELL
DATE: 6 March 1989

PS/CHANCELLOR

- cc PS/Chief Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Mr Culpin
- Mr Gieve
- Mr Gilhooly
- Miss Hay
- Mrs Chaplin
- Mr Tyrie
- Mr Call
- Mr Roberts)
- Mr Sullivan)IR
- PS/IR

Ch
OK?
AA
OK ✓

STARTER 451: SUBCONTRACTORS SCHEME

The Financial Secretary has been considering the presentation of this issue in the Budget. He is in favour of issuing the revised draft consultative paper attached to Mr Sullivan's minute of 2 March; together with the Budget Day Press release as redrafted by Miss Hay in her minute of 3 March, except for the changes in the Notes to Editors (copy of the Financial Secretary's preferred version attached). He would be grateful to know if the Chancellor is content with this.

R.C.M.S.
R C M SATCHWELL
Private Secretary

DRAFT PRESS RELEASE - 1 MARCH REVISION

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8. The legislation sets out activities which are, or are not, construction activities for the purposes of the scheme. ~~There have been suggestions that there are anomalies, for example in the treatment of tree-felling or of removal of spoil from building sites.~~ The consultative document seeks views on any aspects of the present definitions that could be clarified.

Compliance costs

9. Overall, these proposals should result in a significant reduction of paperwork, in line with the Government's commitment to deregulation. The consultative document specifically asks for views on the compliance costs of these proposals.

NOTES FOR EDITORS

1. There is a special regime for subcontractors in the construction industry. This regime does not extend to householders and others commissioning small works, but otherwise applies widely to self-employed subcontractors and those engaging them.

2. In general, contractors must make a deduction on account of tax, currently at 25 per cent, from payments to subcontractors. This deduction is set against the subcontractor's tax liability under the normal Schedule D or Corporation Tax rules. However, subcontractors who are running a construction business and can demonstrate a good tax record may be issued with a certificate exempting them from deduction. Individuals, partners and small firms with exemption certificates are issued with books of vouchers. When a contractor makes a payment to a subcontractor, he should ensure that the payee correctly holds a valid exemption certificate. He should also make every effort to obtain a voucher. The voucher is pre-printed with the subcontractor's name and the voucher number. The subcontractor should fill in his certificate number, his business address, the name of the contractor and the gross payment; and date and sign the voucher before handing it to the contractor.
3. The contractor should then, every week, forward all vouchers he has collected to the Inland Revenue's Liverpool Computer Centre. Data processing then allows cross-checking with the tax accounts of the businesses involved.
4. The subcontractor scheme was introduced in 1971 to deter and detect substantial tax evasion endemic in parts of the construction industry. The last major revision of the scheme was in 1975. Since then, the number of subcontractors has increased sharply. The number of individuals with certificates has trebled. Well over six million "715" vouchers a year are now submitted.
5. The consultative document specifically asks for comments on compliance costs of the proposals, both relative to each other and to the present regime.

BUDGET CONFIDENTIAL

Meanwhile, a draft Compliance Cost Assessment for these proposals can be obtained from:

Inland Revenue
Deregulation Unit
Room 77
New Wing
Somerset House
London WC2R 1LB

JM/89/8



FROM: CHIEF SECRETARY
DATE: 7 March 1989

CHANCELLOR

Handwritten in red:
✓ Make slides
OK anti-...

C450

- cc: Financial Secretary
- Paymaster General
- Economic Secretary
- Mr Culpin
- Mr Pickford
- Miss Simpson
- Mr Tyrie
- Mrs Chaplin
- Mr Call

BUDGET PRESENTATION

You asked us to think about presentation in a number of areas. I attach what seem to me to be the key points on my topics so that these can be reflected in the briefing.

CONQUEROR

JOHN MAJOR

Ch
Look right lines
to me. Has new
pledge @ X

*Wh. I have
Ch... & CST knows*

(copies sent separately to responsible officials)

PENSIONS

Proposal:

- 1 Inland Revenue control of total pensions removed; in future
 - (a) employer free to establish top-up pension scheme without limits;
 - (b) but tax relief under main scheme available only up to £60,000 salary
- maximum pension £40,000, maximum lump sum £90,000;
 - (c) top-up schemes do not receive tax privileges.
- 2 Changes in tax treatment of top up pensions.
 - (a) top-ups do not imperil tax privileges of main scheme;
 - (b) unfunded top-up generates tax liability for employee only when pension is paid.
- 3 More encouragement to personal pensions with larger contribution limits, *within similar cap on overall tax relief.*
- 4 Simplification of AVCs with "excess" value being returned to employee but subject to a tax charge.
- 5 Present employees unaffected by new tax limits until they change jobs - and even then, open to new employer to offer "top-up"

Pros

- continues strategy of widening choice and encouraging private provision;
- deregulation - removes anomaly that Revenue determines pensions people can have, new rules limit ^{tax} relief, no reason why Government should control pensions;
- frees employers to give whatever pension they want;
- right to limit relief in view of generous tax treatment of pensions
- personal pensions reforms help self-employed;
- no further ~~major~~ ^{plans for an index} tax changes to pensions, ~~this Parliament~~, to allow measures in this and earlier legislation to settle down.

Cons

- unfair to limit relief without consultation? No retrospection. Complete protection for existing members of existing schemes. Not usual to consult on Budget changes of this sort (cf 1987 pensions tax changes).
- FST's pledges re: existing (£150,000) lump sum cap?

Existing cap continues to apply to those joining schemes between 1987 and 1989 Budgets. But for new members, superseded by new approach - no limit on total benefits, but tougher cap on tax reliefs.

- Wrong to cap pensions (as opposed to lump sums)?

Other tax reliefs for savings carry some cash limit. And only limiting tax relief - not total pension.

NICS

Proposal: Employee NICS to be 2 per cent [86p] of earnings up to LEL (£43 in 1989-90) plus 9 per cent on subsequent earnings between LEL and UEL (£325 in 1989-90)

- No change in UEL
- No change in employers NICS
- No change for self-employed.

Pros

- introduces low initial contribution with access to full range of contributory benefits;
- abolishes two cliff edge steps entirely;
- cash gains for all with those on $\frac{1}{2}$ average to average earnings proportionately gaining most. (70 per cent of cost goes to those below average male earnings.)

Cons

Keeps High marginal rate at entry? Much reduced by reform; contributory benefits merit introductory cost.

Why not convert NICS threshold to an allowance aligned with tax allowance? As above. But entry fee cut by 60 per cent.

Why not abolish UEL? Would increase Nics paid by those earning £325 or more. Would also add to SERPS entitlement and thus future public expenditure.

Why not use NIF surplus on health benefits? NHS financed primarily by taxation: Expenditure on NHS up substantially in real terms.

Why this is not ?

Is this not a disguised tax cuts? Primary objective to reform NICs steps. Gains well targeted on those on $\frac{1}{2}$ to average earnings. Like tax cuts, reduction in NICs enable employees to keep more of their own earnings. But NICs are not same as taxes; they earn entitlement to NI benefits. Contributory principle maintained by these changes.

Cuts only affordable because pension and other NI benefits uprated by prices not earnings. Government commitment has been to maintain pension and other pledged benefits in real terms; honoured in full. NI reductions affordable because policies have produced strong public finances.

Why no cuts for self-employed? Nearly all self-employed pay less NICs than employees.

Why no cuts for employers ? Best use of limited funds is to improve employees' work incentives. This itself will assist employers.

AGE ALLOWANCEProposal

1. Higher age allowance to be available at age 75 and over rather than 80 and over;
2. withdrawal rate above the income limit reduced from £2 in every £3 to £1 in every £2 (marginal rate falls from 41 2/3 per cent to 37½):
3. Age allowances and income limit increased by around 6.8 per cent (statutory indexation) (over 10½ per cent increase for those aged 75 and over).

PROS

- ¼ of all those 75 and over not liable to tax after change;
- 75-79 married gain £2.55 a week, single £1.73;
- age allowance highest in real terms since first introduced in 1975 taking account of changes in structure, tax threshold for elderly married highest since Second World War ;
- extends to those 75 and over the 1987 reform which introduced over 80s allowance;
- reduces age allowance withdrawal rate, marginal rate in withdrawal band now well below 40 per cent.
- matches higher tax allowances for those 75 and over with new social security provision for those of same age and on low incomes.
- takes 15,000 elderly single people and married couples aged 75 and over out of tax compared with indexation.
- elderly in withdrawal band gain substantially from increase in income limit and reduction in withdrawal rate (e.g. married couples aged 70 income £12,000 (who got virtually no benefit from age allowance in 1988-89) gain £3 per week on top of indexation of their basic allowance).

CONS

benefits only rich pensioners? two-thirds of pensioners cannot benefit from tax changes because they do not pay tax: good thing to take pensioners out of tax, poorer pensioners over 75 benefited from specially targeted package in November;

why not give age allowance to all pensioners irrespective of income? Would cost £220 million in a full year. Successive Governments have concentrated benefit of age allowance on those with relatively modest incomes. In practice nearly 2/3rds of elderly taxpayers get full benefit of age allowance. Only top 10 per cent of elderly do not benefit at all from age allowance.

EARNINGS RULE

Proposal: Abolition of rule whereby state pension and SERPS reduced by 50p for every £1 earned between £75 - £79 and by £1 for every £1 earned above £79. Rule currently affects men aged 65-59 and women aged 60-64. After abolition, pension will depend on age, not retirement. Limit of 12 hours on working week will also go. But option to defer taking pension will continue, for people who want to increase their entitlements.

PROS

- removes penalty against elderly people wishing to work;
- increases their choice and flexibility, which should be helpful to them and economy generally;
- another simplification of social security system, with eventual savings in DSS administration costs.

CONS

- Cost - benefits the rich and very rich? cost falls substantially over time because need to pay increments for deferral falls away; cost is bearable, principle important. People earning over £75 a week not necessarily rich.
- why not abolish/mitigate other earnings rules? Retirement pension is special case because entitlement built up through NICs on lifetime's earnings. Unfair to withdraw contributory pension income if pensioners supplement it by continuing to work.

Security Strategy

- Why not abolished earlier (given 1979 Manifesto commitment)?
~~Initial public expenditure cost substantial.~~ But can now be afforded, thanks to huge improvement in public finances.
- Wrong to encourage more elderly to work when still 2 million unemployed. Unemployment has fallen sharply, partly because government has removed controls and restrictions in economy. Ending pensioners earnings rule part of same strategy and should therefore help to improve economic performance further.

There have been other claims on Social Security budget, which has appeared massive.

Private Medical Insurance

Proposal: Tax relief at marginal rates on contributions to approved medical insurance paid by or on behalf of those over 60.

Pros

- Enables those retiring to continue to maintain their private medical insurance at a time when their incomes reduce and premia rise.
- increases choice and independence for elderly;
- reduces pressure on NHS provision.

Cons

Contrary to general tax policy? Overall policy remains to minimise tax brackets and cut tax rates. But Government saw real need to give help to people wishing to continue with medical insurance at a time when their income falls and premiums rise.

May simply fuel premium increases? Unlikely: Medical insurance market competitive. Tax relief likely to increase competition as new products introduced and new insurers enter market. Will help keep cost of insurance down.

Raises expectations of relief elsewhere? Very special case: not more generally applicable. Government policy not to introduce new tax reliefs unless case very clearly demonstrated.

Encourages two tier health provision?

Increases announced to NHS - £2½ billion in 1989-90 and more in subsequent years - far greater than the cost of this modest assistance to elderly people [White Paper working for patients will also help the Health Service to offer an improved and more responsive service to patients].

FROM: J M G TAYLOR

DATE: 7 March 1989

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Culpin
Mr Gieve
Mr Gilhooly
Miss Hay
Mrs Chaplin
Mr Tyrie
Mr Call

Mr Roberts - IR
Mr Sullivan - IR
PS/IR

STARTER 451: SUBCONTRACTORS SCHEME

The Chancellor has seen your note of 6 March. He is content with the Financial Secretary's conclusion: to issue the revised draft consultative paper, together with the Budget Day Press Release as redrafted by the Financial Secretary.


J M G TAYLOR

BUDGET SECRET

COPY NO 9 OF 12

pap

FROM: ROBERT CULPIN
DATE: 9 March 1989

MISS WALLACE

cc: Chief Secretary
Financial Secretary
Mr Scholar
Mr McIntyre
Mr Pickford
Mr Gieve
Mr A C S Allan
Mrs Chaplin
Mr Tyrie

BUDGET BROADCAST

This is just an idea.

2. I should be content with the script as you have it, subject to twiddles; but if we can do it, I should like

(a) to lead the measures section a bit more boldly with national insurance contributions and

(b) to illustrate this with the now-familiar NIC chart.

3. Implicitly or explicitly, the Chancellor is explaining why he is giving priority this year to national insurance contributions. Implicitly, he is explaining why they are taking precedence over the declared priority of reducing the basic rate of income tax when it is prudent. The main reason is that we are undertaking a major reform to deal with the steps; but not many people know what the steps are, and they are not easy to explain. So a picture helps: you can see the steps at a glance.

BUDGET SECRET

4. We have never had a chart in the measures section before, and it may well be that the path of prudence and caution is to avoid tangling with one now. But we know precisely what the chart would be: it is in the FSBR. And provided we help them, the BBC ought to be able to produce a version in the same format as the other broadcast charts between the time the Chancellor sits down at the end of the speech and the time he records for television. If we have a script which does not entirely rely on the chart, we could, if need be, abort the picture at the last minute without damage.

5. I attach a rough draft.

A handwritten signature in dark ink, appearing to be 'Rc', written in a cursive style.

ROBERT CULPIN

BUDGET SECRET

DRAFT

I have decided to give priority this time to reforming national insurance. At the moment, there are three big jumps in the contributions you have to make [reveal chart of existing system]. This means that, in some circumstances, people can be worse off if they earn more.

I am introducing from October a more sensible system [reveal chart of reformed system]. It will get rid of the big jumps in contributions, and leave most people about £3 a week more of their own money.

MP

FROM: MRS JUDITH CHAPLIN

9th March 1989

MISS WALLACE

cc Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Scholar
Mr Culpin
Mr Gieve
Mr Tyrie
Mr Call

BUDGET BROADCAST

Page 5. I don't like the first sentence at the top of this page - it gives the image of the Chancellor hanging on to this pot of money (which could then be used for public spending) because debt repayment is not discussed till later on in the broadcast. Could it be replaced with:

"We will continue to cut taxes in the future but only as and when we are sure we can afford to keep them cut in the years that follow."

2. For the same reason I would replace the "can afford" in the next sentence by the more neutral "I have been able". In the next sentence I would give the reason why it isn't a tax, by saying:

"This isn't a tax of course but your contributions, which secure benefits, can still make quite a dent"

3. Page 6, third line. "One or two" sounds self-deprecating, I would omit.

Jc

JUDITH CHAPLIN

COPY NO 1 OF 6

FROM: J GIEVE
DATE: 9 MARCH 1989

MR TYRIE

Handwritten initials

cc Mrs Chaplin
Mr Pickford
Mr Culpin
Miss Wallace

ARTICLE FOR REGIONAL NEWSPAPERS

The Chancellor has asked me to draft a short article which we can offer regional newspapers for publication immediately after the Budget. I need to put this up to him tomorrow. I would be grateful for your comments urgently on the attached first attempt.

J. Gieve

JOHN GIEVE

John,

*Some manuscript comments, plus a reshuffle
of paragraph 7.*

Andrew . 10. iii.

ARTICLE FOR REGIONAL NEWSPAPERS

KEEPING BRITAIN AT THE TOP

It is almost ten years since this Government came to power, so when I presented my sixth Budget yesterday I took the opportunity of looking back as well as charting the course for the future.

2. If I had a single aim when I first got involved in politics 30 years or so ago it was to do my part to rid Britain of the complacent defeatism that was so widespread in those days. People used to talk of "managing decline". It seemed taken for granted that we couldn't keep up with the successful countries - the United States, Germany and Japan - the best we could hope for was to be graceful losers.

3. In the 60s and 70s the losing became a good deal less graceful. We became renowned not just for being poorer and less efficient than most of our competitors but for being world leaders in strikes and bureaucracy.

4. Over the last ten years we have changed all that. In the 1980s, Britain has grown faster than any other major country in the European Community - a sharp contrast to the 60s and 70s when we were bottom of the European growth league. It's the same story with investment: we were in the relegation zone in the 60s and 70s but we've been top of the league in the 1980s. And manufacturing productivity has been transformed: it has grown faster in the UK in the 1980s than in all the major economies - and that includes Japan.

5. The credit for the transformation belongs to millions of companies and working people throughout Britain. What this Government has done is to provide the opportunities for success by establishing a sound financial framework and then encouraging industry and individuals to do their best.

Only he
can decide
whether
he likes
this.

8

6. The new strength of the British economy was shown again in 1988 - which was the seventh year of sustained growth. Inflation averaged less than 5 per cent; productivity and profitability continued to improve and unemployment fell sharply - by over 1/2 million. We now have more people in work than ever before in our history.

7. However, the combination of a welcome investment boom in industry and continuing growth in consumer spending, often financed by borrowing - especially mortgage borrowing, outstripped British industries' capacity to supply ^{the goods.} So we saw inflation picking up and imports growing rapidly. ~~It was to damp down these inflationary pressures that I raised interest rates substantially last year.~~ ^{and} This has made things tough for people with mortgages but ~~One lesson of the disastrous 70s was that everybody loses if inflation is allowed to take off.~~ ^{So I took swift action}

Revised

~~8. There are clear signs now that higher rates are having their effect' especially on household spending and especially in the South-East of the country - where the inflationary risks have been most acute. But it will be a few months yet before the retail prices index turns down and even longer before the balance of payments responds. But make no mistake, inflation must come down - and I will keep interest rates as high as is needed to achieve that.~~

8. At a time when interest rates are high it is more necessary than ever to keep a tight grip on the Government's own finances. In the past, governments of all persuasions built up the public debt by borrowing to supplement tax revenues. Since we came to office we have been steadily cutting down on borrowing and now we have stopped altogether. In fact last year we repaid £14 billion of debt and I plan to do the same in the coming year, taking the burden of debt as a proportion of our national income to its lowest level since ^{before} the First World War.

10. This not only gives confidence to financial markets here and abroad but ^{payments on the debt} it saves us approaching £3 billion a year in debt ^{interest} servicing costs and that's one reason why we will be able to spend £3 billion more on the national health service next year than this. And of course the saving in debt interest removes a burden on our children's shoulders, too.

11. But within that prudent policy, I have been able to make a number of further reforms and reductions in taxation.

12. My main priority this year has been to sort out national insurance contributions. Even after the reductions I made in 1985, many low paid workers can still face a trap—if they earn a little more, they pay so much extra in national insurance that they end up worse off. The changes I announced yesterday will remove the trap and reduce national insurance contributions by about £3 a week for all employees with earnings of £115 or more. Most of the benefit goes to those below average earnings.

13. I have also made a number of changes to help pensioners. First I have abolished the earnings rule so people who work on beyond retirement will not face cuts in their state pension. Second I have extended the more generous income tax allowances for the elderly from those aged 80 and over to those aged 75 and over. Third, I have introduced tax relief on premiums for private health insurance for those aged 60 or over.

14. *With the risk of inflation*
~~With inflation so high,~~ it doesn't make sense this year to *ad*
to it by raising duties on alcohol, tobacco or most petrol. But I have cut the tax on unleaded petrol to encourage more people to use it. Did you know that most cars can use unleaded petrol either without adjustment or with adjustments costing about £20? It is well worth doing.

15. *I've also done more to encourage share ownership.*
~~One of the striking changes over the last ten years has been the growth of share ownership.~~ There are ^{now} more shareholders in the country than there are trade unionists and, in particular, more and more employees are taking a direct stake in their companies. ~~This~~ must be good for industry and the country so I have introduced a number of further measures in this Budget to encourage wider share ownership.

16. That is one way in which we can build further on the success of the 80s. My Budget takes forward the prudent financial policies that have brought Britain back to the top of the league in the 1980s and which will, keep us there in the 90s.

help

Redraft of Paragraph 7

However, the combination of a welcome investment boom in industry and continuing growth in consumer spending, often financed mortgage borrowing, outstripped British industries' capacity to supply the goods. So we saw inflation picking up and imports growing rapidly.

We learnt in the 1970s that everybody loses if inflation is allowed to take off. So I took swift action and raised interest rates substantially last year. I recognise that this has made things tough for some people with mortgages but it really is absolutely vital to damp down these inflationary pressures.



COPY NO 13 OF 13 COPIES

FROM: J M G TAYLOR

DATE: 9 March 1989

A handwritten signature in black ink, appearing to be 'JMG'.

PS/CHIEF SECRETARY

cc Financial Secretary
 Paymaster General
 Economic Secretary
 Mr Culpin
 Mr Pickford
 Miss Simpson
 Mr Tyrie
 Mrs Chaplin
 Mr Call

BUDGET PRESENTATION

The Chancellor was grateful for the Chief Secretary's note of 7 March, and the enclosed note of key points on the topics for which the Chief Secretary is responsible.

2. The Chancellor has suggested a few amendments. These are:

PENSIONS

- Alter "Proposal", 3, to read: "More encouragement to personal pensions with larger contribution limits, within similar cap on overall tax relief."
- Alter second indent under "Pros" to read: "deregulation - removes anomaly that Revenue determines pensions people can have, new rules limit tax relief, no reason why ...(etc)".
- Amend last indent under "Pros" to read: "no plans for any further tax changes to pensions, to allow measures in this and earlier legislation to settle down."

NICS

- Amend fifth question under "Cons" to read: "Why this and not tax cuts?" (instead of: "Is this not a disguised tax cut?").



EARNINGS RULE

- Penultimate indent under "Cons" (Why not abolished earlier (given 1979 Manifesto commitment)?"), delete first sentence of reply and replace with: "There have been other claims on social security budget, which has expanded massively."

JF

J M G TAYLOR

COPY NO 15 OF 16

FROM: J GIEVE
DATE: 10 March 1989

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Riley
Mr Sedgwick
Mr Pickford
Mrs Chaplin
Mr Tyrie
Miss Wallace

*Ch/One or two comments
scribbled. Reads quite
well.
mpw.*

ARTICLE FOR REGIONAL NEWSPAPERS

I attach a draft for an article which could be offered in your name to regional newspapers for publication the day after Budget Day. We intend to fax copies to the morning papers on Tuesday evening and then send it out to the evenings.

2. Although it has to cover much the same ground, it needs to be slightly different from your speech, the broadcast, and the various published documents. I have tried to give it a slightly different introduction for that reason.

*Mr Rankin.
Brendan Jones.
I have made a few
minor changes.*

J. Gieve

JOHN GIEVE

ARTICLE FOR REGIONAL NEWSPAPERS

KEEPING BRITAIN AT THE TOP

odd, tho' interesting

If I had a single aim when I first got involved in politics ²⁵ 30 years or so ago it was to do my part to rid Britain of the complacent defeatism that was so widespread in those days. People used to talk of "managing decline". It seemed to be taken for granted that we couldn't keep up with the successful countries - the United States, Germany and Japan - the best we could hope for was to be graceful losers.

2. In the 60s and ^{still more in the} 70s the losing became a good deal less graceful. Britain became a by-word ~~not just for being poorer and less efficient than most of our competitors but for being world leaders in strikes and bureaucracy.~~ ^{awkward} ~~and~~ ^{strikes - puns} ~~world~~ ^{and} ~~leaders~~ ^{Foreigners used to} ~~in~~ ^{to refer, pitiful, to 'No English' 'sloppers'} ~~strikes and bureaucracy.~~

3. In the 1980s we have changed all that. Britain has grown faster than any other major country in the European Community - a sharp contrast to the 60s and 70s when we were bottom of the European growth league. Its the same story with investment: we were in the relegation zone in the 60s and 70s but we've been top of the league in the 1980s. And manufacturing productivity has been transformed: it has grown faster in the UK in the 1980s than in all the major economies - and that includes Japan.

4. The credit for the transformation belongs to millions of companies and working people throughout Britain. What the Government has done is to provide the framework in which they can succeed by setting sound financial policies and by removing the regulations and controls that had brought the economy almost to a halt.

5. 1988 was another year of strong growth, the seventh in succession. Inflation averaged less than 5 per cent, productivity and profitability continued to improve, and unemployment fell sharply - by over ½ million. We now have more people in work than ever before in our history.

6. However, the combination of a welcome investment boom in industry and continuing growth in consumer spending, often financed by mortgage borrowing, outstripped British industries' capacity to supply the goods. So we saw inflation picking up and imports growing rapidly.

left difficult

7. We learnt in the 1970s that everybody loses if inflation is allowed to take off. So I took swift action and raised interest rates substantially last year. I recognise that this has made ~~things tough~~ for some people with mortgages but it really is absolutely vital to stamp on inflation and I will keep interest rates as high as is needed to do that.

may be

8. There are clear signs now that the policy is slowing things down, especially in the South East. It will be a little while yet before the ~~retail prices index~~ *inflation finally stops* turns down *starts to* [and even longer before the ~~balance of payments responds~~]. *in a few months* But I expect it to come down to about 5½ per cent by the end of this year and 4½ per cent by ~~mid 1990~~. *in a few months* *by the middle of next year.*

?

One reason ~~we can~~ can be applied about the jobs & Nat

9. At a time when interest rates are high it is more necessary *has kept* than ever for the Government to keep a tight grip on its own finances. In the past, governments borrowed as the easy alternative to tough decisions on taxes and spending. Since we came to office we have been steadily cutting down on borrowing - and cutting taxes too when we could. And now we have stopped borrowing altogether. In fact last year we repaid £14 billion of debt and I plan to do the same in the coming year, taking the burden of debt as a proportion of our national income to its lowest level since the First World War.

10. This is not only the prudent approach but it will save the taxpayer about £2½ billion a year in debt interest, and that's one reason why we will be able to provide £2½ billion more resources for the national health service next year than this. And of course there will be less debt for our children, to repay *500*.

11. But within that prudent policy, I have been able to make a number of further reforms and reductions in taxation.

12. My main priority this year has been to sort out national insurance contributions. Even after the reductions I made in 1985, some low paid workers were still in the position that if they earned a little more, they paid so much extra in national insurance that they ended up worse off. The changes I announced yesterday will remove that trap and reduce national insurance contributions by about £3 a week for all workers earning £115 or more. And those on less than average earnings get most of the benefit.

end of Budget Speech

13. I have also made a ~~number of~~ ^{Some} changes to help pensioners. First I have abolished the ~~earnings rule~~ ^{pensioners}, so people who work on beyond retirement will no longer have their state pension cut. Second I have extended the more generous income tax allowances for those aged 80 and over to those aged 75 to 79 as well. ~~[Third, I have introduced tax relief on premiums for private health insurance for those aged 60 or over.]~~

14. With inflation ~~too high~~, it doesn't make sense this year to ~~add to it by raising duties~~ ^{on alcohol, tobacco and 4-star petrol.} And I have cut the tax on unleaded petrol to encourage more people to use it. Did you know that most cars can use unleaded petrol either without ~~adjustment or with adjustments~~ ^(any modification or with a modification) costing about £20? It is well worth doing.

15. I've also done more to encourage share ownership. ~~There are now more shareholders in the country than there are trade unionists and, in particular, more and more employees are taking a direct stake in their companies.~~ That is good for industry and the country so I have introduced a number of further measures to encourage wider share ownership.

16. That is one way in which this - my sixth - Budget will build on ~~the success of the 80s~~ ^{in the 1980s}. I have reduced and improved taxes where that will encourage enterprise and effort. But I have also stuck to the prudent financial policies that have brought Britain back to the top of the league in the ~~1980s~~ and which will help keep us there in the '90s.

LEL

?

This needs checking for speech I was told not true.

Burns

**BUDGET SECRET
BUDGET LIST ONLY**

NOT TO BE COPIED

FROM: MISS M P WALLACE
DATE: 10 March 1989

16/22

BUDGET

MR PICKFORD

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Scholar
- Mr Culpin
- Mr Riley
- Mr Peretz
- Mr Sedgwick
- Mr Mowl
- Mr Gieve
- Mr Flitton
- Mr Lind
- Mrs Chaplin
- Mr Tyrie
- Mr Call

SECRET

BUDGET BROADCAST

... I attach the Chancellor's final draft of the Budget Broadcast. I should be grateful if any final comments or corrections could reach me by close tonight.

B.L.

Excellent, except for the last line!

Mpw.

MOIRA WALLACE

Andrew.

SECRET

112/15

**BUDGET SECRET
BUDGET LIST ONLY**

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BUDGET

SECRET

B.L.O.

SECRET

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BUDGET

1989 BUDGET BROADCAST

SECOND DRAFT SCRIPT

~~6 March 1989~~

CHANCELLOR

I don't know if you follow the day to day financial news - you've probably got better things to do with your time; but if you do, you're liable to get a very confusing picture of what's going on. Things seem to fluctuate with amazing speed; good news one day, bad news the next, all in rapid succession. There's certainly no shortage of information. But what you miss is the really important story - the long term, underlying sea-change in Britain's economic fortunes. It's like standing on a beach watching the waves, when what really matters is the tide.

You see, in the past ten years something really extraordinary has happened. Things haven't just improved a bit. They've been completely transformed. There's been a clean break away from the old idea of

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massive government, mighty trades unions, huge nationalised industries and high taxation. And a new policy of encouraging competitive industry and individual enterprise, releasing our great industries from the clutches of the State, and giving people the freedom to keep as much as possible of their own money to use in their own way. The result has been dramatic. But you have to take a step or two back to see how dramatic. It needs a perspective of years, not just days or weeks.

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CAPTION 1. Start with inflation up to end of 1979, then animate to 1989

Take inflation for instance. There were two terrible peaks in the 1970s, but since 1979 it's fallen dramatically, and it's been well into single figures ever since.

As you know, last year it started to rise again, and that won't do: that's why I raised interest rates. I know this makes life harder for people with large mortgages. But the price of keeping interest rates low would be a return to the soaring inflation of the seventies, and that's a price none of us want to pay. It's easy to see why.

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CAPTION 2. GDP to
1979

If you look at our national output you can see the stop-gos and ups and downs of the '70s.

Animate to 1989

But since 1981 we've soared up to heights we've never achieved before.

Superimpose caption 1
to 1979

And if you put the two charts together, you can see how in the '70s rising inflation followed each little boom, and bust it.

Animate caption 1 to
1989

But since we took tough action to bring inflation down we've had seven successive years of strong and steady growth - something that's never happened before.

You can see the results everywhere.

There's more money than ever before going into health, education, and key public

services. Unemployment is falling fast -

in fact there are more people in work in

Britain today than ever before in our

history. And they are better paid than

ever, too.

CAPTION 3. Take-home
pay animated from
70-71 to 79-80

Look at the record of average take-home pay - corrected for inflation. Again, ups and downs in the '70s,

Animated to 88-89

and then for the last seven years a steady rise to an all-time high.

Of course take-home pay is a good measure

of present prosperity, but what about the

future? Well, the evidence for that comes

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from another terribly important measure of Britain's success: investment. People don't put money into a country's industry unless they believe in its future.

CAPTION 4.
Investment graph.
Animate to 1979
Animate to 1989

This was the pattern of investment during the seventies, with little change from one year to the next. But after the shake-out at the start of the 'eighties the growth has been spectacular - a huge vote of confidence in Britain's future.

In fact one result of this ten-year revolution has been a transformation of Britain's standing in the world. Time may be healing the painful memories of what Britain used to be like, but the record is clear.

CAPTION 5. European league table 1, showing '60s and '70s
Animate 1980-88

In the '60s and '70s we were bottom of the European growth league. In the nineteen eighties, we're top.

CAPTION 6. European league table 2, showing '60s and '70s

In the investment growth league, too, we were in the relegation zone throughout the '60s and '70s. In the 1980s we're top of that as well.

CAPTION 7. World league, table 3, showing '60s and '70s

And its the same story with productivity: bottom of the world growth league in the '60s and '70s ... top in the '80s.

Today's Budget has been designed to keep it that way.

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As you know, in each of my last three Budgets I've fostered incentives by cutting income tax; and we're committed to cutting income tax still further in the years ahead.

But in my Budget today I've given top priority to reforming and reducing employees' national insurance contributions. For the low paid, national insurance contributions can take more from the pay packet than income tax does. What I've done means that, from October, nearly everyone in work will be £3 a week better off. And I've been able to afford it without putting any extra tax on beer, tobacco or petrol. Indeed, I've actually cut the tax on unleaded petrol, to encourage more people to switch over to it, so as to make our environment purer and our children's health safer.

I've tried to help the elderly, too, not least by abolishing at long last the rule which requires their pension to be docked if they choose to go on working beyond retirement age.

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And since I want to see even more people owning a direct stake in British industry - a shareholders' democracy - I've further improved the tax treatment of small shareholders in general and employee shareholders in particular.

Above all, as always, I've made sure it's a prudent and cautious Budget. Well, this prudence is now bearing a remarkable fruit. In the past, governments got into the bad habit of borrowing more than they could afford.

**CAPTION 8. Govt.
borrowing - animate
to 1970
Animate to 1989**

You can see the picture from 1970 to 1980. Since then we've been steadily cutting down on borrowing. And now we've stopped borrowing altogether, and in fact the government is repaying past debts - £3 billion last year, no less than £14 billion this year and a forecast further £14 billion next year.

That's something that hasn't happened for generations. And it's tremendously important; not just because it demonstrates our strength to the world, but because it saves us £2,000 million of interest payments here and now and because it takes the burden of future interest

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payments off the shoulders of our children.

Well, that's the story of the past ten years. And at the heart of it, it's the story of a great release of national energy and ingenuity and enterprise. Those qualities were always there, but for far too long they were suppressed and frustrated by governments. The purpose of this Budget, as of all my previous Budgets, is to create the conditions in which the British people can give of their best.

Right thought, but too long as a last line.

END

We put an end to that.

In budget after budget we've been creating the conditions in which the British people can give of their best.

And that's what this budget is about, too.

And this budget we've already seen great results. And this budget ^{creates} ~~with~~ provides take us ~~on~~ ~~stage~~ further in the ~~same direction.~~ the opportunity for more.

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FROM: MISS M P WALLACE
DATE: 13 March 1989

MR GIEVE

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Riley
Mr Sedgwick
Mr Pickford
Mrs Chaplin
Mr Tyrie

ARTICLE FOR REGIONAL NEWSPAPERS

The Chancellor was most grateful for your minute of 10 March, covering the draft article for regional newspapers. He has made one or two minor changes, as follows.

- (i) Paragraph 1, first sentence - amend to read: "...first got involved in politics 25 years or so ago ...".
- (ii) Paragraph 2 - amend to read: "In the 60s and still more in the 70s the losing became a good deal less graceful. Britain became a by-word for being strike-prone and inefficient. Foreigners used to refer, pityingly, to "the English sickness".
- (iii) Paragraph 7, third sentence - reword to read: "I recognise that this has made life difficult for some people ...".



- (iv) Paragraph 8 - replace second and third sentences with: "It may be a few months before inflation finally stops rising and starts to turn down. But it is forecast to come down to about 5½ per cent by the end of this year and 4½ per cent by the middle of next year."
- (v) Paragraph 9 - amend first sentence to read: "One reason we can be confident about the future is that the Government has kept a tight grip on its own finances."
- (vi) Paragraph 10, last sentence - amend to read: "And of course it means a lower burden of debt interest for our children, too."
- (vii) Paragraph 13, first sentence - amend to read: "I have also made some changes to help pensioners. First I have abolished the pensioners' earnings rule, so people who work ...". Delete the reference to health tax relief, currently in square brackets.
- (viii) Paragraph 14 - amend first sentence to read: " With inflation the number one problem, this is clearly not a year to increase the taxes on alcohol, tobacco and petrol." And amend penultimate sentence to read: "Did you know that most cars can use unleaded petrol either without any modification or with a modification costing only some £20?"
- (ix) Paragraph 15 - delete beginning of second sentence, so that it begins with words "More and more employees ...".



- (x) Paragraph 16 - amend the first sentence to read:
"That is one way in which this - my sixth - Budget
will build on Britain's success in the 1980s."

A handwritten signature in cursive script, appearing to read "Moira Wallace".

MOIRA WALLACE