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1989 BUDGET DAY
PRESS NOTICES

cst.ps/11ce8.3/mins

BUDGET SECRET

COPY NO 2 OF 9 COPIES

JM/89/11

0473

FROM: MISS C EVANS
DATE: 8 March 1989

Pmp

MR MCINTYRE

cc: Chancellor
Mr Anson
Mr Culpin
Mr Gieve
Mr Macpherson
Miss Simpson

PENSIONERS EARNINGS RULE: DRAFT PRESS NOTICE

The Chief Secretary was content with the draft press notice you submitted yesterday, subject to adding at the end of the third sentence of paragraph 5. "and so there will be no increase in planned public expenditure."

CE

MISS C EVANS
Private Secretary

chex.ps/jmt/71 BUDGET CONFIDENTIAL

FROM: J M G TAYLOR
DATE: 8 March 1989

pmp

PS/CHIEF SECRETARY

cc PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Scholar
Mr Culpin
Mr L Harris
Mr Gieve
Mr Dixon
Mr Macpherson
Mrs Chaplin
Mr Tyrie
Mr Call

Mr Isaac - IR
Mr Corlett - IR
Mr Bush - IR
Mr Kuczys - IR
PS/IR

BUDGET DAY PRESS NOTICES: PENSIONS

The Chancellor has seen Mr Kuczys' note of 7 March.

2. He thinks the heading of the draft Press Notice is disingenuous, given that the key feature in most people's eyes will be the cap. He would be inclined simply to omit the word "simplified". (He has commented that it is tempting to amend this to "reformed", but he thinks there would be Green Paper problems if we were to do so).

3. He also thinks that the fact that the cap is indexed should be stated straight away on the first page, where it currently says: "No tax advantages for pensions which arise from earnings in excess of £60,000 ... (etc.)".

4. He is otherwise content with the draft.

JT

J M G TAYLOR

cst.ps/9ce8.3/mins

BUDGET SECRET

COPY NO 2 OF 11 COPIES

JM/89/10

FROM: MISS C EVANS
DATE: 8 March 1989

040

CHIEF SECRETARY TO THE TREASURY

PMP

MR MCINTYRE

cc PS/Chancellor
PS/Financial Secretary
Mr Culpin
Mr Gieve
Mr Gilhooly
Mr Macpherson
Miss Simpson
Mr Speedy

NICS: DRAFT PRESS NOTICE

As discussed the Chief Secretary was grateful your draft of yesterday. He had a few minor amendments which I've marked on ... the attached pages.

CE

MISS C EVANS
Private Secretary

Draft Press Notice

REFORM OF EMPLOYEES NATIONAL INSURANCE CONTRIBUTIONS

The Chancellor announced in his Budget Statement that he and the Secretary of State for Social Security propose major changes in employees' national insurance contributions. The necessary provisions will be added to the Social Security Bill now before Parliament, and the changes will take effect from [6] October 1989, the earliest practicable date.

2. In his Budget Statement, the Chancellor said:

> "This reform will significantly reduce the burden of employees' National Insurance contributions across the board. For the lowest paid, that burden is now heavier than the burden of income tax. This is the most effective measure I can take to lighten it. For everyone on half average earnings or more, the reform will leave them £3 a week more of their own money; and most of the benefit will go to those below average earnings."

3. Welcoming the Chancellor's announcement, the Secretary of State for Social Security commented:

> "These changes will be good for work incentives, particularly for those on low pay. The new system will reduce contributions paid by all employees while retaining a reasonable minimum contribution towards national insurance benefits."

4. From 6 October, 15 million employees earning £115 a week or more will have their contributions reduced by £3.01 a week. 4 million employees earning between £43 and £115 a week will gain smaller amounts; their contributions have already been reduced as a result of reforms implemented in 1985. Those earning less than £43 will continue to ~~pay no contributions~~. have no liability.

5. The changes will reduce contribution income by ~~about~~ £1 STEP
billion in 1989-90 and about £2.8 billion in 1990-91.

6. The reductions will be part of a major reform of the way in which employees' contributions are determined.

Present system

7. Once employees earn more than the Lower Earnings Limit (£43 a week in 1989-90), they pay contributions at the same rate on the whole of their earnings upto the Upper Earnings Limit (£325). Under the current system, there are three different rates. The rates for contracted-in employees are: 5 per cent for those earning £43-£74.99; 7 per cent for those earning £75 - £114.99; and 9 per cent for those earning £115 or more. The two lower rates were introduced (for both employers and employees) in the 1985 Budget in order to reduce the cost of employing young and unskilled people. Hitherto, the low paid and their employers had paid the full standard rate.

Impact of reforms

8. The changes now proposed will further reduce the contributions of the low paid and will also remove the disincentives they face if they earn just less than £75 or £115 a week, the lower boundaries of the 7 per cent and 9 per cent bands. For example, under the current system, employees ~~will~~ pay 5 per cent on all of their earnings if they are paid £74 and 7 per cent on all of their earnings if they earn £75. A similar "step" occurs at £115. These steps mean that employees may find themselves worse off after a small pay increase or working overtime, as a result of paying extra contributions.

9. From October, these steps will disappear, and the initial step, at the Lower Earnings Limit, will be much reduced. Employees will pay only 2 per cent of their earnings upto the Lower Earnings Limit and 9 per cent of their earnings between the Lower and Upper Earnings Limits.

10. A step will be retained at the Lower Earnings Limit because the minimum payment earns entitlement to contributory benefits, including the basic retirement pension. But the minimum

COPY NO. 21 OF 23.

FROM: J M G TAYLOR
DATE: 8 March 1989

MR MACE - Inland Revenue

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Pickford
Mr Gieve
Mr McIntyre
Mr Matthews
Mrs Chaplin

Sir A Battishill - IR
Mr Painter - IR
Mr Lewis - IR
Mr Calder - IR
Mr Eason - IR
PS/IR

MAIN INCOME TAX PRESS RELEASE

The Chancellor was most grateful for your note of 7 March and the revised Press Release, prepared by you and Mr Eason.

2. He has a few drafting points on page 1. These are:

<u>paragraph 2, line 4</u>: recast to read "... 2 per cent on earnings up to the lower earnings limit ...";

<u>paragraph 4</u>: recast to read "The reduction in National Insurance Contributions from [ ] October 1989 means that all employees on just under half average earnings or more will pay £3 per week less in contributions." (Should it not be 2 October rather than 6 October?).

3. The Chancellor is otherwise well content with the draft.

JT

J M G TAYLOR

COPY NO. 23 OF 23.

FROM: J M G TAYLOR
DATE: 8 March 1989

MR MACE - Inland Revenue

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Pickford
Mr Gieve
Mr McIntyre
Mr Matthews
Mrs Chaplin

Sir A Battishill - IR
Mr Painter - IR
Mr Lewis - IR
Mr Calder - IR
Mr Eason - IR
PS/IR

MAIN INCOME TAX PRESS RELEASE

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2. He has a few drafting points on page 1. These are:

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<u>paragraph 4</u>: recast to read "The reduction in National Insurance Contributions from [ ] October 1989 means that all employees on just under half average earnings or more will pay £3 per week less in contributions." (Should it not be 2 October rather than 6 October?).

3. The Chancellor is otherwise well content with the draft.

J M G TAYLOR

BUDGET CONFIDENTIAL

Inland Revenue

Oil and Financial Division
Somerset House

FROM: A G NIELD

DATE: 8 MARCH 1989

FINANCIAL SECRETARY

UNIT TRUSTS AND UMBRELLA FUNDS: PRESS RELEASES

1. I attach final versions of the Press Releases, which you have approved.

2. You have asked about the reference in the Press Release on umbrella funds, to funds other than offshore funds.

3. This reference in the Press Release is aimed at the situation mentioned in paras 24&25 of my note to you of 9 December, which dealt with the case of an offshore registered umbrella fund that was resident in UK for tax purposes because its management is carried out here. It is not possible for open ended investment companies - which are the vehicles that avoid the present charge - to exist onshore under UK company law.

---

cc. PS/Chancellor
Sir Peter Middleton
Mr Scholar
Mr Culpin
Mr Odling Smee
Mr Ilett
Mr Nielson
Mr Gilhooly
Mrs Chaplin
Mr Tyrie
Mr Gieve
Mr Beighton
Mr Johns
Mr Houghton
Mr Nield
Mr Fawcett
Mr Cayley
Miss McFarlane
PS/IR

4. There is however a point you might like to be aware of on the way the legislation has been drafted. It applies a tax charge to switches in all umbrella funds, whether onshore or offshore. In practice, the only onshore collective investment vehicles to which the charge can apply are unit trusts, who are already subject to such a charge, but drafting the legislation in this way has enabled it to be kept simple and has enabled the existing obscurely worded provision that gives a switching charge for unit trusts to be repealed: there will be in future a single, much clearer, provision covering switching in all collective investment schemes however constituted. If onshore open-ended investment companies were to become possible in the future, the legislation as drafted would also apply to switches in them. It seems right that, if they were to become possible, they should be treated on all fours with unit trusts in this respect. Also, the legislation would have to be more complicated if they were excluded. But this will only be of any practical effect if UK company law is changed to allow open-ended investment companies. There is no significance in this at the moment.

Geoff N

GEOFF NIELD

INLAND REVENUE

Press Release

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

[3x] 14 March 1989

REMOVAL OF TAX DISADVANTAGES FOR SOME UNIT TRUSTS

1. The Chancellor proposes in his Budget to introduce from 1 January 1990 a new tax regime for unit trusts which are freely marketable within the European Community. This will enable them to compete more effectively with their European counterparts.

2. The new system builds on the existing corporation tax regime for most authorised unit trusts. Its main features are:

- A reduction in the corporation tax rate from 35% to the basic rate of income tax [x%]. This will remove any UK tax charge on a trust which cannot be credited to unitholders.

- Relief for management expenses and interest on borrowings permitted under Securities and Investment Board regulations.

3. The changes will cost the Exchequer about £20m a year. The main beneficiaries will be investors in unit trusts which invest primarily in bonds.

MAIN CHANGES

4. At present -

most unit trusts pay tax at the main rate of corporation tax <u>(35%) and get relief</u> for their management expenses and interest paid.

some unit trusts pay tax at the basic rate of income tax <u>(25%) but get no relief</u> for their management expenses or interest paid.

/5. As from 1 January 1990

5. As from 1 January 1990 -

the regime will be changed for all unit trusts which are UCITS (see below). They will pay corporation tax at a rate equal to the basic rate of income tax [x%] and get relief for their management expenses and interest paid. Other unit trusts and the position of unit trust managers are not affected.

The UCITS directive

6. Under a European Community directive, collective investment vehicles that are UCITS (Undertakings for Collective Investment in Transferable Securities) will be able to market their units or shares throughout the whole of the Community from 1 October 1989, subject only to compliance with local marketing regulations. Most UK authorised unit trusts will be UCITS.

DETAILS

Lower rate of corporation tax

7. The income of unit trusts that are UCITS will be charged to corporation tax at a rate equal to the basic rate of income tax as from 1 January 1990. This means that unitholders will be able to obtain full credit for UK tax paid by the trust. The main beneficiaries will be trusts investing a proportion of their money in bonds or fixed interest securities where before the Budget the trust paid tax at 35% on the income from these investments but the unitholder only received a credit of 25% on distributions from the trust.

Corporate unitholders

8. Companies investing in unit trusts will be liable to corporation tax on the income they receive, but they will get credit at the basic rate of income tax for the tax paid by the trust. The main corporate investors in unit trusts are life assurance companies. Their rate of corporation tax on income and gains attributable to policy holders will also fall to the same as the basic rate of income tax from 1 January 1990. So their tax liability on unit trust income attributable to policyholders will be wholly covered by the tax credited. Small companies paying the reduced rate of corporation tax will be in the same position. Other companies will have to pay the difference between the full rate of corporation tax and the basic rate of income tax credited on the unit trust income.

/ Coverage

Coverage

9. All unit trusts that are UCITS will be covered by the new tax system. This means that gilt trusts that are UCITS will cease to be dealt with under the existing income tax regime. The switch will take place for the first distribution period of the trust starting after 31 December 1989. As a result of this switch gilt trusts will then be entitled to tax relief for management expenses and for interest paid on borrowings allowed under SIB regulations.

10. The UCITS directive applies to authorised unit trusts investing in transferable securities. It does not cover other authorised unit trusts such as those investing in property, futures and options or deposits (ie money funds). They cannot be marketed in Europe and comparable European vehicles cannot be marketed to the public in the United Kingdom. The immediate change is intended to deal with imminent competition for vehicles that can be marketed throughout Europe, although the Government recognises that there are questions to be considered in the coming year about the tax treatment of other types of collective investment vehicle.

Start Date

11. The new system will start from 1 January 1990 to tie in with the commencement of the proposed new regime for life assurance companies. This is to avoid the need for administratively costly transitional provisions in the very short period between 1 October 1989 and 1 January 1990.

NOTES FOR EDITORS

Present tax arrangements

1. Authorised unit trusts other than gilt trusts (which invest only in UK interest bearing securities) are taxed like companies. They therefore pay corporation tax on the income they receive, and advance corporation tax on income available for distribution. The trust deducts management expenses and interest paid in arriving at its taxable income.

2. Dividends distributed to unitholders carry a tax credit which is used to frank their personal tax liability.

3. Gilt trusts pay income tax at the basic rate on their income, but nevertheless gilts get no relief for management expenses or interest paid. Amounts available for distribution are treated as received by unitholders as income on which basic rate tax has already been paid.

/4. Most European countries

4. Most European countries apply a "transparent" regime for collective investment schemes. The taxayer is taxed as if he held a pro rata share of the underlying asset, but nevertheless gets tax relief for management expenses. The proposed tax regime effectively achieves the same result, but avoids the complexities of transparency. In particular, it avoids the need for unit trusts to identify the extent to which distributions are derived from different types of income and then provide details to each unitholder.

5. The UCITS directive is the European Communities Council directive of 20 December 1985 (85/611/EEC) as amended by directive 88/220/EEC of 22 March 1988.

Compliance Cost Assessment

6. Assessments of the compliance costs of proposals affecting businesses are available. A copy of the Compliance Cost Assessment for this proposal can be obtained from:

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

BUDGET CONFIDENTIAL
DRAFT PRESS RELEASE

[3x] 14 March 1989

OFFSHORE UMBRELLA FUNDS

The Chancellor proposes in his Budget to tax switches made on or after today within offshore "umbrella" funds. This will remove a tax advantage at present enjoyed by offshore funds compared with UK unit trusts.

DETAILS

Currently, where a switch is made from one class of investments in an offshore fund to another, there is no disposal for tax purposes. From today, UK investors will be liable to tax on any gain arising when they switch holdings within an offshore fund or any other "umbrella" collective investment scheme.

For offshore funds, the treatment of switches will follow the existing treatment for disposals of holdings. So switches within offshore funds not certified by the Inland Revenue as "distributing funds" will be chargeable to income tax (under Case VI Schedule D). In all other cases the charge will be capital gains tax.

NOTES FOR EDITORS

1. The term "umbrella fund" applies to investment funds whose investments are divided into different sub-funds. The rules of the fund permit investors to switch their investments from one sub-fund to another without disposing of their interest in the fund.

2. The share reorganisation provisions in Section 78 CGTA 1979 at present effectively exempt investors from any tax liability on switching. Switches within UK unit trusts are however chargeable under Section 78 F(No.2)A 1987.

3. The present proposal will cover switches in all umbrella collective investment schemes. Section 78 CGTA 1979 will cease to apply to offshore funds and Section 78 (F(No.2)A 1987 will be repealed for onshore unit trusts.

pmg.vd

BUDGET CONFIDENTIAL

FROM: MALCOLM BUCKLER
DATE: 8 March 1989

MR FARMER - INLAND REVENUE

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Scholar
Mr Culpin
Mr Gieve
Mr Ilett
Mr Gilhooly
Mrs Chaplin
Mr Tyrie
Mr Call
PS/Inland Revenue
Mr Painter - IR
Ms Fairfield - IR

BUDGET DAY PRESS RELEASES: EMPLOYEE PARTICIPATION

The Paymaster General has seen your submission to the Financial Secretary of 6 March.

He is content with the proposed Budget Day Press Releases: "Improved Tax Reliefs for Employee Participation" and "Change to Employees' Material Interest Tests". The Paymaster had a few minor drafting points on the latter release which I have passed on to Ms Fairfield.

MALCOLM BUCKLER
Private Secretary

est.ld/james/8 Mar/Massingale

BUDGET CONFIDENTIAL

ECONOMIC SECRETARY TO THE TREASURY

FROM: S M A JAMES
DATE: 8 March 1989

MR MASSINGALE - IR

cc: PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Mr Culpin
Mr Gilhooly
Miss Hay
Mr Flanagan

PS/IR
Mr Painter - IR
Mr Lewis - IR
Mr Bush - IR
Mr Stewart - IR
Mr Denton - IR
Mr Wilmer - IR

PRESS RELEASE ON CAR SCALES

The Economic Secretary has seen your minute of 2 March to the Financial Secretary attaching the draft car scales press release.

2. The Economic Secretary has, as you are aware, been allocated responsibility for presentation of budget measures on cars. This is to confirm the amendments he wishes to make to the draft press notice:

Details

(i) Delete paragraph 1;

BUDGET CONFIDENTIAL

(ii) Replace paragraph 2 with the following:

- Car scales charge employees and directors on the benefit of having a car provided by their employer which is available for private use;

- Cars which are exclusively for business use and not available for private use incur no scale charge;

- Employees earning less than £8,500 a year including the value of benefits in kind such as the car scale are not taxed on those benefits;

(iii) <u>Implementation</u> : delete paragraph 4.

SMAJ

S M A JAMES
PRIVATE SECRETARY

BUDGET CONFIDENTIAL

Inland Revenue

Savings and
Investment Division
Somerset House

FROM: M A HILL
DATE: 8 MARCH 1989

1. MR CORLETT
2. MR ISAAC
3. FINANCIAL SECRETARY

STAMP DUTY : BUDGET DAY PRESS RELEASE

1. Attached is a draft press release for your approval. It records that the Finance Bill will contain regulation-making powers to adapt stamp duties to TAURUS pilots and other half-way houses to full dematerialisation likely over the next 12 months.

2. We have tried to keep this particular press release relatively low-key. And the line generally, with the Regulations being presented a necessary interim measure, follows that agreed by the Chancellor (Mr Allan's 3 March note to Mr Isaac).

Annoying to refer to this, since only copied to Culpin in Tsy.

Chancellor of the Exchequor	Mr Isaac
Chief Secretary	Mr Corlett
Paymaster General	Mr Bush
Economic Secretary	Mr Pipe
Mr Monck	Mr Adderley
Mr Scholar	Miss McFarlane
Mr Culpin	Mr Denton
Mr Gieve	PS/IR
Mr Gilhooly	Miss Hill
Mr Neilson	
Miss J C Simpson	
Mrs Chaplin	
Mr Tyrie	
Mr Call	

3. Further discussions with Parliamentary Counsel have confirmed that, contrary to what we thought originally, these Regulation-making powers will not require a Budget resolution. But we would still recommend a Budget Day press release nonetheless. The Stock Exchange and others involved in the discussions both on TAURUS and on the forthcoming privatisations will all be expecting to see some appropriate stamp duty measures in the Budget. A Budget Day press release will anticipate their inevitable questions, and also provide an opportunity to present Ministers' decisions in the best light.

MAH

M A HILL

BUDGET CONFIDENTIAL
DRAFT

INLAND REVENUE

Press Release

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

[3X] 14 March 1989

STAMP DUTY ON SHARES - ADAPTING TO PAPERLESS TRANSACTIONS

The Chancellor proposes in his Budget to bring forward Regulation-making powers to adapt stamp duty and stamp duty reserve tax to the new methods of transferring shares likely to appear over the next 12 months, particularly as the Stock Exchange moves towards a system of paperless share transactions.

The Regulations are needed as an interim measure to ensure that these transfers made by new methods are liable to stamp duties on the same basis as ordinary deals which are made by present methods.

DETAILS

1. There are two parallel duties on share transfers: stamp duty and stamp duty reserve tax (SDRT). The effect in most cases is to impose a single charge of 0.5% of the price paid.

2. Stamp duty is a tax on documents. At present most share transactions are effected by paper documents and are liable to stamp duty.

3. But several developments in the way deals are carried out are now in the pipeline. For example, new arrangements have been proposed to cover the initial period of dealing following a new share issue. More generally the Stock Exchange is working towards a dematerialised (ie paperless) system of share transfers, known as "TAURUS".

4. In a paperless world the charge will be to SDRT, rather than stamp duty. But it is likely that the present SDRT rules will need to be adapted in one or more ways. The necessary adaptations cannot be identified until those concerned in the markets have taken firmer decisions on the structure of the new trading system and how it will work. However, it is possible to envisage circumstances when for example the present rules could

- produce double - or even multiple - charges to SDRT, or a stamp duty liability in addition to a SDRT one;

- mean a deal fails to qualify for the SDRT reliefs available to a paper-based transaction;

- impose collection obligations and procedures which do not fit the new arrangements.

5. The timing, as well as the substance, of the new system for dematerialised share transfers is still in the planning stage and the details are not yet known. Nor are the revised proposals for new issues yet firm. But it is likely that over the next 12 months there will be some transactions taking place on the basis of these planned developments, by way of pilot schemes for TAURUS etc. The Chancellor therefore proposes, as an interim measure, to introduce Regulations as necessary later in the year to adapt stamp duty and SDRT to these initial arrangements once they become known.

6. It is envisaged that any new substantive legislation necessary to cope with TAURUS in its final form, or other new methods of transferring shares, could be introduced in the 1990 Finance Bill. The legislation could then be framed to take account of the final details of the new methods now in the pipeline, and meanwhile not unnecessarily constrain the Stock Exchange's development plans for TAURUS.

7. The powers to make the interim Regulations will be in this Finance Bill.

Pwp

FINANCIAL SECRETARY TO THE TREASURY

FROM: R C M SATCHWELL
DATE: 8 March 1989

MR REED - IR

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

Mr Isaac) IR
Mr McGivern)
PS/IR

PRESS RELEASES - STARTERS 204, 205 AND 206

The Financial Secretary was grateful for your minutes of 6 and 7 March.

He approves the Press Release on ACT as drafted.

On that for BES, he would amend the first paragraph to read; "The Chancellor proposes in his Budget to remove the tax relief for interest payments on loans raised to buy shares in a closely - controlled company where the shares also qualify for tax relief under the Business Expansion Scheme. The change will apply to shares issued on or after today". He would also make two changes in para 1 of the Notes for Editors; amend "the investment" in the second line to "BES investment", and "tens of £ million have" in the fourth to "about £100 million has".

On that for close companies, he had a number of minor amendments to the "Details":-

- para 1: "will" instead of "is finally to";

- para 2: insert "in his Budget Statement" in the first line after "described this", and remove the further references using "said" in the third and sixth lines;

- para 3: begin with "<u>however</u>, some provisions are <u>still</u> needed ....";

- para 6: underline "provide" in the third line.

R.C.M.S.

R C ~~M~~ SATCHWELL
Private Secretary

est.ld/james/8 Mar/Massingale

Pup.

BUDGET CONFIDENTIAL

ECONOMIC SECRETARY TO THE TREASURY

FROM: S M A JAMES
DATE: 8 March 1989

MR MASSINGALE - IR

cc: PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Mr Culpin
Mr Gilhooly
Miss Hay
Mr Flanagan

PS/IR
Mr Painter - IR
Mr Lewis - IR
Mr Bush - IR
Mr Stewart - IR
Mr Denton - IR
Mr Wilmer - IR

PRESS RELEASE ON CAR SCALES

The Economic Secretary has seen your minute of 2 March to the Financial Secretary attaching the draft car scales press release.

2. The Economic Secretary has, as you are aware, been allocated responsibility for presentation of budget measures on cars. This is to confirm the amendments he wishes to make to the draft press notice:

<u>**Details**</u>

(i) Delete paragraph 1;

(ii) Replace paragraph 2 with the following:

- Car scales charge employees and directors on the benefit of having a car provided by their employer which is available for private use;

- Cars which are exclusively for business use and not available for private use incur no scale charge;

- Employees earning less than £8,500 a year including the value of benefits in kind such as the car scale are not taxed on those benefits;

(iii) <u>Implementation</u> : delete paragraph 4.

[signature]

S M A JAMES
PRIVATE SECRETARY

FROM: J P MCINTYRE
DATE: 9 March 1989

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Sir T Burns
Mr Scholar
Mr Culpin
Mr Riley
Mr Sedgwick
Mr Gieve
Mr Gilhooly
Mr Mowl
Mr Macpherson
Miss Simpson
Mr Speedy
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Mace (IR)
PS/IR

Ch
OK? (I'd use "£3" rather than "£3.01" in the text).
AA

OK - Stick this in this Press Notice; they can have their '£3.01' [illegible]

NICS: PRESS NOTICE

I attach the final draft of this press notice, reflecting Mr Moore's and others' comments.

2. The main changes from the version I circulated on 7 March are:

i. The quotation from the Budget statement has been omitted, because the Press Notice has to be finalised early tomorrow, whereas you may wish to alter the text of the speech over the weekend.

ii. Two tables have been added, at the back, setting out the new levels of contributions and the resulting gains for contracted-in and contracted-out respectively. (The gains are the same for each, but the levels of contributions are different). At Mr Moore's suggestion, the tables show how the combined impact of the 1985 and 1989 reforms give low paid employees (upto £115) the same gain (£3.01 a week) as those on £115 or more. I think this will help rebut any possible charges that the very low paid are being unfairly treated.

ii. Also at Mr Moore's suggestion, a reference is made to the NIF (paragraph 9).

3. I would be grateful to know whether you are content with the draft as it now stands. We need clearance first thing tomorrow so that the Press Notice can be copied.

JM

J P MCINTYRE

Draft Press Notice

REFORM OF EMPLOYEES NATIONAL INSURANCE CONTRIBUTIONS

The Chancellor announced in his Budget Statement that he and the Secretary of State for Social Security propose major changes in employees' national insurance contributions. The necessary provisions will be added to the Social Security Bill now before Parliament, and the changes will take effect from 5 October 1989, the earliest practicable date.

2. Welcoming the Chancellor's announcement, the Secretary of State for Social Security commented:

> "These changes are a major reform of the way in which employees' contributions are determined. They will get rid of two of the three steps in the national insurance system which can result in pay increases being more than offset by higher contributions, leaving employees worse off. And the first step, when people start paying contributions, will be more than halved."

3. From 5 October, 15 million employees earning £115 a week or more will have their contributions reduced by £3.01 a week. 4 million employees earning between £43 and £115 a week will gain smaller amounts from these changes. This is because their contributions have already been reduced as a result of the reforms implemented in 1985. As the attached tables show, they too will have gained £3.01 a week, taking the 1985 and 1989 changes together. Those earning less than £43 will continue to have no liability to pay contributions.

odd

you have excised this from speech [illegible].

4. The changes will reduce contribution income by about £1 billion in 1989-90 and about £2.8 billion in 1990-91. Most of the benefit will go to those with less than average earnings.

<u>**Present system**</u>

5. Once employees earn more than the Lower Earnings Limit (£43 a week in 1989-90), they pay contributions on the whole of their earnings upto the Upper Earnings Limit (£325). Under the current system, there are three different rates. The rates for contracted-in employees are: 5 per cent of all earnings for those earning £43-£74.99; 7 per cent of all earnings for those earning £75 - £114.99; and 9 per cent of all earnings for those earning £115 or more. The two lower rates were introduced (for both employers and employees) in the 1985 Budget in order to reduce the cost of employing young and unskilled people. Hitherto, the low paid and their employers had paid the full standard rate.

<u>**Proposed changes**</u>

6. The changes now proposed will further reduce the contributions of the low paid and will also remove the disincentives they face if they earn just less than £75 or £115 a week, the lower boundaries of the 7 per cent and 9 per cent bands. For example, under the current system, contracted-in employees pay 5 per cent on all of their earnings if they are paid £74 (ie £3.70 in NICs) and 7 per cent on all of their earnings if they earn £75 (ie £5.25 in NICs). So a £1 increase in gross pay is more than offset by a £1.55 increase in NICs. A similar "step" occurs at £115. These steps mean that employees may find themselves worse off after a small pay increase or working overtime, as a result of paying extra contributions.

8. From October, these steps will disappear, and the initial step, at the Lower Earnings Limit, will be much reduced. Employees will pay only 2 per cent of their earnings upto the Lower Earnings Limit and 9 per cent on that part of their earnings between the Lower and Upper Earnings Limits.

8. A step will be retained at the Lower Earnings Limit because the minimum payment earns entitlement to contributory benefits, including the basic retirement pension. But the minimum contribution will be reduced from 5 per cent of earnings upto the LEL (ie £2.15 a week) to 2 per cent (ie £0.86); all of this contribution will go towards financing contributory benefits.

9. The balance in the National Insurance Fund is large enough to absorb the effect of these reforms.

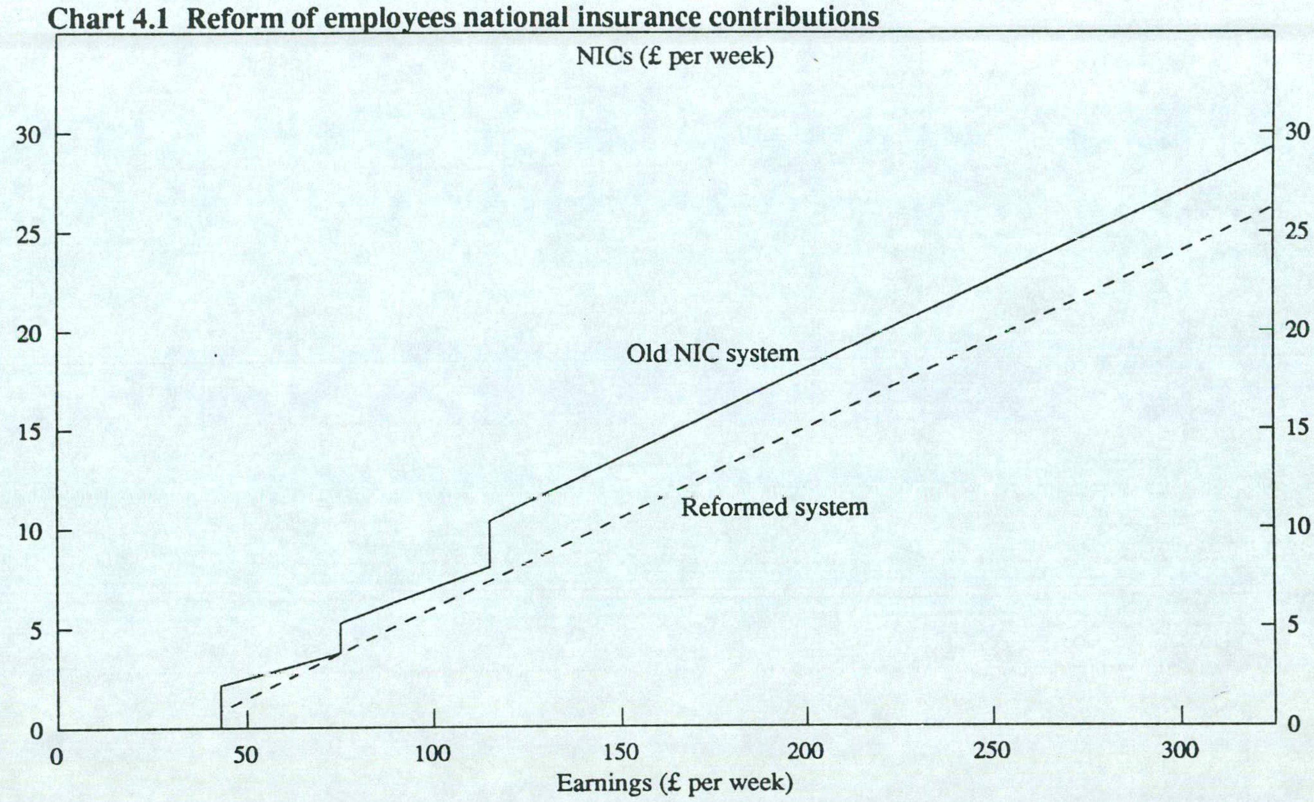
10. The changes are illustrated in the chart and tables attached.

11. There will be no change in the contributions payable by employers or the self employed. The employees' contracted-out rebate will remain at 2 per cent.

12. A copy of the compliance cost assessment for these proposals can be obtained by writing to:

Department of Social Security
Deregulation Unit
151 Great Titchfield Street
LONDON W1P 8AD

Chart 4.1 Reform of employees national insurance contributions



EMPLOYEES' NATIONAL INSURANCE CONTRIBUTIONS IN 1989-90: CONTRACTED-IN EMPLOYEES

Effect of proposed changes:

Weekly Earnings (£)	Contributions (£ per week) From 6 April 1989[1]	From 5 October 1989	Gain (£ per week)
43[2]	2.15	0.86	+1.29
50	2.50	1.49	+1.01
75	5.25	3.74	+1.51
100	7.00	5.99	+1.01
115	10.35	7.34	+3.01
125	11.25	8.24	+3.01
150	13.50	10.49	+3.01
200	18.00	14.99	+3.01
250	22.50	19.49	+3.01
300	27.00	23.99	+3.01
325[3] and above	29.25	26.24	+3.01

Notes

(1) As announced by Secretary of State on 1 November 1988.
(2) Lower Earnings Limit
(3) Upper Earnings Limit

Combined effect of proposed changes and 1985 reforms on employees earning up to £115 a week:

Weekly Earnings (£)	Contributions (£ per week) Pre-1985 reform*	From 6 April 1989	From 5 October 1989	Total Gain (£ per week)
43	3.87	2.15	0.86	+3.01
50	4.50	2.50	1.49	+3.01
75	6.75	5.25	3.74	+3.01
100	9.00	7.00	5.99	+3.01

* This column shows the weekly contributions contracted-in employees would have paid in 1989-90 on the basis of NIC system before the October 1985 reforms.

EMPLOYEES' NATIONAL INSURANCE CONTRIBUTIONS IN 1989-90: CONTRACTED-OUT EMPLOYEES

Effect of proposed changes:

Weekly Earnings (£)	Contributions (£ per week) From 6 April 1989[1]	From 5 October 1989	Gain (£ per week)
43[2]	2.15	0.86	+1.29
50	2.36	1.35	+1.01
75	4.61	3.10	+1.51
100	5.86	4.85	+1.01
115	8.91	5.90	+3.01
125	9.61	6.60	+3.01
150	11.36	8.35	+3.01
200	14.86	11.85	+3.01
300	21.86	18.85	+3.01
325[3] and above	23.61	20.60	+3.01

Notes

(1) As announced by Secretary of State on 1 November 1988
(2) Lower Earnings Limit
(3 Upper Earnings Limit

Combined effect of proposed changes and 1985 reforms on employees earning upto £115 a week:

Weekly Earnings (£)	Pre-1985 reform*	Contributions (£ per week) From 6 April 1989	From 5 October 1989	Total Gain (£ per week)
43	3.87	2.15	0.86	+3.01
50	4.36	2.36	1.35	+3.01
75	6.11	4.61	3.10	+3.01
100	7.86	5.86	4.85	+3.01

* This column shows the weekly contributions contracted-out employees would have paid in 1989-90 on the basis of the NIC system before the 1985 reforms.

NOTES FOR EDITORS

1. Details of national insurance contributions payable from April 1989 were announced by the Secretary of State for Social Security on 1 November 1988 (Hansard volume 139 No. 210, col 631). The changes announced in the Budget statement will apply from 5 October 1989.

FROM: J P MCINTYRE
DATE: 9 March 1989

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Sir T Burns
Mr Scholar
Mr Culpin
Mrs Lomax
Mr Riley
Mr Sedgwick
Mr Gieve
Mr Gilhooly
Mr Mowl
Mr Macpherson
Miss Simpson
Mr Speedy
Mr Bolton
Mrs Chaplin
Mr Tyrie
Mr Call
PS/IR

a
OK? (Incorporates CST comments on earlier draft)
AA

OK.

PENSIONERS EARNINGS RULE: PRESS NOTICE

I attach the final draft of the DSS press notice, reflecting Mr Moore's comments.

2. The main changes from the version circulated on 7 March are:

i. The quotation from the Budget speech has been taken out because we need to finalise the Press Notice early tomorrow (Friday), whereas you may wish to alter your speech over the weekend.

ii. At Mr Moore's suggestion, paragraph 3 now includes a reference to those earning less than £75 a week who may be encouraged to work more when the earnings rule has been abolished.

3. The text needs to be finalised by first thing tomorrow for coying. We would therefore be grateful to know whether you are content with it as it now stands.

JM

J P MCINTYRE

DRAFT PRESS NOTICE

ABOLITION OF PENSIONERS' EARNINGS RULE

The Chancellor announced in his Budget Statement that he and the Secretary of State for Social Security propose to abolish the pensioners' earnings rule. The necessary provisions will be added to the Social Security Bill now before Parliament, and the rule will be abolished with effect from 1 October 1989.

2. Commenting on the Chancellor's announcement, the Secretary of State for Social Security said:

> "This is very good news for older people. It means they can go on working without having their state pension reduced. And they will no longer be barred from receiving a full pension if they work more than a few hours a week. If they have paid their contributions upto state pension age it is right that they should be able to draw their pension without penalty. It will still be possible for people to defer drawing their pension for up to 5 years and so increase their entitlements. So the new system will give more choice and flexibility for older people who want to carry on working. They have much to offer by way of skills and experience".

3. About 200,000 elderly people now defer their state pension, often because of the earnings rule. These include some 50,000 married women whose husbands defer their pension. Each year of deferral earns an increment of about 7½ per cent of the pension. This option to defer will continue. A further 2,500 people also have their state pension reduced by the earnings

rule. There are also about 200,000 earning less than £75 a week, and many not earning at all, for whom abolition of the earnings rule will remove an important disincentive.

4. The public expenditure cost of abolishing the rule will depend on the number of people who choose no longer to defer their state pension. If 80 per cent no longer defer, the estimated cost would be about £190 million in 1989-90 and about £375 million in 1990-91. In both years this will be met from the Reserve and so will not add to the planned total of public expenditure. Additional tax revenue on these pensions would bring in to the Exchequer some £20 million in 1989-90 and £110 million in 1990-91. To the extent that abolishing the rule leads to additional employment, revenue from income tax and employers' national insurance contributions will be higher, thus further reducing the net Exchequer cost.

5. In the longer term, the annual public expenditure cost will fall below that projected for 1990-91 because, if fewer people opt to defer their pensions, there will be a reduced need to pay increments.

6. From 1 October 1989, following Royal Assent to the Social Security Bill, existing pensioners who already have their pension reduced because of their earnings will be awarded the full pension to which they are entitled. Those who have deferred taking their pension will be offered the opportunity to claim it or to continue deferment. The Department's objective is that as many as possible

of those who wish to do so will be able to draw their pension by Christmas. In any event, payments will be backdated to 1 October.

NOTES FOR EDITORS

The pensioners' earnings rule was introduced in 1948. It affects individuals aged 60-64 (women) and 65 to 69 (men) who have claimed their state retirement pension. Earnings over £75 a week reduce basic pension, its increments, dependency additions, and invalidity allowance. On earnings between £75 and £79, there is a reduction in pension of 5p for every 10p earned. On earnings over £79, there is a reduction of 5p for every 5p earned. This means, for example, that someone in these age groups now earning £119 a week would have their entire basic pension entitlement extinguished.

2. People in these age groups also have to demonstrate that they have retired from regular employment if they are to draw their pension, which in practice means that they cannot work for more than 12 hours a week. It is proposed that this restriction should also be abolished with effect from 1 October 1989.

cst.ps/3ce9.3/mins

BUDGET SECRET COPY No 2 OF 22

JM/89/12

0481

FROM: MISS C EVANS
DATE: 9 March 1989

MR KUCZYS

cc: PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
Mr Scholar
Mr Culpin
Mr L Harris
Mr Gieve Mr Pickford
Mr Dixon
Mr Macpherson Miss Simpson
Mrs Chaplin
Mr Tyrie
Mr Call Miss Wallace

Mr Isaac - IR
Mr Corlett - IR
Mr Bush - IR
PS/IR

PENSIONS PRESS RELEASE

This is to confirm that the Chancellor and the Chief Secretary have agreed the following form of words to go at the end of the first paragraph of 'Details of the Proposals' on page 2 of the press release.

> 'The Chancellor has made it clear that he has no plans for further substantive changes to the tax treatment of pensions.'

CE

MISS C EVANS
Private Secretary

BUDGET SECRET

Fax Copy Seen PWP

Inland Revenue

Personal Tax Division
Somerset House

COPY NO 1 OF 25

FROM: BRIAN MACE

EXT: 6546

DATE: 9 MARCH 1989

CHANCELLOR OF THE EXCHEQUER

MAIN INCOME TAX PRESS RELEASE

1. I attach for your approval the final draft of the text of this press release taking account of your comments on the version attached to my minute of 7 March, some further changes to keep the wording in line with the final draft of the DSS press release on the NIC changes, and a few small additional amendments. You may like to consider the draft alongside the DSS press release which Mr McIntyre is putting to you separately today. (I have not submitted the specimen income tables on this occasion as they are essentially unchanged from those attached to my minute of 7 March).

2. We should be grateful to have your approval to the text as soon as possible tomorrow so that our Reprographics Unit can meet the necessary printing deadlines.

B A Mace

B A MACE

---

cc		
cc	Chief Secretary	Chairman
	Financial Secretary	Mr Painter
	Paymaster General	Mr Lewis
	Economic Secretary	Mr Calder
	Sir P Middleton	Mr Mace
	Sir T Burns	Mr Eason
	Mr Scholar	Miss White
	Mr Culpin	Miss McFarlane
	Mr Pickford	Mr Denton
	Mr Gieve	Mr Wardle
	Mr McIntyre	PS/IR
	Mr Matthews	
	Mrs Chaplin	

Budget - SECRET

INLAND REVENUE

Press Release

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

[3x] 14 March 1989

THE BUDGET 1989 : INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS

1. The Chancellor proposes in his Budget to

- increase the main income tax allowances and the basic rate limit by about 6.8 per cent, in line with the statutory indexation requirement;
- extend to those aged 75 and over the higher level of age allowance currently given to those aged 80 and over;
- reduce the rate at which the age allowance is withdrawn when a taxpayer's income exceeds the income limit;
- make no change in the basic and higher rates of income tax.

2. The Chancellor also announced substantial reductions in employees' Class 1 National Insurance Contributions, from 5 October 1989, as part of a major reform of the way in which these contributions are determined. Contributions will be 2 per cent on earnings up to the lower earnings limit of £43 per week and 9 per cent on earnings above £43 up to the upper earnings limit of £325 per week. Employees earning less than £43 per week will continue to have no liability to pay contributions. The employees' contracted-out rebate will remain at 2 per cent. Further details of the changes to National Insurance Contributions are given in a Press Release published today by the Department of Social Security.

3. The income tax changes will mean that most single taxpayers and married women will pay 87p per week less tax and most married men will pay £1.34 per week less tax. The tax reductions, including any tax overpaid from 6 April, will be in pay packets on the first pay day after 17 May.

4. The reduction in National Insurance Contributions from 5 October 1989 means that all employees on just under half average earnings or more will pay £3 per week less in contributions.

5. The increases in income tax allowances are the amounts required under statutory indexation based on the increase in the Retail Price Index of 6.8 per cent in the year to December 1988, rounded in accordance with the statutory provisions. The married man's allowance is increased by £280 to £4,375 and the single person's allowance and wife's earned income allowance are increased by £180 to £2,785. The additional personal allowance (mainly for single parents) and the widow's bereavement allowance - which are automatically equal to the difference between the married and single allowances - increase by £100 to £1,590.

6. Age allowances are also increased: by £220 to £3,400 for single people aged 65 to 74 and by £350 to £5,385 for married couples aged 65 to 74. The higher level of age allowance currently given to those aged 80 and over is extended to those aged 75 and over. For those aged 75 to 79, the single age allowance is increased by £360 from £3,180 to £3,540 and the married age allowance by £530 from £5,035 to £5,565. For those aged 80 and over, the single age allowance is increased by £230 to £3,540 and the married age allowance is increased by £360 to £5,565.

/7. The income limit

Budget - SECRET

7. The income limit for age allowance rises to £11,400 and the rate at which age allowance is withdrawn above the income limit is reduced from £2 of allowances for every additional £3 of income to £1 of allowances for every additional £2 of income. The effective rate of tax in the withdrawal band will fall from 41.67 per cent in 1988-89 to 37.5 per cent in 1989-90.

8. The Chancellor also proposes to increase the basic rate limit by the amount indicated by the indexation formula, that is by £1,400 to £20,700 of taxable income. The increases in the basic rate limit and the allowances mean that a single person with income of over £23,485 will pay £282 less tax in 1989-90 and a married man with income over £25,075 will pay £322 less tax if they have no other allowances or tax reliefs.

9. The Chancellor's proposals in detail are as follows:

(1) Income Tax Allowances

	1988-89	**Proposed increase**		**1989-90 Proposed level**
	£	**£**	**per cent**	**£**
Single person's allowance and wife's earned income allowance	2,605	180	*6.9*	2,785
Married man's allowance	4,095	280	*6.8*	4,375
Additional personal allowance and widow's bereavement allowance	1,490	100	*6.7*	1,590
Single age allowance (age 65-74)	3,180	220	*6.9*	3,400
Single age allowance (age 75-79)	3,180	360	*11.3*	3,540
Single age allowance (age 80 and over)	3,310	230	*6.9*	3,540
Married age allowance (age 65-74)	5,035	350	*7.0*	5,385
Married age allowance (age 75-79)	5,035	530	*10.5*	5,565
Married age allowance (age 80 and over)	5,205	360	*6.9*	5,565
Age allowance income limit	10,600	800	*7.9*	11,400

(2) Income Tax Rates and Rate bands

Rate of tax	**1988-89 taxable income**	**Proposed increase in starting point**		**1989-90 proposed taxable income**
per cent	**£**	**£**	**per cent**	**£**
25	0-19,300	-	-	0-20,700
40	Over 19,300	1,400	7.3	Over 20,700

/(3) National Insurance

Budget - SECRET

(3) National Insurance Contributions

	From 5 October 1989	
Weekly earnings	**Contracted-in**	**Contracted-out**
Below £43	Nil	Nil
£43 to £325	2 per cent on earnings up to £43 **plus** 9 per cent on earnings between £43 and £325	2 per cent on earnings up to £43 **plus** 7 per cent on earnings between £43 and £325
Above £325	2 per cent on £43 **plus** 9 per cent on £282	2 per cent on £43 **plus** 7 per cent on £282

10. The total direct revenue costs of the income tax proposals will be about £1.5 billion in 1989-90. The changes to the structure of age allowances above the level required for indexation will cost £15 million in 1989-90 and £20 million in 1990-91. The changes in National Insurance Contributions will reduce contribution income by about £1.0 billion in 1989-90 and about £2.8 billion in 1990-91. Further details of the costs of the income tax changes are set out below.

Income Tax Costs (£ million)	1989-90		1990-91
	total costs	costs above indexation	costs above indexation
Increase in basic income tax allowances	1,140	-	-
Increase in age allowances and income limit	125	10	15
Reduction in age allowance withdrawal rate	5	5	5
Increase in basic rate limit	210	-	-
Totals	1,480	15	20

/Illustrative changes

Illustrative changes

11. The effects of the proposed changes to income tax and National Insurance Contributions (as they will apply after 5 October 1989) on individual taxpayers at various levels of income are illustrated in the attached tables, which assume that the taxpayer has no tax reliefs other than his or her income tax allowance.

12. Tables 1 and 2 show the effects of the changes in income tax proposed in the Budget for 1989-90 for single and married taxpayers compared with 1988-89. Table 3 gives information in weekly instead of annual terms for levels of income up to £600 per week.

13. Table 4 shows the combined effects of the income tax changes and the reductions in National Insurance Contributions on the weekly income of single people and married couples. Table 5 shows the effects of the proposals compared with statutory indexation of the 1988-89 income tax allowances and basic rate limit, and the levels of National Insurance Contributions for 1989-90 announced in the Autumn Statement 1988. Table 6 shows similar information to Table 4 for families with 2 children, after taking account of child benefit.

14. Tables 7A to 7C show the effects of the income tax changes for people aged 65 to 74, 75 to 79 and those aged 80 and over. Tables 8A to 8C give similar information in weekly instead of annual terms for levels of income up to £600 a week.

15. The remaining tables illustrate the effect of the income tax and National Insurance Contributions changes after taking account of increases in earnings. For illustration, an increase in earnings of 7.5 per cent has been assumed. This is the rate of increase between 1988-89 and 1989-90 taken by the Government Actuary as a working assumption for his annual review of National Insurance Contributions (see paragraph 3.02 of the Autumn Statement 1988). Table 11 includes the effect of child benefit for a married couple with two children. Finally, Table 12 shows changes in the weekly income after tax of a married couple where both partners are working.

Note for Editors

The indexed figures for allowances and thresholds are set out in an Order made today by the Treasury under Sections 1(6) and 257(11) of the Income and Corporation Taxes Act 1988. Sections 1(4) and 257(9) of this Act require 1988-89 allowances and thresholds to be increased by the same percentage (6.8 per cent) as the percentage increase in the general index of retail prices (RPI) between December 1987 and December 1988; and

i. in the case of the basic rate limit and the income limit for age allowance, the result to be rounded up to the nearest multiple of £100; and

ii. otherwise, the increase to be rounded up to the nearest multiple of £10; although

iii. the additional personal allowance and the widow's bereavement allowance are automatically equal to the difference between the married man's allowance and the single person's allowance.

/Budget:Table 1

cst.ps/3ce9.3/mins

BUDGET SECRET COPY No 13 OF 22

JM/89/12

0481

CHIEF SECRETARY TO THE TREASURY

FROM: MISS C EVANS
DATE: 9 March 1989

MR KUCZYS

cc: PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
Mr Scholar
Mr Culpin
Mr L Harris
Mr Gieve
Mr Dixon
Mr Macpherson
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Pickford
Miss Simpson
Miss Wallace

Mr Isaac - IR
Mr Corlett - IR
Mr Bush - IR
PS/IR

PENSIONS PRESS RELEASE

This is to confirm that the Chancellor and the Chief Secretary have agreed the following form of words to go at the end of the first paragraph of 'Details of the Proposals' on page 2 of the press release.

> 'The Chancellor has made it clear that he has no plans for further substantive changes to the tax treatment of pensions.'

CE

MISS C EVANS
Private Secretary

est.ld/james/9 Mar/Hill

BUDGET CONFIDENTIAL

ECONOMIC SECRETARY TO THE TREASURY

FROM: S M A JAMES
DATE: 9 March 1989

MISS HILL - IR

cc: PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Mr Monck
Mr Scholar
Mr Culpin
Mr Gieve
Mr Gilhooly
Miss Simpson
Mrs Chaplin
Mr Tyrie
Mr Call

PS/IR
Mr Isaac - IR
Mr Corlett - IR

STAMP DUTY PRESS RELEASE

The Economic Secretary has seen your minute of 8 March attaching a draft press release and you have since alerted me to a few small Treasury amendments to that draft.

2. The Economic Secretary is content with the amended press release.

S M A JAMES
PRIVATE SECRETARY

BUDGET SECRET

Inland Revenue

Personal Tax Division
Somerset House

PJP

COPY NO OF

FROM: BRIAN MACE

EXT: 6546

DATE: 9 MARCH 1989

CHANCELLOR OF THE EXCHEQUER

OK Thanks. N.

MAIN INCOME TAX PRESS RELEASE

1. I attach for your approval the final draft of the text of this press release taking account of your comments on the version attached to my minute of 7 March, some further changes to keep the wording in line with the final draft of the DSS press release on the NIC changes, and a few small additional amendments. You may like to consider the draft alongside the DSS press release which Mr McIntyre is putting to you separately today. (I have not submitted the specimen income tables on this occasion as they are essentially unchanged from those attached to my minute of 7 March).

2. We should be grateful to have your approval to the text as soon as possible tomorrow so that our Reprographics Unit can meet the necessary printing deadlines.

B A Mace

B A MACE

---

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Pickford
Mr Gieve
Mr McIntyre
Mr Matthews
Mrs Chaplin

Chairman
Mr Painter
Mr Lewis
Mr Calder
Mr Mace
Mr Eason
Miss White
Miss McFarlane
Mr Denton
Mr Wardle
PS/IR

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

Budget -

[3x] 14 March 1989

THE BUDGET 1989 : INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS

1. The Chancellor proposes in his Budget to

- increase the main income tax allowances and the basic rate limit by about 6.8 per cent, in line with the statutory indexation requirement;
- extend to those aged 75 and over the higher level of age allowance currently given to those aged 80 and over;
- reduce the rate at which the age allowance is withdrawn when a taxpayer's income exceeds the income limit;
- make no change in the basic and higher rates of income tax.

2. The Chancellor also announced substantial reductions in employees' Class 1 National Insurance Contributions, from 5 October 1989, as part of a major reform of the way in which these contributions are determined. Contributions will be 2 per cent on earnings up to the lower earnings limit of £43 per week and 9 per cent on earnings above £43 up to the upper earnings limit of £325 per week. Employees earning less than £43 per week will continue to have no liability to pay contributions. The employees' contracted-out rebate will remain at 2 per cent. Further details of the changes to National Insurance Contributions are given in a Press Release published today by the Department of Social Security.

3. The income tax changes will mean that most single taxpayers and married women will pay 87p per week less tax and most married men will pay £1.34 per week less tax. The tax reductions, including any tax overpaid from 6 April, will be in pay packets on the first pay day after 17 May.

4. The reduction in National Insurance Contributions from 5 October 1989 means that all employees on just under half average earnings or more will pay £3 per week less in contributions.

5. The increases in income tax allowances are the amounts required under statutory indexation based on the increase in the Retail Price Index of 6.8 per cent in the year to December 1988, rounded in accordance with the statutory provisions. The married man's allowance is increased by £280 to £4,375 and the single person's allowance and wife's earned income allowance are increased by £180 to £2,785. The additional personal allowance (mainly for single parents) and the widow's bereavement allowance - which are automatically equal to the difference between the married and single allowances - increase by £100 to £1,590.

6. Age allowances are also increased: by £220 to £3,400 for single people aged 65 to 74 and by £350 to £5,385 for married couples aged 65 to 74. The higher level of age allowance currently given to those aged 80 and over is extended to those aged 75 and over. For those aged 75 to 79, the single age allowance is increased by £360 from £3,180 to £3,540 and the married age allowance by £530 from £5,035 to £5,565. For those aged 80 and over, the single age allowance is increased by £230 to £3,540 and the married age allowance is increased by £360 to £5,565.

/7. The income limit

Budget - ...

7. The income limit for age allowance rises to £11,400 and the rate at which age allowance is withdrawn above the income limit is reduced from £2 of allowances for every additional £3 of income to £1 of allowances for every additional £2 of income. The effective rate of tax in the withdrawal band will fall from 41.67 per cent in 1988-89 to 37.5 per cent in 1989-90.

8. The Chancellor also proposes to increase the basic rate limit by the amount indicated by the indexation formula, that is by £1,400 to £20,700 of taxable income. The increases in the basic rate limit and the allowances mean that a single person with income of over £23,485 will pay £282 less tax in 1989-90 and a married man with income over £25,075 will pay £322 less tax if they have no other allowances or tax reliefs.

9. The Chancellor's proposals in detail are as follows:

(1) <u>Income Tax Allowances</u>

	1988-89	Proposed increase		1989-90 Proposed level
	£	£	per cent	£
Single person's allowance and wife's earned income allowance	2,605	180	*6.9*	2,785
Married man's allowance	4,095	280	*6.8*	4,375
Additional personal allowance and widow's bereavement allowance	1,490	100	*6.7*	1,590
Single age allowance (age 65-74)	3,180	220	*6.9*	3,400
Single age allowance (age 75-79)	3,180	360	*11.3*	3,540
Single age allowance (age 80 and over)	3,310	230	*6.9*	3,540
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Married age allowance (age 75-79)	5,035	530	*10.5*	5,565
Married age allowance (age 80 and over)	5,205	360	*6.9*	5,565
Age allowance income limit	10,600	800	*7.9*	11,400

(2) <u>Income Tax Rates and Rate bands</u>

Rate of tax	1988-89 taxable income	Proposed increase in starting point		1989-90 proposed taxable income
per cent	£	£	per cent	£
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40	Over 19,300	1,400	7.3	Over 20,700

/(3) National Insurance

Budget - [illegible]

(3) **National Insurance Contributions**

	From 5 October 1989	
Weekly earnings	**Contracted-in**	**Contracted-out**
Below £43	Nil	Nil
£43 to £325	2 per cent on earnings up to £43 **plus** 9 per cent on earnings between £43 and £325	2 per cent on earnings up to £43 **plus** 7 per cent on earnings between £43 and £325
Above £325	2 per cent on £43 **plus** 9 per cent on £282	2 per cent on £43 **plus** 7 per cent on £282

10. The total direct revenue costs of the income tax proposals will be about £1.5 billion in 1989-90. The changes to the structure of age allowances above the level required for indexation will cost £15 million in 1989-90 and £20 million in 1990-91. The changes in National Insurance Contributions will reduce contribution income by about £1.0 billion in 1989-90 and about £2.8 billion in 1990-91. Further details of the costs of the income tax changes are set out below.

Income Tax Costs (£ million)	1989-90		1990-91
	total costs	costs above indexation	costs above indexation
Increase in basic income tax allowances	1,140	-	-
Increase in age allowances and income limit	125	10	15
Reduction in age allowance withdrawal rate	5	5	5
Increase in basic rate limit	210	-	-
Totals	1,480	15	20

/**Illustrative changes**

Budget

Illustrative changes

11. The effects of the proposed changes to income tax and National Insurance Contributions (as they will apply after 5 October 1989) on individual taxpayers at various levels of income are illustrated in the attached tables, which assume that the taxpayer has no tax reliefs other than his or her income tax allowance.

12. Tables 1 and 2 show the effects of the changes in income tax proposed in the Budget for 1989-90 for single and married taxpayers compared with 1988-89. Table 3 gives information in weekly instead of annual terms for levels of income up to £600 per week.

13. Table 4 shows the combined effects of the income tax changes and the reductions in National Insurance Contributions on the weekly income of single people and married couples. Table 5 shows the effects of the proposals compared with statutory indexation of the 1988-89 income tax allowances and basic rate limit, and the levels of National Insurance Contributions for 1989-90 announced in the Autumn Statement 1988. Table 6 shows similar information to Table 4 for families with 2 children, after taking account of child benefit.

14. Tables 7A to 7C show the effects of the income tax changes for people aged 65 to 74, 75 to 79 and those aged 80 and over. Tables 8A to 8C give similar information in weekly instead of annual terms for levels of income up to £600 a week.

15. The remaining tables illustrate the effect of the income tax and National Insurance Contributions changes after taking account of increases in earnings. For illustration, an increase in earnings of 7.5 per cent has been assumed. This is the rate of increase between 1988-89 and 1989-90 taken by the Government Actuary as a working assumption for his annual review of National Insurance Contributions (see paragraph 3.02 of the Autumn Statement 1988). Table 11 includes the effect of child benefit for a married couple with two children. Finally, Table 12 shows changes in the weekly income after tax of a married couple where both partners are working.

Note for Editors

The indexed figures for allowances and thresholds are set out in an Order made today by the Treasury under Sections 1(6) and 257(11) of the Income and Corporation Taxes Act 1988. Sections 1(4) and 257(9) of this Act require 1988-89 allowances and thresholds to be increased by the same percentage (6.8 per cent) as the percentage increase in the general index of retail prices (RPI) between December 1987 and December 1988; and

i. in the case of the basic rate limit and the income limit for age allowance, the result to be rounded up to the nearest multiple of £100; and

ii. otherwise, the increase to be rounded up to the nearest multiple of £10; although

iii. the additional personal allowance and the widow's bereavement allowance are automatically equal to the difference between the married man's allowance and the single person's allowance.

Draft

See comment 7 3.

INLAND REVENUE
Press Release

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14 March 1989

[3x]

THE BUDGET 1989 : INCOME TAX

1. The Chancellor proposes in his Budget

- to increase the main income tax allowances and the basic rate limit by about 6.8 per cent in line with the statutory indexation requirement;
- to extend to those aged 75 and over the higher level of age allowance currently given to those aged 80 and over;
- to reduce the rate at which the age allowance is withdrawn when a taxpayer's income exceeds the aged income limit;
- to make no change in the basic and higher rates of income tax.

2. The changes will mean that most single taxpayers and married women will pay 87p per week less tax and most married men will pay £1.34 per week less tax. The tax reductions, including any tax overpaid from 6 April, will be in pay packets on the first pay day after 17 May.

3. The increases in allowances are the amounts required under statutory indexation based on the increase in the Retail Price Index of 6.8 per cent in the year to December 1988, rounded in accordance with the statutory provisions. The married man's allowance is increased by £280 to £4,375 and the single person's allowance and wife's earned income allowance are increased by £180 to £2,785. The additional personal allowance (mainly for single parents) and the widow's bereavement allowance - which are automatically equal to the difference between the married and single allowances - increase by £100 to £1,590.

4. Age allowances are also increased: by £220 to £3,400 for single people aged 65 to 74 and by £350 to £5,385 for married couples aged 65 to 74. For those aged 80 and over, the single

/age

1

age allowance is increased by £230 to £3,540 and the married age allowance is increased by £360 to £5,565. The higher level of age allowance currently given to those aged 80 and over is extended to those aged 75 and over. For those aged 75 to 79, the single age allowance is increased by £360 from £3,180 to £3,540 and the married age allowance by £530 from £5,035 to £5,565.

5. The income limit for age allowances rises to £11,400 and the rate at which age allowance is withdrawn above the income limit is reduced from £2 of allowances for every additional £3 of income to £1 allowances for every additional £2 of income. The effective rate of tax in the withdrawal band will fall from 41.67 per cent in 1988-89 to 37.5 per cent in 1989-90.

6. The Chancellor also proposes to increase the basic rate limit by the amount indicated by the indexation formula, that is by £1,400 to £20,700 of taxable income. The increases in the basic rate limit and the allowances mean that a single person with income of over £23,485 will pay £282 less tax in 1989-90 and a married men with income over £25,075 will pay £322 less tax if they have no other allowances or tax reliefs.

7. The Chancellor's proposals in detail are as follows:

(1) Income Tax Allowances

	1988-89	**Proposed increase**		**1989-90 Proposed level**
	£	**£**	**per cent**	**£**
Single person's allowance and wife's earned income allowance	2,605	180	6.9	2,785
Married man's allowance	4,095	280	6.8	4,375
Additional personal allowance and widow's bereavement allowance	1,490	100	6.7	1,590
Single age allowance (age 65-74)	3,180	220	6.9	3,400
Single age allowance (age 74-79)	3,180	360	11.3	3,540
Single age allowance (age 80 and over)	3,310	230	6.9	3,540
Married age allowance (age 65-74)	5,035	350	7.0	5,385
Married age allowance (age 75-79)	5,035	530	10.5	5,565
Married age allowance (age 80 and over)	5,205	360	6.9	5,565
Age allowance income limit	10,600	800	7.9	11,400

/(2)

(2) Rates and Rate bands

Rate of tax	1988-89 taxable income	Proposed increase in starting point		1989-90 Proposed taxable income
per cent	£	£	per cent	£
25	0-19,300	-	-	0-20,700
40	Over 19,300	1,400	7.3	Over 20,700

8. The total direct revenue costs of these proposals will be about £1.5 billion in 1989-90. The changes to the structure of age allowances above the level required for indexation will cost £15 million.

Costs (£ million)	1989-90		1990-91
	total costs	costs above indexation	costs above indexation
Increases in main personal allowances	1,140	-	-
Increases in age allowances and income limit	125	10	15
Reduction in age allowance withdrawal rate	5	5	5
Increase in basic rate limit	210	-	-
Totals	1,480	15	20

9. The Chancellor also proposes in his Budget to reduce the employee's levels of National Insurance Contributions (NIC) from ~~1~~ 2 October 1989. The rates will be as follows:-

All wrong!!

Weekly Earnings £	NIC Rate %
Under 43	0
~~43 - 75~~ 43-325	~~5~~ 2 ~~9~~ — 2% on first £43 plus 9% on remainder
~~75 - 358~~	
Above ~~358~~ 325	0

The rates will be applied in the following manner:

- for those earning less than £43, no NIC is payable;
- for those earning between £43 and below £75, NIC is payable at 5 per cent on the full amount of earnings;
- for those earning £75 or more, NIC is payable at 5 per cent of £75 plus 9 per cent of the earnings above £75 up to total earnings of £358.

/The

The rebate for those contracted out of SERPS is unchanged at 2 per cent. Full details of the changes to NIC rates are given in a Press Notice by the Department of Social Security published today.

Illustrative changes

10. The effects of the changes on individual taxpayers at various levels of income are illustrated in the attached tables, which assume that the taxpayer has no reliefs other than his or her personal allowance. Tables 1 and 2 show the effects of the changes in income tax proposed in the Budget for 1989-90 for single and married taxpayers compared with 1988-89. Tables 3A-3C shows the effects for people aged 65 to 74, 74 to 79 and those aged 80 and over. Tables 4,5A to 5C give information in weekly, instead of annual, terms for levels of income up to £600 a week.

11. Tables 6 and 7 show the effects on the weekly net income of single and married taxpayers and families with two children, after taking account of the new structure of National Insurance Contributions to be introduced in October and child benefit.

12. The remaining tables illustrate the effect of the income tax and National Insurance Contributions changes after taking account of the effects of increases in earnings. For illustration, an increase in earnings of 7.5 per cent has been assumed. This is the rate of increase between 1988-89 and 1989-90 taken by the Government Actuary as a working assumption for his annual review of National Insurance Contributions (see paragraph 3.02 of the Autumn Statement 1988). Table 10 includes the effect of child benefit for a married couple with two children. Finally, Table 11 shows changes in the weekly income after tax of a married couple where both partners are working.

Note for Editors

The indexed figures for allowances and thresholds are set out in an Order made today by the Treasury under Sections 1(6) and 257(11) of the Income and Corporation Taxes Act 1988. Sections 1(4) and 257(9) of this Act require 1988-89 allowances and thresholds to be increased by the same percentage (6.8 per cent) as the percentage increase in the general index of retail prices (RPI) between December 1987 and December 1988; and

i. in the case of the rate bands and age allowance income limit, the result to be rounded up to the nearest multiple of £100; and

ii. otherwise, the increase to be rounded up to the nearest multiple of £10; although

iii. additional personal allowance and widow's bereavement allowance are automatically equal to the difference between the married man's allowance and the single person's allowance.

TABLE 1

SINGLE PERSONS - ANNUAL FIGURES

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
3,000	99	*3.3*	54	*1.8*	45	*1.5*
4,000	349	*8.7*	304	*7.6*	45	*1.1*
5,000	599	*12.0*	554	*11.1*	45	*0.9*
6,000	849	*14.2*	804	*13.4*	45	*0.8*
7,000	1,099	*15.7*	1,054	*15.1*	45	*0.6*
8,000	1,349	*16.9*	1,304	*16.3*	45	*0.6*
9,000	1,599	*17.8*	1,554	*17.3*	45	*0.5*
10,000	1,849	*18.5*	1,804	*18.0*	45	*0.4*
12,000	2,349	*19.6*	2,304	*19.2*	45	*0.4*
14,000	2,849	*20.4*	2,804	*20.0*	45	*0.3*
16,000	3,349	*20.9*	3,304	*20.6*	45	*0.3*
18,000	3,849	*21.4*	3,804	*21.1*	45	*0.2*
20,000	4,349	*21.7*	4,304	*21.5*	45	*0.2*
25,000	6,063	*24.3*	5,781	*23.1*	282	*1.1*
30,000	8,063	*26.9*	7,781	*25.9*	282	*0.9*
40,000	12,063	*30.2*	11,781	*29.5*	282	*0.7*
50,000	16,063	*32.1*	15,781	*31.6*	282	*0.6*
60,000	20,063	*33.4*	19,781	*33.0*	282	*0.5*
70,000	24,063	*34.4*	23,781	*34.0*	282	*0.4*

TABLE 2

MARRIED COUPLES - ANNUAL FIGURES

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
4,500	101	*2.2*	31	*0.7*	70	*1.6*
5,000	226	*4.5*	156	*3.1*	70	*1.4*
6,000	476	*7.9*	406	*6.8*	70	*1.2*
7,000	726	*10.4*	656	*9.4*	70	*1.0*
8,000	976	*12.2*	906	*11.3*	70	*0.9*
9,000	1,226	*13.6*	1,156	*12.8*	70	*0.8*
10,000	1,476	*14.8*	1,406	*14.1*	70	*0.7*
12,000	1,976	*16.5*	1,906	*15.9*	70	*0.6*
14,000	2,476	*17.7*	2,406	*17.2*	70	*0.5*
16,000	2,976	*18.6*	2,906	*18.2*	70	*0.4*
18,000	3,476	*19.3*	3,406	*18.9*	70	*0.4*
20,000	3,976	*19.9*	3,906	*19.5*	70	*0.4*
25,000	5,467	*21.9*	5,156	*20.6*	311	*1.2*
30,000	7,467	*24.9*	7,145	*23.8*	322	*1.1*
40,000	11,467	*28.7*	11,145	*27.9*	322	*0.8*
50,000	15,467	*30.9*	15,145	*30.3*	322	*0.6*
60,000	19,467	*32.4*	19,145	*31.9*	322	*0.5*
70,000	23,467	*33.5*	23,145	*33.1*	322	*0.5*

Calculations assume that only the husband has earned income.

TABLE 3A

SINGLE PERSONS AND MARRIED COUPLES AGED 65-74 - ANNUAL FIGURES

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
3,500	80	*2.3*	25	*0.7*	55	*1.6*
4,000	205	*5.1*	150	*3.8*	55	*1.4*
5,000	455	*9.1*	400	*8.0*	55	*1.1*
6,000	705	*11.8*	650	*10.8*	55	*0.9*
7,000	955	*13.6*	900	*12.9*	55	*0.8*
8,000	1,205	*15.1*	1,150	*14.4*	55	*0.7*
9,000	1,455	*16.2*	1,400	*15.6*	55	*0.6*
10,000	1,705	*17.0*	1,650	*16.5*	55	*0.6*
11,000	2,022	*18.4*	1,900	*17.3*	122	*1.1*
12,000	2,349	*19.6*	2,225	*18.5*	124	*1.0*
14,000	2,849	*20.4*	2,804	*20.0*	45	*0.3*
MARRIED COUPLES[1]						
5,500	116	*2.1*	29	*0.5*	87	*1.6*
6,000	241	*4.0*	154	*2.6*	87	*1.4*
7,000	491	*7.0*	404	*5.8*	87	*1.2*
8,000	741	*9.3*	654	*8.2*	87	*1.1*
9,000	991	*11.0*	904	*10.0*	87	*1.0*
10,000	1,241	*12.4*	1,154	*11.5*	87	*0.9*
11,000	1,558	*14.2*	1,404	*12.8*	154	*1.4*
12,000	1,975	*16.5*	1,729	*14.4*	246	*2.0*
14,000	2,476	*17.7*	2,406	*17.2*	70	*0.5*

[1] Calculations assume that the wife has no earnings or pension in her own right.

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

TABLE 3B

SINGLE PERSONS AND MARRIED COUPLES AGED 75-79 - ANNUAL FIGURES

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
3,500	80	*2.3*	0	*0.0*	80	*2.3*
4,000	205	*5.1*	115	*2.9*	90	*2.2*
5,000	455	*9.1*	365	*7.3*	90	*1.8*
6,000	705	*11.8*	615	*10.2*	90	*1.5*
7,000	955	*13.6*	865	*12.4*	90	*1.3*
8,000	1,205	*15.1*	1,115	*13.9*	90	*1.1*
9,000	1,455	*16.2*	1,365	*15.2*	90	*1.0*
10,000	1,705	*17.0*	1,615	*16.2*	90	*0.9*
11,000	2,022	*18.4*	1,865	*17.0*	157	*1.4*
12,000	2,349	*19.6*	2,190	*18.2*	159	*1.3*
14,000	2,849	*20.4*	2,804	*20.0*	45	*0.3*
MARRIED COUPLES[1]						
5,500	116	*2.1*	0	*0.0*	116	*2.1*
6,000	241	*4.0*	109	*1.8*	132	*2.2*
7,000	491	*7.0*	359	*5.1*	132	*1.9*
8,000	741	*9.3*	609	*7.6*	132	*1.6*
9,000	991	*11.0*	859	*9.5*	132	*1.5*
10,000	1,241	*12.4*	1,109	*11.1*	132	*1.3*
11,000	1,558	*14.2*	1,359	*12.4*	199	*1.8*
12,000	1,975	*16.5*	1,684	*14.0*	291	*2.4*
14,000	2,476	*17.7*	2,406	*17.2*	70	*0.5*

[1] Calculations assume that the wife has no earnings or pension in her own right.

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

TABLE 3C

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

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
3,500	48	*1.4*	0	*0.0*	48	*1.4*
4,000	172	*4.3*	115	*2.9*	57	*1.4*
5,000	422	*8.4*	365	*7.3*	57	*1.1*
6,000	672	*11.2*	615	*10.2*	57	*1.0*
7,000	922	*13.2*	865	*12.4*	57	*0.8*
8,000	1,172	*14.6*	1,115	*13.9*	57	*0.7*
9,000	1,422	*15.8*	1,365	*15.2*	57	*0.6*
10,000	1,672	*16.7*	1,615	*16.2*	57	*0.6*
11,000	1,989	*18.1*	1,865	*17.0*	124	*1.1*
12,000	2,349	*19.6*	2,190	*18.2*	159	*1.3*
14,000	2,849	*20.4*	2,804	*20.0*	45	*0.3*
MARRIED COUPLES[1]						
5,500	74	*1.3*	0	*0.0*	74	*1.3*
6,000	199	*3.3*	109	*1.8*	90	*1.5*
7,000	449	*6.4*	359	*5.1*	90	*1.3*
8,000	699	*8.7*	609	*7.6*	90	*1.1*
9,000	949	*10.5*	859	*9.5*	90	*1.0*
10,000	1,199	*12.0*	1,109	*11.1*	90	*0.9*
11,000	1,515	*13.8*	1,359	*12.4*	156	*1.4*
12,000	1,932	*16.1*	1,684	*14.0*	248	*2.1*
14,000	2,476	*17.7*	2,406	*17.2*	70	*0.5*

[1] Calculations assume that the wife has no earnings or pension in her own right.

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

TABLE 4

SINGLE PERSONS AND MARRIED COUPLES - WEEKLY FIGURES

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
60.00	2.48	*4.1*	1.61	*2.7*	0.87	*1.4*
70.00	4.98	*7.1*	4.11	*5.9*	0.87	*1.2*
80.00	7.48	*9.4*	6.61	*8.3*	0.87	*1.1*
90.00	9.98	*11.1*	9.11	*10.1*	0.87	*1.0*
100.00	12.48	*12.5*	11.61	*11.6*	0.87	*0.9*
120.00	17.48	*14.6*	16.61	*13.8*	0.87	*0.7*
140.00	22.48	*16.1*	21.61	*15.4*	0.87	*0.6*
160.00	27.48	*17.2*	26.61	*16.6*	0.87	*0.5*
180.00	32.48	*18.0*	31.61	*17.6*	0.87	*0.5*
200.00	37.48	*18.7*	36.61	*18.3*	0.87	*0.4*
250.00	49.98	*20.0*	49.11	*19.6*	0.87	*0.3*
300.00	62.48	*20.8*	61.61	*20.5*	0.87	*0.3*
305.00	63.73	*20.9*	62.86	*20.6*	0.87	*0.3*
350.00	74.98	*21.4*	74.11	*21.2*	0.87	*0.2*
400.00	87.48	*21.9*	86.61	*21.7*	0.87	*0.2*
500.00	124.29	*24.9*	118.87	*23.8*	5.42	*1.1*
600.00	164.29	*27.4*	158.87	*26.5*	5.42	*0.9*
MARRIED COUPLES[1]						
80.00	0.31	*0.4*	0.00	*0.0*	0.31	*0.4*
90.00	2.81	*3.1*	1.47	*1.6*	1.34	*1.5*
100.00	5.31	*5.3*	3.97	*4.0*	1.34	*1.3*
120.00	10.31	*8.6*	8.97	*7.5*	1.34	*1.1*
140.00	15.31	*10.9*	13.97	*10.0*	1.34	*1.0*
160.00	20.31	*12.7*	18.97	*11.9*	1.34	*0.8*
180.00	25.31	*14.1*	23.97	*13.3*	1.34	*0.7*
200.00	30.31	*15.2*	28.97	*14.5*	1.34	*0.7*
250.00	42.81	*17.1*	41.47	*16.6*	1.34	*0.5*
300.00	55.31	*18.4*	53.97	*18.0*	1.34	*0.4*
350.00	67.81	*19.4*	66.47	*19.0*	1.34	*0.4*
400.00	80.31	*20.1*	78.97	*19.7*	1.34	*0.3*
500.00	112.83	*22.6*	106.63	*21.3*	6.20	*1.2*
600.00	152.83	*25.5*	146.63	*24.4*	6.20	*1.0*

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

TABLE 5A

SINGLE PERSONS AND MARRIED COUPLES AGED 65-74 - WEEKLY FIGURES

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
70.00	2.21	*3.2*	1.15	*1.6*	1.06	*1.5*
80.00	4.71	*5.9*	3.65	*4.6*	1.06	*1.3*
90.00	7.21	*8.0*	6.15	*6.8*	1.06	*1.2*
100.00	9.71	*9.7*	8.65	*8.6*	1.06	*1.1*
120.00	14.71	*12.3*	13.65	*11.4*	1.06	*0.9*
140.00	19.71	*14.1*	18.65	*13.3*	1.06	*0.8*
160.00	24.71	*15.4*	23.65	*14.8*	1.06	*0.7*
180.00	29.71	*16.5*	28.65	*15.9*	1.06	*0.6*
200.00	34.71	*17.4*	33.65	*16.8*	1.06	*0.5*
220.00	42.40	*19.3*	38.75	*17.6*	3.65	*1.7*
240.00	47.48	*19.8*	46.25	*19.3*	1.23	*0.5*
260.00	52.48	*20.2*	51.61	*19.8*	0.87	*0.3*
MARRIED COUPLES[1]						
100.00	0.79	*0.8*	0.00	*0.0*	0.79	*0.8*
120.00	5.79	*4.8*	4.11	*3.4*	1.68	*1.4*
140.00	10.79	*7.7*	9.11	*6.5*	1.68	*1.2*
160.00	15.79	*9.9*	14.11	*8.8*	1.68	*1.0*
180.00	20.79	*11.6*	19.11	*10.6*	1.68	*0.9*
200.00	25.79	*12.9*	24.11	*12.1*	1.68	*0.8*
220.00	33.49	*15.2*	29.21	*13.3*	4.28	*1.9*
240.00	40.31	*16.8*	36.71	*15.3*	3.60	*1.5*
260.00	45.31	*17.4*	43.97	*16.9*	1.34	*0.5*

[1] Calculations assume that the wife has no earnings or pension in her own right.

For incomes above these levels, the figures are the same as those in Table 4.

TABLE 5B

SINGLE PERSONS AND MARRIED COUPLES AGED 75-79 - WEEKLY FIGURES

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
70.00	2.21	*3.2*	0.48	*0.7*	1.73	*2.5*
80.00	4.71	*5.9*	2.98	*3.7*	1.73	*2.2*
90.00	7.21	*8.0*	5.48	*6.1*	1.73	*1.9*
100.00	9.71	*9.7*	7.98	*8.0*	1.73	*1.7*
120.00	14.71	*12.3*	12.98	*10.8*	1.73	*1.4*
140.00	19.71	*14.1*	17.98	*12.8*	1.73	*1.2*
160.00	24.71	*15.4*	22.98	*14.4*	1.73	*1.1*
180.00	29.71	*16.5*	27.98	*15.5*	1.73	*1.0*
200.00	34.71	*17.4*	32.98	*16.5*	1.73	*0.9*
220.00	42.40	*19.3*	38.08	*17.3*	4.32	*2.0*
240.00	47.48	*19.8*	45.58	*19.0*	1.90	*0.8*
260.00	52.48	*20.2*	51.61	*19.8*	0.87	*0.3*
MARRIED COUPLES[1]						
100.00	0.79	*0.8*	0.00	*0.0*	0.79	*0.8*
120.00	5.79	*4.8*	3.25	*2.7*	2.54	*2.1*
140.00	10.79	*7.7*	8.25	*5.9*	2.54	*1.8*
160.00	15.79	*9.9*	13.25	*8.3*	2.54	*1.6*
180.00	20.79	*11.6*	18.25	*10.1*	2.54	*1.4*
200.00	25.79	*12.9*	23.25	*11.6*	2.54	*1.3*
220.00	33.49	*15.2*	28.34	*12.9*	5.15	*2.3*
240.00	40.31	*16.8*	35.84	*14.9*	4.47	*1.9*
260.00	45.31	*17.4*	43.34	*16.7*	1.97	*0.8*

[1] Calculations assume that the wife has no earnings or pension in her own right.

For incomes above these levels, the figures are the same as those in Table 4.

TABLE 5C

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

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
70.00	1.59	*2.3*	0.48	*0.7*	1.11	*1.6*
80.00	4.09	*5.1*	2.98	*3.7*	1.11	*1.4*
90.00	6.59	*7.3*	5.48	*6.1*	1.11	*1.2*
100.00	9.09	*9.1*	7.98	*8.0*	1.11	*1.1*
120.00	14.09	*11.7*	12.98	*10.8*	1.11	*0.9*
140.00	19.09	*13.6*	17.98	*12.8*	1.11	*0.8*
160.00	24.09	*15.1*	22.98	*14.4*	1.11	*0.7*
180.00	29.09	*16.2*	27.98	*15.5*	1.11	*0.6*
200.00	34.09	*17.0*	32.98	*16.5*	1.11	*0.6*
220.00	41.78	*19.0*	38.08	*17.3*	3.70	*1.7*
240.00	47.48	*19.8*	45.58	*19.0*	1.90	*0.8*
260.00	52.48	*20.2*	51.61	*19.8*	0.87	*0.3*
MARRIED COUPLES[1]						
100.00	0.00	*0.0*	0.00	*0.0*	0.00	*0.0*
110.00	2.48	*2.3*	0.75	*0.7*	1.73	*1.6*
120.00	4.98	*4.2*	3.25	*2.7*	1.73	*1.4*
140.00	9.98	*7.1*	8.25	*5.9*	1.73	*1.2*
160.00	14.98	*9.4*	13.25	*8.3*	1.73	*1.1*
180.00	19.98	*11.1*	18.25	*10.1*	1.73	*1.0*
200.00	24.98	*12.5*	23.25	*11.6*	1.73	*0.9*
220.00	32.67	*14.8*	28.34	*12.9*	4.33	*2.0*
240.00	40.31	*16.8*	35.84	*14.9*	4.47	*1.9*
260.00	45.31	*17.4*	43.34	*16.7*	1.97	*0.8*

[1] Calculations assume that the wife has no earnings or pension in her own right.

For incomes above these levels, the figures are the same as those in Table 4.

TABLE 6

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

	Charge for 1988-89			Proposed charge for 1989-90 post-October 1989			Reduction in tax and NIC after proposed change	
Income £	Income tax £	NIC[1] £	Net income after tax and NIC £	Income tax £	NIC[1] post-October 1989 £	Net income after tax and NIC £	Income tax and NIC £	As percentage of total income per cent
SINGLE PERSONS								
50.00	0.00	2.50	47.50	0.00	2.50	47.50	0.00	*0.0*
60.00	2.48	3.00	54.52	1.61	3.00	55.39	0.87	*1.4*
70.00	4.98	4.90	60.12	4.11	3.50	62.39	2.27	*3.2*
75.00	6.23	5.25	63.52	5.36	3.75	65.89	2.37	*3.2*
80.00	7.48	5.60	66.92	6.61	4.20	69.19	2.27	*2.8*
90.00	9.98	6.30	73.72	9.11	5.10	75.79	2.07	*2.3*
100.00	12.48	7.00	80.52	11.61	6.00	82.39	1.87	*1.9*
120.00	17.48	10.80	91.72	16.61	7.80	95.59	3.87	*3.2*
140.00	22.48	12.60	104.92	21.61	9.60	108.79	3.87	*2.8*
160.00	27.48	14.40	118.12	26.61	11.40	121.99	3.87	*2.4*
180.00	32.48	16.20	131.32	31.61	13.20	135.19	3.87	*2.2*
200.00	37.48	18.00	144.52	36.61	15.00	148.39	3.87	*1.9*
250.00	49.98	22.50	177.52	49.11	19.50	181.39	3.87	*1.5*
300.00	62.48	27.00	210.52	61.61	24.00	214.39	3.87	*1.3*
325.00	68.73	27.45	228.82	67.86	26.25	230.89	2.07	*0.6*
350.00	74.98	27.45	247.57	74.11	28.50	247.39	-0.18	*-0.1*
375.00	81.23	27.45	266.32	80.36	29.22	265.42	-0.90	*-0.3*
400.00	87.48	27.45	285.07	86.61	29.22	284.17	-0.90	*-0.2*
500.00	124.29	27.45	348.26	118.87	29.22	351.91	3.65	*0.7*
600.00	164.29	27.45	408.26	158.87	29.22	411.91	3.65	*0.6*
MARRIED COUPLES[2]								
80.00	0.31	5.60	74.09	0.00	4.20	75.80	1.71	*2.1*
90.00	2.81	6.30	80.89	1.47	5.10	83.43	2.54	*2.8*
100.00	5.31	7.00	87.69	3.97	6.00	90.03	2.34	*2.3*
120.00	10.31	10.80	98.89	8.97	7.80	103.23	4.34	*3.6*
140.00	15.31	12.60	112.09	13.97	9.60	116.43	4.34	*3.1*
160.00	20.31	14.40	125.29	18.97	11.40	129.63	4.34	*2.7*
180.00	25.31	16.20	138.49	23.97	13.20	142.83	4.34	*2.4*
200.00	30.31	18.00	151.69	28.97	15.00	156.03	4.34	*2.2*
250.00	42.81	22.50	184.69	41.47	19.50	189.03	4.34	*1.7*
300.00	55.31	27.00	217.69	53.97	24.00	222.03	4.34	*1.4*
325.00	61.56	27.45	235.99	60.22	26.25	238.53	2.54	*0.8*
350.00	67.81	27.45	254.74	66.47	28.50	255.03	0.29	*0.0*
375.00	74.06	27.45	273.49	72.72	29.22	273.06	-0.43	*-0.1*
400.00	80.31	27.45	292.24	78.97	29.22	291.81	-0.43	*-0.1*
500.00	112.83	27.45	359.72	106.63	29.22	364.15	4.43	*0.9*
600.00	152.83	27.45	419.72	146.63	29.22	424.15	4.43	*0.7*

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

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

TABLE 7

MARRIED COUPLE WITH TWO CHILDREN - NET WEEKLY INCOME

INCOME TAX, NATIONAL INSURANCE CONTRIBUTIONS AND CHILD BENEFIT

	Weekly income in 1988-89				Weekly income in 1989-90				Increase in income after tax, NIC and child benefit	
Income[1]	Child benefit	Income tax	NIC[2]	Net income[3]	Child benefit	Income tax	NIC[2] post-October 1989	Net income[3]	Increase in income	As percentage of total income
£	£	£	£	£	£	£	£	£	£	per cent
80.00	14.50	0.31	5.60	88.59	14.50	0.00	4.20	90.30	1.71	*2.1*
90.00	14.50	2.81	6.30	95.39	14.50	1.47	5.10	97.93	2.54	*2.8*
100.00	14.50	5.31	7.00	102.19	14.50	3.97	6.00	104.53	2.34	*2.3*
120.00	14.50	10.31	10.80	113.39	14.50	8.97	7.80	117.73	4.34	*3.6*
140.00	14.50	15.31	12.60	126.59	14.50	13.97	9.60	130.93	4.34	*3.1*
160.00	14.50	20.31	14.40	139.79	14.50	18.97	11.40	144.13	4.34	*2.7*
180.00	14.50	25.31	16.20	152.99	14.50	23.97	13.20	157.33	4.34	*2.4*
200.00	14.50	30.31	18.00	166.19	14.50	28.97	15.00	170.53	4.34	*2.2*
250.00	14.50	42.81	22.50	199.19	14.50	41.47	19.50	203.53	4.34	*1.7*
300.00	14.50	55.31	27.00	232.19	14.50	53.97	24.00	236.53	4.34	*1.4*
325.00	14.50	61.56	27.45	250.49	14.50	60.22	26.25	253.03	2.54	*0.8*
350.00	14.50	67.81	27.45	269.24	14.50	66.47	28.50	269.53	0.29	*0.0*
375.00	14.50	74.06	27.45	287.99	14.50	72.72	29.22	287.56	-0.43	*-0.1*
400.00	14.50	80.31	27.45	306.74	14.50	78.97	29.22	306.31	-0.43	*-0.1*
500.00	14.50	112.83	27.45	374.22	14.50	106.63	29.22	378.65	4.43	*0.9*
600.00	14.50	152.83	27.45	434.22	14.50	146.63	29.22	438.65	4.43	*0.7*

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

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

[3] Net income is earnings, less tax and National Insurance Contributions, plus child benefit. It does not include any income-related benefit.

TABLE 8

SINGLE PERSONS AND MARRIED COUPLES

COMPARISON BETWEEN 1988-89 AND 1989-90 WHERE EARNINGS INCREASE BY 7½ PER CENT

Charge for 1988-89			Proposed charge for 1989-90			
Income £	Income tax £	Percentage of total income taken in tax per cent	Adjusted income[1] £	Income tax £	Percentage of total income taken in tax per cent	Percentage change in net income per cent
SINGLE PERSONS						
3,000	99	*3.3*	**3,225**	110	*3.4*	*7.4*
4,000	349	*8.7*	**4,300**	379	*8.8*	*7.4*
6,000	849	*14.2*	**6,450**	916	*14.2*	*7.4*
8,000	1,349	*16.9*	**8,600**	1,454	*16.9*	*7.4*
10,000	1,849	*18.5*	**10,750**	1,991	*18.5*	*7.5*
12,000	2,349	*19.6*	**12,900**	2,529	*19.6*	*7.5*
15,000	3,099	*20.7*	**16,125**	3,335	*20.7*	*7.5*
20,000	4,349	*21.7*	**21,500**	4,679	*21.8*	*7.5*
25,000	6,063	*24.3*	**26,875**	6,531	*24.3*	*7.4*
30,000	8,063	*26.9*	**32,250**	8,681	*26.9*	*7.4*
40,000	12,063	*30.2*	**43,000**	12,981	*30.2*	*7.5*
50,000	16,063	*32.1*	**53,750**	17,281	*32.2*	*7.5*
60,000	20,063	*33.4*	**64,500**	21,581	*33.5*	*7.5*
70,000	24,063	*34.4*	**75,250**	25,881	*34.4*	*7.5*
MARRIED COUPLES [2]						
5,000	226	*4.5*	**5,375**	250	*4.7*	*7.4*
6,000	476	*7.9*	**6,450**	519	*8.0*	*7.4*
8,000	976	*12.2*	**8,600**	1,056	*12.3*	*7.4*
10,000	1,476	*14.8*	**10,750**	1,594	*14.8*	*7.4*
12,000	1,976	*16.5*	**12,900**	2,131	*16.5*	*7.4*
15,000	2,726	*18.2*	**16,125**	2,938	*18.2*	*7.4*
20,000	3,976	*19.9*	**21,500**	4,281	*19.9*	*7.5*
25,000	5,467	*21.9*	**26,875**	5,895	*21.9*	*7.4*
30,000	7,467	*24.9*	**32,250**	8,045	*24.9*	*7.4*
40,000	11,467	*28.7*	**43,000**	12,345	*28.7*	*7.4*
50,000	15,467	*30.9*	**53,750**	16,645	*31.0*	*7.4*
60,000	19,467	*32.4*	**64,500**	20,945	*32.5*	*7.5*
70,000	23,467	*33.5*	**75,250**	25,245	*33.5*	*7.5*

[1] The adjusted incomes shown for 1989-90 are for illustration. They have been obtained by increasing the corresponding incomes in 1988-89 by 7½ per cent.

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

TABLE 9

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

COMPARISON OF INCOME AFTER INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS BETWEEN 1988-89 AND 1989-90 WHERE EARNINGS INCREASE BY 7½ PER CENT

Charge for 1988-89				Proposed charge for 1989-90 post-October 1989				
Income	Income tax	NIC[1]	Percent. of total income taken in tax and NIC	Adjusted income[2]	Income tax	NIC[1] post-Oct. 1989	Percent. of total income taken in tax and NIC	Percent. change in income after tax and NIC
£	£	£	per cent	£	£	£	per cent	per cent
SINGLE PERSONS								
50.00	0.00	2.50	*5.0*	**53.75**	0.05	2.68	*5.1*	*7.4*
60.00	2.48	3.00	*9.1*	**64.50**	2.74	3.22	*9.2*	*7.4*
70.00	4.98	4.90	*14.1*	**75.25**	5.42	3.77	*12.2*	*9.9*
80.00	7.48	5.60	*16.4*	**86.00**	8.11	4.74	*14.9*	*9.3*
90.00	9.98	6.30	*18.1*	**96.75**	10.80	5.70	*17.1*	*8.9*
100.00	12.48	7.00	*19.5*	**107.50**	13.49	6.67	*18.8*	*8.5*
120.00	17.48	10.80	*23.6*	**129.00**	18.86	8.61	*21.3*	*10.7*
140.00	22.48	12.60	*25.1*	**150.50**	24.24	10.54	*23.1*	*10.3*
160.00	27.48	14.40	*26.2*	**172.00**	29.61	12.48	*24.5*	*10.0*
180.00	32.48	16.20	*27.0*	**193.50**	34.99	14.41	*25.5*	*9.7*
200.00	37.48	18.00	*27.7*	**215.00**	40.36	16.35	*26.4*	*9.5*
250.00	49.98	22.50	*29.0*	**268.75**	53.80	21.18	*27.9*	*9.2*
300.00	62.48	27.00	*29.8*	**322.50**	67.24	26.02	*28.9*	*8.9*
325.00	68.73	27.45	*29.6*	**349.38**	73.96	28.44	*29.3*	*7.9*
350.00	74.98	27.45	*29.3*	**376.25**	80.67	29.22	*29.2*	*7.6*
375.00	81.23	27.45	*29.0*	**403.12**	87.39	29.22	*28.9*	*7.6*
400.00	87.48	27.45	*28.7*	**430.00**	94.11	29.22	*28.7*	*7.6*
500.00	124.29	27.45	*30.3*	**537.50**	133.87	29.22	*30.3*	*7.5*
600.00	164.29	27.45	*32.0*	**645.00**	176.87	29.22	*32.0*	*7.5*
MARRIED COUPLES[3]								
80.00	0.31	5.60	*7.4*	**86.00**	0.47	4.74	*6.1*	*9.0*
90.00	2.81	6.30	*10.1*	**96.75**	3.15	5.70	*9.1*	*8.7*
100.00	5.31	7.00	*12.3*	**107.50**	5.84	6.67	*11.6*	*8.3*
120.00	10.31	10.80	*17.6*	**129.00**	11.22	8.61	*15.4*	*10.4*
140.00	15.31	12.60	*19.9*	**150.50**	16.59	10.54	*18.0*	*10.1*
160.00	20.31	14.40	*21.7*	**172.00**	21.97	12.48	*20.0*	*9.8*
180.00	25.31	16.20	*23.1*	**193.50**	27.34	14.41	*21.6*	*9.6*
200.00	30.31	18.00	*24.2*	**215.00**	32.72	16.35	*22.8*	*9.4*
250.00	42.81	22.50	*26.1*	**268.75**	46.15	21.18	*25.1*	*9.1*
300.00	55.31	27.00	*27.4*	**322.50**	59.59	26.02	*26.5*	*8.8*
325.00	61.56	27.45	*27.4*	**349.38**	66.31	28.44	*27.1*	*7.9*
350.00	67.81	27.45	*27.2*	**376.25**	73.03	29.22	*27.2*	*7.6*
375.00	74.06	27.45	*27.1*	**403.12**	79.75	29.22	*27.0*	*7.6*
400.00	80.31	27.45	*26.9*	**430.00**	86.47	29.22	*26.9*	*7.6*
500.00	112.83	27.45	*28.1*	**537.50**	121.63	29.22	*28.1*	*7.5*
600.00	152.83	27.45	*30.0*	**645.00**	164.63	29.22	*30.1*	*7.5*

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

[2] The adjusted incomes shown for 1989-90 are for illustration. They have been obtained by increasing the corresponding incomes in 1988-89 by 7½ per cent.

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

TABLE 10

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

COMPARISON OF INCOME AFTER INCOME TAX, NATIONAL INSURANCE CONTRIBUTIONS AND CHILD BENEFIT BETWEEN 1988-89 AND 1989-90 WHERE EARNINGS INCREASE BY 7½ PER CENT

1988-89					1989-90					
Income[1] £	Child Benefit £	Income tax £	NIC[2] £	Net income[3] £	Adjusted income[4] £	Child benefit £	Income tax £	NIC[2] post-October 1989 £	Net income[3] £	Percentage change in net income per cent
70.00	14.50	0.00	4.90	79.60	**75.25**	14.50	0.00	3.77	85.98	*8.0*
80.00	14.50	0.31	5.60	88.59	**86.00**	14.50	0.47	4.74	95.29	*7.6*
90.00	14.50	2.81	6.30	95.39	**96.75**	14.50	3.15	5.70	102.40	*7.3*
100.00	14.50	5.31	7.00	102.19	**107.50**	14.50	5.84	6.67	109.49	*7.1*
120.00	14.50	10.31	10.80	113.39	**129.00**	14.50	11.22	8.61	123.67	*9.1*
140.00	14.50	15.31	12.60	126.59	**150.50**	14.50	16.59	10.54	137.87	*8.9*
160.00	14.50	20.31	14.40	139.79	**172.00**	14.50	21.97	12.48	152.05	*8.8*
180.00	14.50	25.31	16.20	152.99	**193.50**	14.50	27.34	14.41	166.25	*8.7*
200.00	14.50	30.31	18.00	166.19	**215.00**	14.50	32.72	16.35	180.43	*8.6*
250.00	14.50	42.81	22.50	199.19	**268.75**	14.50	46.15	21.18	215.92	*8.4*
300.00	14.50	55.31	27.00	232.19	**322.50**	14.50	59.59	26.02	251.39	*8.3*
325.00	14.50	61.56	27.45	250.49	**349.38**	14.50	66.31	28.44	269.13	*7.4*
350.00	14.50	67.81	27.45	269.24	**376.25**	14.50	73.03	29.22	288.50	*7.2*
375.00	14.50	74.06	27.45	287.99	**403.12**	14.50	79.75	29.22	308.65	*7.2*
400.00	14.50	80.31	27.45	306.74	**430.00**	14.50	86.47	29.22	328.81	*7.2*
500.00	14.50	112.83	27.45	374.22	**537.50**	14.50	121.63	29.22	401.15	*7.2*
600.00	14.50	152.83	27.45	434.22	**645.00**	14.50	164.63	29.22	465.65	*7.2*

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

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

[3] Net income is earnings, less tax and National Insurance Contributions, plus child benefit. It does not include any income-related benefit.

[4] The adjusted incomes shown for 1989-90 are for illustration. They have been obtained by increasing the corresponding incomes in 1988-89 by 7½ per cent.

TABLE 11

MARRIED COUPLES - HUSBAND AND WIFE BOTH WORKING

COMPARISON OF INCOME AFTER TAX BETWEEN 1988-89 AND 1989-90 WHERE EARNINGS INCREASE BY 7½ PER CENT

Weekly income in 1988-89		Charge in 1988-89			Adjusted weekly income in 1989-90[1]		Proposed charge in 1989-90			
Husband	Wife	Joint	Income tax	Percentage of income taken in tax	Husband	Wife	Joint	Income tax	Percentage of income taken in tax	Percentage change in income after tax
£	£	£	£	per cent	£	£	£	£	per cent	per cent
100.00	**50.00**	150.00	5.31	*3.5*	**107.50**	**53.75**	161.25	5.89	*3.7*	*7.4*
	100.00	200.00	17.79	*8.9*		**107.50**	215.00	19.33	*9.0*	*7.4*
	150.00	250.00	30.29	*12.1*		**161.25**	268.75	32.76	*12.2*	*7.4*
	200.00	300.00	42.79	*14.3*		**215.00**	322.50	46.20	*14.3*	*7.4*
	300.00	400.00	67.79	*16.9*		**322.50**	430.00	73.08	*17.0*	*7.4*
150.00	**50.00**	200.00	17.81	*8.9*	**161.25**	**53.75**	215.00	19.33	*9.0*	*7.4*
	100.00	250.00	30.29	*12.1*		**107.50**	268.75	32.76	*12.2*	*7.4*
	150.00	300.00	42.79	*14.3*		**161.25**	322.50	46.20	*14.3*	*7.4*
	200.00	350.00	55.29	*15.8*		**215.00**	376.25	59.64	*15.9*	*7.4*
	300.00	450.00	80.29	*17.8*		**322.50**	483.75	86.51	*17.9*	*7.4*
200.00	**50.00**	250.00	30.31	*12.1*	**215.00**	**53.75**	268.75	32.76	*12.2*	*7.4*
	100.00	300.00	42.79	*14.3*		**107.50**	322.50	46.20	*14.3*	*7.4*
	150.00	350.00	55.29	*15.8*		**161.25**	376.25	59.64	*15.9*	*7.4*
	200.00	400.00	67.79	*16.9*		**215.00**	430.00	73.08	*17.0*	*7.4*
	300.00	500.00	92.79	*18.6*		**322.50**	537.50	100.21	*18.6*	*7.4*
300.00	**50.00**	350.00	55.31	*15.8*	**322.50**	**53.75**	376.25	59.64	*15.9*	*7.4*
	100.00	400.00	67.79	*16.9*		**107.50**	430.00	73.08	*17.0*	*7.4*
	150.00	450.00	80.29	*17.8*		**161.25**	483.75	86.51	*17.9*	*7.4*
	200.00	500.00	92.79	*18.6*		**215.00**	537.50	100.21	*18.6*	*7.4*
	300.00	600.00	124.95[2]	*20.8*		**322.50**	645.00	134.47[2]	*20.8*	*7.5*
400.00	**50.00**	450.00	80.31	*17.8*	**430.00**	**53.75**	483.75	86.51	*17.9*	*7.5*
	100.00	500.00	92.79	*18.6*		**107.50**	537.50	100.21	*18.6*	*7.4*
	150.00	550.00	112.45[2]	*20.4*		**161.25**	591.25	121.03[2]	*20.5*	*7.5*
	200.00	600.00	124.95[2]	*20.8*		**215.00**	645.00	134.47[2]	*20.8*	*7.5*
	300.00	700.00	149.95[2]	*21.4*		**322.50**	752.50	161.35[2]	*21.4*	*7.5*

[1] The adjusted incomes shown for 1989-90 are for illustration. They have been obtained by increasing the corresponding incomes in 1988-89 by 7½ per cent.

[2] Denotes wife's earnings election beneficial.

SECRET

INLAND REVENUE

Press Release

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

Re pensions, does the claim re simplifying
the rules stand up?
If in doubt, leave this out.

[3x] 14 March 1989

2

INCOME TAX RATES AND ALLOWANCES FOR 1989-90: PAY AS YOU EARN

The Chancellor proposes in his Budget

- to increase the main income tax allowances and the basic rate limit by about 6.8 per cent in line with the statutory indexation requirement;

- to extend to those aged 75 and over the higher level of age allowance currently given to those aged 80 and over;

- to reduce the rate at which the age allowance is withdrawn when a taxpayer's income exceeds the income limit;

- to make no change in the basic and higher rates of income tax.

This Press Release gives details of the changes and explains how these and other proposals will be implemented through PAYE.

/DETAILS OF CHANGES

DETAILS OF CHANGES

1. Income tax allowances

	1988-89	Proposed for 1989-90	PAYE Code Normally ends in letter	Increase in Code (x 10 = Increase in Allowances)
(i) Basic allowances		£	£	
Single allowance or wife's earned income allowance	2,605	2,785	L	18
Married allowance or single allowance plus additional personal allowance (APA) (a)	4,095 (or 2,605 + 1,490)	4,375 (or 2,785 + 1,590)	H	28
Widow's bereavement allowance	1,490	1,590	-	-
(ii) Age allowances				
Full single age allowance (age 65-74)	3,180	3,400	P	22
Full single age allowance (age 75-79) (b)	3,180	3,540	(c)	36
Full single age allowance (age 80 and over)	3,310	3,540	T	23
Full married age allowance (age 65-74)	5,035	5,385	V	35
Full married age allowance (age 75-79) (b)	5,035	5,565	(c)	53
Full married age allowance (age 80 and over)	5,205	5,565	T	36
Age allowance income limit	10,600	11,400	-	-

(a) The APA is an allowance for a single person who has responsibility for a child. The single allowance and the APA together are equivalent to the married allowance.

(b) See paragraph 2 for further information about the age allowance for those aged 75 and over.

(c) See paragraph 6(c) for an explanation of how the increase in allowances for these taxpayers will be implemented under PAYE.

2. Age allowance for those aged 75 and over

It is proposed to extend to those aged 75 and over the higher level of age allowance currently given to those aged 80 and over . For single people aged 75 to 79 the age allowance will rise from £3,180 in 1988-89 to £3,540 in 1989-90; for a married couple where at least one partner is aged 75 to 79 and the other is not aged over 79 the age allowance will rise from £5,035 in 1988-89 to £5,565 in 1989-90. The allowance will be subject to the same income limit as the existing age allowances. Taxpayers will qualify for the new allowance for 1989-90 if they are already aged between 75-79 or if they will reach the age of 75 between 6 April 1989 and 5 April 1990.

3. Reduction in rate of age allowance withdrawal

Where a taxpayer or his wife is over 65 but their total income is above a certain limit, the age allowance is progressively withdrawn until it is reduced to the level of the basic single or married allowance. It is proposed to reduce this rate of withdrawal from £2 of allowances for every additional £3 of income above the limit to £1 of allowances for every additional £2 of income. This means that the effective rate of tax on income in the withdrawal band will fall from 41.67 per cent for 1988-89 to 37.5 per cent for 1989-90.

4. Rates and bands

	Taxable Income Bands	
	1988-89	Proposed for 1989-90
	£	£
Basic rate at 25 per cent	1 - 19,300	1 - 20,700
Higher rate at 40 per cent	Over 19,300	Over 20,700

IMPLEMENTING THE CHANGES THROUGH PAYE

5. Increase in basic rate limit

New tax tables reflecting the change in the basic rate limit described at paragraph 4 will be used by employers on the first pay day after [17 May].

/6. Changes in income tax allowances

6. <u>Changes in income tax allowances and car scale benefits</u>

a. Tax offices will be sending employers instructions to increase codes ending in L, H, P or V by the appropriate amounts shown in paragraph 1. The new increased codes will take effect on the first pay day after [17 May]. Revised coding notices are not sent to employees when codes are increased automatically in this way.

b. The codes of the taxpayers listed below will be reviewed individually by the tax office who will notify both the employee and the employer of the revised code where a change is due. The revised codes will take effect on the first pay day after [17 May].

i. employees whose codes begin with D or F or end in T;

ii. employees whose codes include adjustments for car benefits (see separate Press Release "Income Tax: Company Cars" for details of proposed changes to the car benefit scale charges for 1989-90).

c. Tax offices will be reviewing their records to identify, so far as possible from the information already available, those taxpayers aged 75-79 who qualify for the new level of age allowance in 1989-90. Where they can identify such cases and a change in allowance is due, the tax office will notify both the taxpayer and the employer (or the person paying the taxpayer's occupational pension). The revised codes will generally take effect on the first pay day after [17 May]. Any taxpayer who:

i. expects to qualify for the higher age allowance for those aged 75-79 in 1989-90 and

ii. has not been notified individually by the end of May of a changed PAYE code to take account of the new allowance levels

should write to their tax office giving their date of birth. A married man should give his wife's date of birth if he qualifies for the allowance on the basis of her age (see paragraph 2. above).

7. <u>Employers</u>

Tax offices will

- issue to employers codes which have been changed as a result of the reviews under paragraph 6(b) and 6(c): these revised codes will either begin with D or F or end in T.

- instruct them to increase, by the appropriate amount, all remaining codes ending in L, H, P or V.

/New codes

New codes and tax tables will generally be issued by [ ] to be used on the first pay day after [17 May]. Some of the new codes issued by the tax office will be lower than those already in operation. Tax offices will therefore advise employers that it is important to use the new codes and the new tax tables for the first time on the same pay day.

8. Increase in income limit and reduction in withdrawal rate for age allowance

It is proposed to raise the age allowance income limit - below which age allowance is due in full - from £10,600 to £11,400. This means that, in the tax year starting 6 April 1989, after taking account of the reduction in the rate of withdrawal of age allowance described in paragraph 3, the benefit of the married age allowance for those aged 65-74 will not run out until the taxpayer has income of £13,420; for a single person the corresponding figure of income is £12,630. For taxpayers qualifying for the higher level of age allowance for those aged 75 and over, the benefit of the allowance will not run out until the taxpayer has income of £13,780 (married) or £12,910 (single).

Tax offices will amend codes which at present include a reduced amount of age allowance, to take account of the increase in the income limit and reduction in withdrawal rate. Where the size of a taxpayer's income means that no allowance was given for 1988-89 but age allowance is now due, the tax office will revise the code where necessary in the course of examining 1989-90 tax returns from April onwards.

Any taxpayer who is not getting age allowance at present but

a. expects to be entitled to age allowance following the proposed increase in the income limit and reduction in withdrawal rate, and

b. has not been asked by the middle of April to complete a 1989-90 tax return,

should write to their tax office giving details of income and date of birth.

9. Maintenance payments

The limit on maintenance payments qualifying for tax relief under the new rules introduced by the Finance Act 1988 is linked to the difference between the married and single person's allowances (£1,490 for 1988-89). The limit for 1989-90 will therefore be £1,590. [Details of the rules are in leaflet IR77, which is available from local tax offices and Tax Enquiry Centres.]

10. Wife's earnings election

In certain circumstances a married couple may find it to their advantage to elect for the wife's earnings to be taxed separately. For 1989-90 an election will normally be worthwhile only if the couple's combined income before deduction of allowances and reliefs is at least £30,511 including wife's earned income of at least £7,025. (The corresponding figures for 1988-89 are £28,484 and £6,579.) Inland Revenue leaflet IR13 gives further details of the election.

[3x]

14 March 1989

PENSIONS: TAX RULES SIMPLIFIED

The Chancellor proposes in his Budget today important changes in the tax rules for pensions. These will

- simplify the rules for pension schemes, employers and employees;

- permit greater flexibility in pension provision;

- lift the administrative burden on employers and pension schemes; but

- place a limit on the amount of tax relief available.

The changes are:

* New freedom for employers to provide whatever pension they want (but without additional tax relief)

* Simplification of the tax rules for occupational pension schemes, particularly affecting those who leave or retire early

* No tax advantages for pensions which arise from earnings in excess of £60,000

* A new approach to additional voluntary contributions (AVCs), which will greatly reduce the burden on employers, and make it much easier for employees to take out freestanding AVCs

* Better arrangements for personal pensions, including higher contribution limits for those over 35, a better way of calculating lump sum benefits, and greater freedom for members to control the investment of their money.

11

/The restriction of tax

The restriction of tax advantages for pensions based on earnings above £60,000 a year will affect only those joining a pension scheme on or after today (14 March). Other changes will apply from Royal Assent to the Finance Act.

DETAILS OF THE PROPOSALS

1. The Chancellor is retaining the existing broad framework for the tax treatment of pensions. But within that framework a numbe of significant changes are proposed, with the objective of making the system simpler, fairer and more flexible. And, by limiting the amount of tax relief available to very high earners, the reliefs for pensions will be brought into line with most other tax incentives.

2. The Government recognises that the last few years have involved a major upheaval for the pensions industry, from tax and other changes. The Chancellor therefore intends to make no further changes this Parliament to the tax treatment of pensions.

Occupational Pensions

3. A pension scheme satisfying certain conditions about the bneefits it pays will be approved by the Inland Revenue, in which case various tax reliefs apply to it:

- relief for employer's and employees' contributions

- tax-free build-up of the fund

- lump sum benefits may be paid tax-free.

4. However, it is not possible at present for an employer to set up two schemes, one with tax relief and one without, if the combined benefits exceed the normal limits for tax approval. The result is that the limits on tax relief have come to determine the total pension an employee can receive, and the form it takes. At the same time, since the tax rules tie pensions to final salary, there is no upper limit on the tax relief involved: the higher someone's earnings, the more pension they may receive, and the more tax relief is likely to be involved.

5. The Chancellor proposes two main changes:

- First, employers will in future be able to set up "top-up" schemes, without the usual tax advantages, to provide more generous benefits than the tax rules allow. Thus the Inland Revenue will no longer effectively restrict the total pension provided.

  But, second, there will in future be a limit on the total tax relief available: for new members of pension schemes, earnings in excess of £60,000 will be disregarded for the

/purposes of calculating

purposes of calculating benefits payable from a tax approved scheme. This limit has been set at a level at which the vast majority of pension scheme members will be unaffected.

6. The result will be that, for those joining a scheme from today, the maximum pension payable from tax approved occupational scheme will be £40,000 a year (two-thirds of £60,000). Some of this may be commuted for a tax-free lump sum: the maximum lump sum will be £90,000. The figure of £60,000 will be increased annually in line with inflation.

7. These changes make it possible to introduce a number of simplifications (which also apply to those joining a scheme from today) in the detailed rules for tax approved schemes. In particular:

- a maximum two thirds final salary pension may be paid on retirement between ages 50 and 70, subject to completion of 20 years' service with an employer.

- the maximum tax-free lump sum will be the better of 3/80 of inal salary for each year of service up to 40, or 2.25 times the amount of pension before commutation.

In general these simplifications will be more generous than the present rules.

8. The tax treatment of non tax-relieved "top up" pension schemes will broadly follow from existing legislation. It will be possible to set up such schemes as soon as the Finance Act has received Royal Assent.

9. Most tax-approved pension scheme will need to amend their rules, for new members. The Finance Bill will include legislation to override their present rules, unless they choose to be excluded. This approach, which was used to implement changes made in the 1987 Budget, saves schemes a great deal of work in changing their rules and resubmitting them to the Inland Revenue for approval.

Additional Voluntary Contributions

10. The present rules for additional voluntary contributions (AVCs) to a pension scheme, and in particular those for "freestanding AVCs" (ie paid to a separate pension plan of the member's choice), date from October 1987. They went with social security legislation which gave employees the right to pay AVCs to their own scheme, or to a freestanding scheme.

11. Before an employee can pay contributions to a freestanding AVC provider, the provider has to check with the employer's scheme that maximum benefits are not likely to be exceeded. That requires co-operation from the employer's scheme, and can involve that scheme in a lot of work. Further checks must be carried out at intervals to retirement. If, despite these checks, the total

/benefits payable on

benefits payable on retirement exceed the tax limits, the employer's scheme must cut back the benefits it provides. To that extent, the employee's contributions will have been wasted.

12. The Chancellor proposes a new approach to AVCs:

- Any "excess" at retirement, or on leaving employment, will no longer go to waste. Instead, it will be returned to the employee subject to a tax charge which broadly corresponds to the tax relief received on contributions, and on build-up of funds.

- The procedure on first paying AVCs will be radically simplified. For those making payments less than £2,400 (well above the average contribution) the AVC provider will make a few simple checks: there will be no need for the employer to be involved at all.

- For larger amounts the employer will need to provide some relatively straightforward information.

- There will normally be no need for further checks until retirement (or leaving employment).

13. This new approach will be available from Royal Assent to the Finance Act. It should make it very much easier, and attractive, for employees to pay freestanding AVCs.

Personal Pensions

14. Personal pensions, available to employees and the self-employed since July 1988, may be used:

- by the self-employed

- by employees not covered by a pension scheme

- by employees who would prefer to have their own scheme rather than join their employer's

- by employees in an occupational scheme who wish to contract out of the State Earnings-related Pension Scheme (SERPS).

15. The Chancellor proposes three main changes to personal pensions:

* It will be easier, for those who wish to, to direct where their fund is invested

* The contribution limits for members over 35 will be more generous

* The calculation of the tax-free lump sum will be changed - in most cases the result will be more generous.

/17. At the same time,

16. At the same time, as with occupational pensions, a limit will be placed on tax relief, which will not be available for contributions related to earnings in excess of £60,000. This figure will be increased annually in line with inflation.

17. [Expand on personalised funds. Depends on how far we get with DTI.]

18. The new contribution limits as a percentage of earnings, with the existing limits for comparison, are:

New Limits		Existing limits	
Age	%	Age	%
35 or less	17.5	50 or less	17.5
36-45	20	51-55	20
46-50	25	56-60	22.5
51-55	30	61 or over	27.5
56 and over	35		

19. These very significant increases, which apply from 6 April 1989, are intended to help those who cannot afford to make large contributions until later in their working life, but then wish to "catch up". The changes do not apply to retirement annuity contracts.

20. Finally, the lump sum which may be taken, tax-free, from a personal pension scheme at retirement, is currently calculated as 25 per cent of the total fund built up, including any "preserved rights" (the part of a personal pension corresponding to SERPS for those who have contracted out) but excluding the value of benefits for dependants. This is illogical, since preserved rights cannot be commuted for a lump sum. And it may encourage some people to cut back on their provision for dependants, so as to maximise the tax-free lump sum. In future, therefore, the calculation will exclude preserved rights and include dependants' benefits. For the majority of people the result will be more generous than now.

Cost

21. The overall pensions package will be broadly revenue-neutral. The small yield from the £60,000 earnings limit for tax-approved pension schemes will be offset by the cost of higher contribution limits (below earnings of £60,000) for personal pensions.

/NOTES FOR EDITORS

NOTES FOR EDITORS

1. The Chancellor announced a number of changes to the taxation of pensions in his 1987 Budget, including a limit on tax free lump sums of £150,000. Then, as now, the changes:

- applied to new pension schemes, and new members of existing schemes, from Budget Day; and

- were introduced by Finance Bill legislation overriding pension scheme rules.

Compliance Cost Assessments

2. Assessments of the compliance costs of proposals affecting businesses are available. A copy of the Compliance Cost Assessment for this proposal can be obtained from:

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

BUDGET SECRET

until after Budget Speech 14.3.89

then UNCLASSIFIED

HM CUSTOMS AND EXCISE NEWS RELEASE

No /89 14 March 1989

BUDGET 1989 : HYDROCARBON OILS
MEASURES TO PROMOTE UNLEADED PETROL

Unleaded petrol duty cut

The Chancellor proposes to reduce the excise duty, including VAT, on unleaded petrol by the equivalent of over 3p a gallon (nearly 1p a litre) while leaving the duty on four star leaded petrol unchanged. This increases the tax differential between 4 star leaded petrol and unleaded from nearly 11p to almost 14p a gallon (over 2p to 3p a litre). At the pump, this should increase the price differential from 6p a gallon (1.3p a litre) to around 9p a gallon (2p a litre).

Higher rate of duty on 2 and 3 star petrol

In addition, the duty, including VAT, on 2 and 3 star petrol is to be increased by 5p a gallon (just over 1p a litre). This should ensure that the pump price of 2 star is broadly in line with that of 4 star leaded petrol.

Operative date

The new rates apply to deliveries from refineries and bonded warehouses from 6 pm today.

Budget Notice

Details of the changes are in Budget Notice BN [ ]/89

BUDGET SECRET

until after Budget Speech on 14.3.89

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BACKGROUND NOTE

As a result of a United Kingdom initiative European Community law (Directive 85/210/EEC) now requires unleaded petrol to be generally available throughout the Community by 1 October 1989. Member States are to take appropriate steps to ensure its balanced distribution and to encourage its use. In last year's Budget the Chancellor increased the tax differential in favour of unleaded petrol from 5p a gallon to 10.6p a gallon (1.1p to 2.3p a litre) both to encourage wider distribution and to further stimulate sales. This change in taxation allowed garages stocking unleaded petrol to price it typically 6p a gallon (1.3p a litre) less than 4 star leaded petrol and slightly below 2 star leaded petrol, despite higher production and distribution costs.

In the year following the increase in the differential the number of garages in the UK stocking unleaded petrol has increased from over 700 to about 4300 (about 22% of the total) and since 1 January 1989 has been growing at a rate of about 250 a week. Efforts to increase public awareness about the benefits of unleaded petrol have had increasing success in recent months. However, unleaded petrol has only increased from well below 1 per cent at the time of the last Budget to just over 4 per cent of total petrol sales.

The Budget measures are intended to speed the shift to unleaded petrol with consequent worthwhile environmental and health benefits. Overall two out of every three cars on the road can use unleaded either without adjustment or adjustment at very little cost. The higher duty rate on 2 and 3 star petrol is intended specifically to encourage owners of vehicles that run on 2 and 3 star petrol, virtually all of which can run on unleaded without adjustment, to switch to unleaded. It will also encourage garage owners to switch 2 and 3 star pumps to unleaded petrol.

BUDGET SECRET
until after Budget Speech on 14.3.89
then UNCLASSIFIED

Definitions

"Unleaded petrol" is defined as petrol containing not more than 0.02 grams of lead per litre (0.013 grams per litre from 1 April 1990).

"Other leaded petrol" is defined as light oil produced for use in motor vehicles, other than unleaded petrol as defined in S13A(2) HODA, with anti-knock valves below those designated for four star petrol in the British Standards Institution British Standard Specification for Leaded Petrol (gasoline) for motor vehicles BS4040:1988.

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BUDGET CONFIDENTIAL

NEWS RELEASE

No /89 14 March 1989

BUDGET 1989: VALUE ADDED TAX

EXTENSION OF VAT RELIEFS FOR CHARITIES AND CERTAIN OTHER BODIES

The Chancellor proposes in his Budget to introduce a package of VAT reliefs designed to help charities and certain other bodies. From 1 April 1989:

- autoclaves and other sterilising equipment for use in medical research, diagnosis or treatment will be zero rated when bought with charitable or donated funds and supplied to non-profit-making 'eligible bodies' covered by Group 16 of the Zero Rate Schedule;

- zero-rating will be extended to advertising published by a charity for educational or fund-raising purposes in newspaper classified columns, programmes, annuals, leaflets, and similar publications and on posters;

- goods and services will be exempt from VAT if supplied by:

  charities in connection with charitable fund-raising events

  certain other non-profit-making bodies (including political parties and trades unions) in connection with fund-raising events organised for their own benefit.

The new reliefs are in the Value Added Tax (Fund-Raising Events and Charities) Order 1989 laid before Parliament today.

Details are in Budget Notice /89, copies of which are available from all local VAT offices.

BACKGROUND NOTES

The zero-rating of sterilising equipment is a further addition to the reliefs available to "eligible bodies" defined in Group 16 to the Zero Rate Schedule. "Eligible bodies" includes health authorities, non-profit-making hospitals and research bodies and charities providing care for the handicapped or rescue or first-aid services.

The new relief for advertising will cover advertising by charities in most publications (but not radio or television) when the advertisement is to raise money for, or make known the objects of, the charity; it extends the present relief introduced in the 1986 Budget.

The exemptions for fund-raising events are covered by a new Group 12 to the Exemption Schedule. The new Group 12 exempts supplies made by a charity in connection with a one-off fund-raising event such as a charity fete, gala performance or concert organised for a charitable purpose either for itself or jointly with other charities. Supplies made by a "qualifying body" in connection with a one-off fund-raising event organised exclusively for its own benefit and not for the benefit of any other body are also exempted. A "qualifying body" is defined as any non-profit-making body mentioned in either section 47(3) of the Value Added Tax Act

1983, or Item 1 of Group 9 of Schedule 6 to the Act; this includes political parties and other pressure groups, trades unions, professional associations and learned societies.

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BUDGET CONFIDENTIAL

No /89 14 March 1989

BUDGET 1989: CAR TAX
RELIEF FOR CARS LEASED TO THE DISABLED

The Chancellor proposes that, from Royal Assent, cars leased to the disabled should be relieved of car tax.

This measure extends existing reliefs for the disabled. Cars leased to the disabled are already relieved of VAT, but not normally from car tax. The new relief applies to all cars leased to a handicapped person provided:

- the car is leased for no less than three years;
- the disabled person receives a mobility allowance or mobility supplement; and
- the lessor's business consists mainly of providing cars to such people.

Details are in Budget Notice BN /89, copies of which are available from local excise offices.

BACKGROUND NOTE

There are already a number of reliefs available for vehicles used by the disabled:

- vehicles leased to the disabled are relieved from VAT;

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- vehicles adapted for the carriage of the disabled in a wheelchair are free of VAT and car tax;

- vehicles used exclusively by a disabled person who receives a mobility allowance or mobility supplement are exempt from vehicle excise duty.

This new relief should lead to a reduction in the initial charge to the disabled.

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No /89 14 March 1989

BUDGET 1989 - VAT: DEREGULATION AND PRO-BUSINESS PACKAGE

The Chancellor proposes a number of changes which, taken together, represent a significant VAT deregulation and pro-business package. The details are:

Simplified registration requirements

The present turnover requirements for VAT registration will be replaced for most businesses by a single limit based on turnover in the previous twelve months. This will remove longstanding areas of confusion and will provide a longer period of tax free trading to small businesses. Further details are in Press Notice /89.

Turnover limits increase

From midnight tonight the annual registration limit will be increased to £23,600; and from 1 June 1989 the limit for those considering cancellation of their registration will be increased to £22,600. The increases maintain the real value of the turnover limits and are the maximum allowed under European Community Law. They will keep small businesses out of the VAT net longer and enable more traders to deregister if they wish. Full details in Press Notice /89.

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Bad debt relief

From 1 October 1989 a comprehensive bad debt relief scheme will be introduced to provide relief from VAT on any debt which is more than 18 months old, and which is written off in the trader's accounts. The scheme will, also provide for repayment of relief claimed where the debt is subsequently paid. The change should lead to a significant increase in the level of VAT relief and make it more readily available. It benefits businesses of all sizes. Full details in Press Notice /89.

Default surcharge

The maximum rate of default surcharge on liabilities arising on or after 1 April 1989 will be reduced to 20 per cent. The reduction offers a worthwhile relaxation in the penalty regime without reducing the effectiveness of the surcharge system. Full details in Press Notice /89.

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No /89 14 March 1989

BUDGET 1989: BAD DEBT RELIEF

The Chancellor proposes to introduce a comprehensive bad debt relief scheme from 1 October 1989. This will replace the current arrangements for relief which are dependent upon the formal insolvency of the debtor. Under the new scheme, any debt which is more than 18 months old, and which has been written off in the trader's accounts will be eligible for relief. The new scheme will also provide for the first time for repayment of all or part of the relief claimed where the debt is subsequently paid in whole or in part.

The new scheme follows a review by Customs and Excise of the existing arrangements which was announced by the Economic Secretary to the Treasury, Mr Peter Lilley, MP in answer to a Parliamentary Question in July 1988.

BUDGET NOTICE

Details of the new arrangements for bad debt relief are in Budget Notice BN /89, copies of which are available at all local VAT offices.

BACKGROUND NOTES

Although VAT was introduced on 1 April 1973 it was not until the Finance Act 1978 that provisions were made for relief from VAT on bad debts. Those provisions, later incorporated into Section 22 of the Value Added Tax Act 1973, enable relief to be available where an individual debtor becomes bankrupt or a debtor company becomes the subject of a compulsory or creditors' voluntary winding up proceedings. To claim relief the creditor makes a claim on the trustee or liquidator for the VAT-exclusive amount of the debt and, when the claim is acknowledged, recovers the VAT by deducting it on his next VAT return. If the creditor subsequently receives a dividend he does not have to pay any part of the reclaimed VAT back to Customs and Excise.

Under Section 32 of the Finance Act 1985 relief also became available where a debtor, if an individual, enters into a voluntary formal scheme of arrangement with his creditors, or where an administrator or administrative receiver certifies that, in a liquidation, a company's assets would be insufficient to cover the payment of a dividend to the ordinary unsecured creditors.

A further, development, affecting VAT relief, occured on the introduction in October 1987, of the new VAT cash accounting arrangements. Under these arrangements businesses whose annual turnover is no greater than £250,000, which includes more than half of all traders registered for VAT, are able to choose to account for VAT on the basis of cash paid and received. For those who opt for the cash accounting arrangements there is automatic relief where the customer fails to pay, either in whole or part.

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BUDGET CONFIDENTIAL

No /89 14 March 1989

BUDGET 1989 - VAT: DEFAULT SURCHARGE

The Chancellor proposes to reduce the maximum rate at which VAT default surcharges are calculated.

The new maximum rate of surcharge is 20% of the outstanding tax. It will apply to surcharge liabilities arising on or after 1 April 1989. The first returns affected will be those due on 31 March 1989.

The proposal follows a review by Customs and Excise of the operation of default surcharge which was announced in July 1988 by the Economic Secretary to the Treasury, Mr Peter Lilley, MP.

The review found that the higher rates of surcharge added little to the effectiveness of the system. A large portion of those surcharged at these rates had considerable difficulty meeting even their tax liability - irrespective of any surcharge levied.

BUDGET NOTICE

Details of the change in the maximum rate of default surcharge is in Budget Notice BN /89, copies of which are available at all local VAT offices.

BACKGROUND NOTE

Since October 1986 persons who submit their VAT returns or payments late are in default. Two defaults within a period of 12 months cause the issue of a Surcharge Liability Notice, which warns that surcharges may be levied on subsequent late returns and payment of VAT. Further defaults within a 12 month period attract

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surcharges commencing at 5% of the outstanding tax, the rate increasing by 5% for each subsequent default. The 12 month period is extended by each default. There is a minimum surcharge of £30.

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No /89 14 March 1989

BUDGET 1989: VALUE ADDED TAX

SIMPLIFIED REGISTRATION REQUIREMENTS AND INCREASED TURNOVER LIMITS FOR REGISTRATION AND CANCELLATION OF REGISTRATION

The Chancellor proposes changes in the registration requirements and in the limits for VAT registration and cancellation of registration. The details are:

Revised registration requirements

From midnight tonight, a business is required to register:

- at the end of any month if the value of taxable supplies in the past 12 months has exceeded the annual turnover limit; or

- at any time, if there are reasonable grounds for believing that the value of taxable supplies in the next 30 days will exceed the annual turnover limit.

The quarterly registration limit is abolished.

Registration turnover limit increase

From midnight tonight the annual registration limit is being increased from £22,100 to £23,600.

Cancellation of Registration

- From 1 June 1989, the turnover limit will be increased from £21,100 pa to £22,600 pa (exclusive of VAT) for traders considering cancellation of their registration on the basis of their expected future annual turnover.

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- It is estimated that as a result of this change a further 31,000 traders will be eligible to request cancellation of their registration.

BUDGET NOTICE

Details of the change in the registration requirements and limits and in the cancellation limits are contained in Customs and Excise Notice BN /89 copies of which are available at all local VAT offices. Details of the revised registration requirements will be included in Customs and Excise leaflet 700/1/89 "Should I be Registered for VAT?" on its next reprint which should be issued about May 1989.

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H M CUSTOMS AND EXCISE

NEWS RELEASE

No /89 14 March 1989

BUDGET 1989: VALUE ADDED TAX

CARS USED FOR RESEARCH AND DEVELOPMENT

The Chancellor proposes to extend the existing relief from VAT for unused cars which are used for research and development (R&D) purposes. The present rules, which have applied since VAT was introduced, allow relief only when manufacturers use their own cars for R&D purposes. The revised relief will allow car manufacturers to deduct the input tax on the purchase or importation of any unused car which is to be used for R&D purposes. In addition, if a car manufacturer uses for R&D purposes an unused car which was originally bought for resale, VAT will no longer be due on the self-supply.

These changes will be made by Treasury Order with effect from 1 May 1989.

Details are in Budget Notice /89, copies of which are available from all local VAT offices.

BACKGROUND NOTE

The existing rules on VAT and cars are in the Value Added Tax (Cars) Order 1980 - Statutory Instrument No 442. VAT incurred by registered traders on the purchase of cars cannot be reclaimed as input tax. The exception to this rule, which has applied since VAT was introduced in 1973, is when unused cars are bought for resale. From 1 May 1989, input tax can also be deducted where a car manufacturer buys or imports an unused car for R&D purposes.

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Under the current rules, any unused car which was originally bought for resale, and on which input tax was reclaimed, is liable to VAT (as a "self-supply") if it is subsequently used in the business. From 1 May 1989 VAT will not be due if a car manufacturer buys or imports an unused car for resale and subsequently uses it for R&D purposes.

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BUDGET CONFIDENTIAL

No /89 14 March 1989

BUDGET 1989: ALCOHOLIC DRINKS

RESTRICTION ON DUTY-PAID BLENDING OF MADE-WINES

The Chancellor proposes that, from Royal Assent, made-wines of different duty strengths can no longer be blended after the duty has been paid on each of the constituent made-wines. Duty-paid blending of made-wines with wines of different duty strengths is also covered.

The proposed change follows representations by the European Commission which argued that continuing duty-paid blending of made-wines of different duty strengths infringed Article 95 of the Treaty of Rome. The 1985 Finance Act ended similar arrangements for the duty-paid blending of wines. This change brings the arrangements for blending made-wines into line with those for wines.

The change will be achieved by amending section 55 of the Alcoholic Liquor Duties Act 1979. It will take effect from Royal Assent to enable the trade to make the necessary changes.

Details are in Budget Notice DN 1/89, copies of which are available from local Customs and Excise offices.

BACKGROUND

"Made-wine" is a generic term used to cover all other alcoholic drinks apart from wine, beer (including black beer), spirits or cider. In practice, the bulk of made-wine sold in the UK is British sherry produced here from imported grape juice. Wine, on the other hand, is made from fresh grapes and is mainly imported.

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In circumstances where a product from another Member State is regarded as similar to or in competition with a domestic product, Article 95 of the Treaty of Rome prohibits the domestic State's taxation structure from discriminating against the imported product in favour of the domestic one.

Made-wine producers can currently gain a duty advantage if they blend made-wines of different duty strengths after they have paid the duty on each of the constituent made-wines. This is because the duty rate for light wine of no more than 15% alcoholic strength is £[ ] per hectolitre whereas the rates for medium (15-18%) and heavier wines (18-2%) are £[ ] and £[ ] respectively. So, for example, a medium strength mixture comprising both light and medium made-wines would show a duty saving of £[ ] for each hectolitre of light made-wines used in the blend.

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BUDGET CONFIDENTIAL

No /89 14 March 1989

BUDGET 1989: ALCOHOLIC DRINKS
DETERMINING THE ORIGINAL GRAVITY OF BEER

The Chancellor proposes that, from Royal Assent, the procedure for determining the original gravity (OG) of beer for duty purposes will be clarified.

OG for beer duty purposes is normally measured by a saccharometer. If fermentation has started, however, the saccharometer may not provide a true reading of OG as the presence of alcohol reduces the reading. Modern brewing practices mean that fermentation may sometimes have started before the saccharometer reading is taken. When the saccharometer reading is likely to be invalid, brewers must also measure OG by distillation analysis. The current provisions do not make it entirely clear when the duty due must be calculated using the result from the distillation analysis instead of the saccharometer reading. To remove any possible uncertainty, this change directs brewers to use the measurement more favourable to the revenue.

Details are in Budget Notice BN 2/89, copies of which are available from local Customs and Excise offices.

BACKGROUND NOTE
The change will be achieved by amending section 3 of the Alcoholic Liquor Duties Act 1979. It will take effect from Royal Assent to enable brewers to make the necessary adjustments.

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BUDGET CONFIDENTIAL

Beer duty is usually charged on the quantity and original gravity (OG) of worts (unfermented beer) collected and declared by brewers. The rate of duty charged is £[   ] per hectolitre for every degree of OG over 1000°: for example, a 1040° OG would result in duty of £[   ] per hectolitre.

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DRAFT

INLAND REVENUE

Press Release

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[3x] 14 March 1989

INHERITANCE TAX

The Chancellor proposes in his Budget to

- raise the threshold for inheritance tax from £110,000 to £118,000
- limit the circumstances in which redistribution of estates by beneficiaries have retrospective effect for inheritance tax.

DETAILS

Threshold

1. The inheritance tax threshold rises in line with the Retail Prices Index (RPI) increase for the year to the previous December (rounded up to the next £1,000) unless Parliament decides otherwise. Between December 1987 and December 1988 the RPI increased by 6.8% per cent. This raises the present threshold from £110,000 to £118,000.

2. The Treasury are today making a Statutory Instrument setting out the new threshold. It will apply to transfers made on or after 6 April 1989. There is no change to the rate of inheritance tax (currently 40%).

3. The estimated cost of statutory indexation is £35 million for 19~~88~~-89-90.

Instruments of Variation

4 At present, if the parties so elect, retrospective effect for inheritance tax purposes is given to rearrangements of estates made within two years of death by the beneficiaries for any purpose. The provision was introduced originally to enable estates to benefit from the (then) new spouse exemption. It is no longer needed for that purpose and is being increasingly exploited to avoid inheritance tax.

/ 5. In future

5. In future rearrangements will continue to be effective for inheritance tax only if made by:

- disclaimer of benefits under wills, intestacies or Scottish legal rights; or

- Court Orders making adequate provision for the deceased's dependants; or

- written variations by the beneficiaries themselves making adequate provision for the deceased's dependants that could be ordered by the Court.

The change will apply to deaths which occur on or after Royal Assent.

The estimated yield from the change is £5 million for 1989-90, and for 1990-91, £15 million.