PO-CH/NL/04477
PART A

PO CH/NL/0477
PART. A

PO CH/NL/0477
PART. A

1989 BUDGET
OVERVIEW

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM

chex.md/aa/4 BUDGET CONFIDENTIAL

FROM: A C S ALLAN
DATE: 10 January 1989

CHIEF SECRETARY
FINANCIAL SECRETARY
PAYMASTER GENERAL
ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR ANSON
DAME ANNE MUELLER
MR WICKS
MR HARDCASTLE
MR BYATT
MR SCHOLAR
MR CULPIN
MR SEDGWICK
MR RILEY
MR MACPHERSON
MISS J SIMPSON
MRS CHAPLIN
MR TYRIE
MR CALL
SIR A BATTISHILL IR
MR BEIGHTON IR
MR ISAAC IR
MR PAINTER IR
MR UNWIN C&E
MR JEFFERSON SMITH C&E

cc Mr Gilhooly
PS/IR
Mr P R H Allen C&E
Mr Corlett IR (items (iii)-(v))
Mr Kuczys IR (items (iii)-(v))
Mr Luce (item (iii))
Mr L Harris (item (iii))
Mr J Dixon (item (iii))
Mr A Walker IR (item (iv))
Mr Ilett (item (iv))
Mr Neilson (item (iv))
Mr McGivern IR (item (vi))
Mr J H Reed IR (item (vi))

BUDGET OVERVIEW MEETING: PROVISIONAL AGENDA FOR FIRST OVERVIEW MEETING ON MONDAY 16 JANUARY

The first overview meeting will be held on Monday 16 January at 3.00pm. The arrangements this year will be slightly different: all those on the permanent overview cast list are invited to attend for the Scorecard and other items of general interest. But many of the other items which need discussion will be more suitable for a smaller group, and there will be no need for the full cast to stay for those items.

ACSA

A C S ALLAN

AGENDA FOR FIRST OVERVIEW MEETING: MONDAY, 16 JANUARY 1989

Main items

(i) Budget Scorecard:

To be circulated by Mr Culpin

(ii) Unleaded petrol:

Note by Customs & Excise, to be circulated

Other items

(iii) Pensions:

Note by the Revenue, to be circulated

(iv) PEPs:

Note by the Revenue, to be circulated

(v) Controlling Directors:

The FST's minute of 4 January, and Mr Kuczys' minute of 22 December

(vi) Close Company Legislation:

The FST's minute of 14 December

chex.md/aa/4 **BUDGET CONFIDENTIAL**

FROM: A C S ALLAN

DATE: 13 January 1989

CHIEF SECRETARY
FINANCIAL SECRETARY
PAYMASTER GENERAL
ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR ANSON
DAME ANNE MUELLER
MR WICKS
MR HARDCASTLE
MR BYATT
MR SCHOLAR
MR CULPIN
MR SEDGWICK
MR RILEY
MR MACPHERSON
MISS J SIMPSON
MRS CHAPLIN
MR TYRIE
MR CALL
SIR A BATTISHILL IR
MR BEIGHTON IR
MR ISAAC IR
MR PAINTER IR
MR UNWIN C&E
MR JEFFERSON SMITH C&E

cc Mr Gilhooly
PS/IR
Mr P R H Allen - C&E
Mr Corlett - IR (items (iii)-(v))
Mr Kuczys - IR (items (iii)-(v))
Mr Luce (item (iii))
Mr L Harris (item (iii))
Mr A J Walker - IR (item (iv))
Mr Ilett (item (iv))
Mr Neilson (item (iv))
Mr McGivern - IR (item (vi))
Mr J H Reed - IR (item (vi))

BUDGET OVERVIEW MEETING: AGENDA FOR FIRST OVERVIEW MEETING ON MONDAY 16 JANUARY

... I attach the agenda for the first overview meeting, on Monday 16 January at 3.00pm.

ACSA

A C S ALLAN

AGENDA FOR FIRST OVERVIEW MEETING: MONDAY, 16 JANUARY 1989

Main items

(i) Budget Scorecard:

Circulated by Mr Culpin on 12 January

(ii) Unleaded petrol:

Mr Wilmott's note of 12 January

Other items

(iii) Pensions:
(a) Mr Isaac's minute of 12 January on top-up pensions
(b) Mr Kuczys' minute of 12 January on pensions and job changes.

(iv) PEPs:

Mr A J Walker's note of 12 January

(v) Controlling Directors:

The FST's minute of 4 January, and Mr Kuczys' minute of 22 December

(vi) Close Company Legislation:

The FST's minute of 14 December

REF NO. ACSA/89/2

COPY NO. 28 OF 49.

RECORD OF THE FIRST BUDGET OVERVIEW MEETING:
AT 3.00 PM ON MONDAY 16 JANUARY 1988

Present

Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Dame A Mueller
Mr Wicks
Mr Hardcastle
Mr Byatt
Mr H Phillips (Item 5 only)
Mr Scholar
Mr Culpin
Mr L J Harris (Item 2 only)
Mr Luce (Item 2 only)
Mr Riley
Mr Sedgwick
Mr Gilhooly (Items 1-4 only)
Mr Ilett (Item 3 only)
Mr Saunders (Item 5 only)
Mr Macpherson
Miss J C Simpson
Mrs Chaplin
Mr Tyrie
Mr Call

Sir A Battishill - IR
Mr Beighton - IR
Mr Isaac - IR
Mr Painter - IR
Mr Corlett - IR (Items 2, 3, 4 and 5 only)
Mr Lewis - IR (Items 4 and 5 only)
Mr McGivern - IR (Item 6 only)
Mr Kuczys - IR (Items 2, 3, 4 and 5 only)
Mr J H Reed - IR (Item 6 only)
Mr A J Walker - IR (Items 2, 3 4 and 5 only)

Mr Unwin - C&E
Mr Jefferson Smith - C&E

Papers:

(i) Budget Scorecard:

Mr Culpin's minute of 12 January;

(ii) Pensions:

(a) Mr Isaac's minute of 12 January on top-up pensions;

(b) Mr Kuczys' minute of 12 January on pensions and job changes;

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

(c) the FST's minute of 4 January, and Mr Kuczys' minute of 22 December on controlling directors;

(iii) **PEPs:**

Mr A J Walker's note of 12 January;

(iv) **Subsidised mortgages:**

(no papers);

(v) **Tax relief for private medical insurance:**

Mr Lewis's minute of 13 January;

(vi) **Close Company legislation:**

The FST's minute of 14 December.

Private Health Insurance

15. The Chancellor queried why the estimate of the cost of providing tax relief on private medical insurance for the over 60s was now put at £50 million in 1990-91, a considerable increase on earlier estimates. Mr Kuczys noted that this included the cost of relieving employees aged over 60 from a benefits-in-kind charge; the Revenue were looking into the take-up assumptions and would provide a further note.

16. There was some discussion about whether employees should be exempted from the benefits-in-kind charge if they were over 60. There might be presentational problems over applying the charge here when, for example, no such charge was applied in the case of subsidised mortgages. But it was most unattractive to extend the exemptions from the benefits-in-kind charge; and that would not accord with the objectives of this relief, which was aimed at the problem of those who retired having previously been in company schemes, and who found that their income fell and premiums rose. It was impossible to target the relief just at those who had retired, so the relief had to be given to all over a particular age. It was agreed that the benefits-in-kind charge should be retained.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

ACSA

A C S ALLAN

16 January 1989

<u>Distribution</u>

Those present
Mr S Matthews
PS/IR
Mr P R H Allen - C&E

(note: all members of the permanent Overview cast receive the full minutes, even where they did not attend all the items).

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

chex.md/aa/4 **BUDGET CONFIDENTIAL**

FROM: A C S ALLAN
DATE: 25 January 1989

CHIEF SECRETARY	cc	Mr Gilhooly
FINANCIAL SECRETARY		Mr Matthews
PAYMASTER GENERAL		Mr G Bush - IR
ECONOMIC SECRETARY		PS/IR
SIR P MIDDLETON		Mr P R H Allen - C&E
SIR T BURNS		
MR ANSON		Mr Corlett - IR
DAME ANNE MUELLER		(items (iii)-(iv))
MR WICKS		Mr Kuczys - IR
MR HARDCASTLE		(items (iii)-(iv))
MR BYATT		Mr Luce (item (iii))
MR SCHOLAR		Mr L Harris (item (iii))
MR CULPIN		Mr Dixon (item (iii))
MR SEDGWICK		Mr A J Walker - IR
MR RILEY		(item (iv))
MR MACPHERSON		Mr Ilett (item (iv))
MISS J SIMPSON		Mr Houghton - IR
MRS CHAPLIN		(item (v))
MR TYRIE		Mr Bryce - IR
MR CALL		(item (v))
SIR A BATTISHILL IR		
MR BEIGHTON IR		
MR ISAAC IR		
MR PAINTER IR		
MR UNWIN C&E		
MR JEFFERSON SMITH C&E		

BUDGET OVERVIEW MEETING: PROVISIONAL AGENDA FOR SECOND OVERVIEW MEETING ON MONDAY 30 JANUARY

... I attach the provisional agenda for the second overview meeting, on Monday 30 January at 3.00pm. Could those preparing papers please make sure they copy them to all those on the overview cast list (ie all those in the left hand column above), and to Mr Matthews, Mr Gilhooly, Mr G Bush IR, PS/IR and to Mr P R H Allen C&E. Please could they also attach one additional copy to notes addressed to the Chancellor.

2. All papers for Monday's meeting must be circulated by <u>close of play on Thursday 26 January.</u>

ACSA

A C S ALLAN

PROVISIONAL AGENDA FOR SECOND OVERVIEW MEETING: MONDAY, 30 JANUARY 1989

Main items

(i) Budget Scorecard:

To be circulated by Mr Culpin
(also Mr P Lewis's minute of 13 January on car scales)

(ii) Minor Starters:

Note by FP, to be circulated

Other items

(iii) Pensions:

Notes by the Inland Revenue, and by Superannuation Division, Treasury, to be circulated

(iv) PEPs:

Notes by the Inland Revenue, and by FIM, to be circulated.

(v) Residence:

Note by the Inland Revenue, to be circulated.

MINOR STARTERS

fp[illegible].gilhooly/156

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET

Copy 1 of 37 copies

FROM: J F GILHOOLY
DATE: 26 JANUARY 1989

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr J Anson
Dame Anne Mueller
Mr N Wicks
Mr Hardcastle
Mr I Byatt
Mr M Scholar
Mr R Culpin
Mr C Riley
Mr R Sedgwick
Mr A C S Allan
Mr S Matthews
Mr N Macpherson
Miss J Simpson
Miss M Hay
Mr G Michie
Miss T Pollock
Mrs J Chaplin
Mr A Tyrie
Mr M Call

Sir Anthony Battishill)
Mr Beighton)
Mr Isaac) IR
Mr Painter)
Mr Bush)

Mr Unwin)
Mr Jefferson Smith) C&E
Mr P R H Allen)

Mr Jenkins - Parly Counsel

SECRET

Ch
We'll be having Mr Jenkins along & important to make sure he's content with getting through these.
AA

B.L.O.

BUDGET OVERVIEW MEETING : 30 JANUARY: MINOR STARTERS

SECRET

The overall picture as on Thursday afternoon is set out in the following tables. (They exclude starters which have already been dropped; as also starters which are not for the Finance Bill - those requiring Treasury order, or involving consultative documents rather than legislation.) Details of the starters in the various categories are listed at Annex A of this note.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

TABLE 1

STATE OF PLAY WITH DEPARTMENTS

	Awaiting Submission	Under consideration by Ministers	Provisionally included	Included	TOTAL
INLAND REVENUE					
- starters	2	15	7	28	52
- estimated no of pages	1	34½	28	106	169½
CUSTOMS AND EXCISE					
- starters	NIL	1	4	12	17
- estimated no of pages	NIL	13½	4½	25	43
TREASURY & TRANSPORT					
- starters	NIL	1	2	13	16
- estimated no of pages	NIL	4½	2¼	3¾	10½
TOTAL					
- starters	2	17	13	53	85
- estimated no of pages	1	52½	34¾	134¾	223

NOTES: Starter 302 "Stamp Duty: Taurus" is not included in the Table.
"Pages" includes schedules.
Length of one or two starters not yet known: these are included in "number of starters", but not in "pages".

2. The state of play with Parliamentary Counsel is set out in Table 2:-

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

TABLE 2

STATE OF PLAY WITH PARLIAMENTARY COUNSEL

	Instructions not yet with Counsel	Being drafted by Counsel	Drafting completed	TOTAL
INLAND REVENUE				
- no of starters	24	21	7	52
- no of pages	49½	117	3	169½
CUSTOMS AND EXCISE				
- no of starters	2	10	5	17
- no of pages	14	28	1	43
TREASURY & TRANSPORT				
- no of starters	1	13	2	16
- no of pages	4½	5½	½	10½
TOTAL				
- no of starters	27	44	14	85
- no of pages	49	156	4	223

NOTES: As for Table 1

3. This makes for an exceptionally large Finance Bill. The current total of 223 A4 pages must be a record (The 1988 Finance Bill was 181 pages.) The total is still an estimate which

- could go up or down in the process of drafting;

- includes one or two starters which are likely to take up less space than allowed for (notably Excise Duties).

4. The overall figures are a guide to the load on Departments and Parliamentary Counsel: but an imperfect one because some starters are more complex to draft than others.

Only anti-avoidance

5. The aim subject to confirmation by Ministers is that the Bill would be published on April 14. Parliamentary Counsel's view is that although tight, the drafting timetable for the Bill (and the Budget Resolutions) remains achievable so long as there is no slippage. But there is a risk that it will not be possible to include everything in the Bill when first published; he would find it useful, against that contingency, for Ministers to identify the starters with lowest priority for when the Bill is published. ??

6. The overall figures are also a guide to the difficulty of taking the Bill through the House, but a very rough one. For example, some of the largest starters - such as Keith and Capital Allowances - are expected to be uncontroversial.

7. **You will wish to consider:**

(a) whether the drafting timetable for the Finance Bill will stand up;

(b) whether the Bill will be unmanageably large;

(c) what guidance can be given to Parliamentary Counsel about starters with low priority for the Bill.

8. Depending on the answers to those questions, you will wish to look at the starters as listed in Annex B to see whether any could and should be dropped. Of course, a process of weeding has already been going on, and anything dropped now will carry some cost - a simplification not done, a loophole not closed, or a political pressure not met.

9. Despite the caveats above, you may find it helpful to see the starters, both major and minor, arranged in order of their estimated length in pages. This is attached at Annex B. Some key points are:

(i) there are 12 starters of over 5 pages. These account for 123½ pages.

(ii) there are 18 starters of 2 to 5 pages. These account for 61½ pages.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

(iii) the remaining 54 starters of less than 2 pages account for 38 pages.

10. Also attached for reference, at Annex C, is the list of starters grouped by theme.

J F GILHOOLY

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

ANNEX A

STARTERS: DETAILS

I STARTERS AWAITING A SUBMISSION

Inland Revenue

		PAGES
259	IHT - Threshold and Rate	(½)
263	Gifts to Housing Associations	(½)

II UNDER CONSIDERATION BY MINISTERS

Inland Revenue

100	Income Tax	(2/3)
103	Benefits-in-kind - Misc 2	(1)
106	Benefits in kind - Provided Accommodation	(2 to 3)
118	Trusts: general review	(1 to 2)
119	Mixed residence and non-resident trusts	(4 to 5)
151	Charities: covenanted membership subs	(1)
200	Main CT rate for financial year 1989	(2 lines)
201	Small companies CT rate for financial year 1989	(4 to 9 lines)
258	Lloyd's CG treatment	(1 page)
262*	CGT: sterling non-qualifying corporate bonds	(up to 2/3)
350	Oil abandonment: PRT/CT relief	(10 to 15)
402	Individual residence	(4 to 5)

* Has been sent to Counsel

(COBO)

453	Deep discounted government & parastatal bonds	(1)
454	Electronic payment of dividends	(under 1)
455	Electricity privatisation: misc tax provisions	(2 to 3)

Customs & Excise

1	Excise Duty Rates (including VED)	(13½)

Treasury

650	ITV levy	(4 to 5)

III PROVISIONALLY INCLUDED

Inland Revenue

104	Benefits in kind: car and car fuel benefit	(1½)
110	Schedule E: lump sum payments	(1 to 2)
113	ESOPS	(up to 3)
116	Amendments to PRP	(8)
206	Close company legislation	(up to 5)
212	Reopening of claims etc	(2)
301	Stamp duty: rate on shares	(7)

Customs & Excise

37	VAT: bad debt relief	(1½)
38	VAT: review of default surcharge	(1¼)
60	Prosecution time limits	(1¼)
61	Seizure at export of probable cash proceeds of drug trafficking	(½)

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

Transport

604	Hackneys	(2-3 lines, plus schedule table)
606	Dishonoured cheques	(2)

IV INCLUDED BUT NOT YET WITH COUNSEL

Inland Revenue

107	Reform of relief for relocation costs	(2 to 3)
112	Review of Employee Share Schemes	(2 to 3)
152	Tax relief for equity investments	(¼)
205	ACT (Change of ownership, surrender)	(2)
404	Umbrella funds	(1 to 2)
451	Sub-contractor tax scheme	(½)

V INCLUDED AND WITH COUNSEL, STILL BEING DRAFTED

Inland Revenue

108	Schedule E: Receipts Basis	(5 to 6)
114	Taxation of employee priority in company flotations	(1)
115	Employees' material interest	(1)
153	Pensions: changes to tax rules	(10)
154	Miscellaneous allowances	(4)
158	Charities: Payroll Giving Limit	(a few lines)
156	Unit trusts: basis of charge	(5)
209	Capital allowances: pre consolidation amendments	(7)
215	Life Assurance Review	(5)
252	CGT: Gifts relief	(10)

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

254	CGT non-resident companies trading in UK	(6½)
261	IHT: Instruments of variation	(3)
353	PRT: relief for incremental oil field investment	(5)
450	Keith Committee: administrative improvements	(26)
452	Unauthorised disclosure of information provided to IR and C&E	(5)

Customs & Excise

6	Excise: oil duties relief	(1½)
30	VAT: ECJ judgement on zero rates)	
31	VAT: minor property changes)	(17½)
35	VAT: simplification of registration requirements	(1½)
36	Right to repayment of VAT/excise duties and consequential changes	(1)
39	Duty and tax relief for diplomats and visiting forces	(1)
63	Unauthorised disclosure of confidential information.	(1)

Treasury & Transport

601	Trade Licensing	(not known)
602	Special Types	(3 lines plus a schedule table)
603	Rigid goods vehicles	(3 lines plus 3 schedules tables)
604	Hackneys	(3 lines plus a schedule table)
606	Dishonoured cheques	(2)
632	Grass cutting vehicles	(4 lines)
633	Sale of Registration Numbers	(1½)

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

VI INCLUDED AND COUNSEL'S DRAFTING COMPLETED

Inland Revenue

117	Mortgage interest relief limit for 1989-90	(a few lines)
207	Capital allowances at sports grounds	(½)
213	Extension of pre-trading expenditure relief	(7 lines)
251	CGT: Annual exempt amount	(a few lines)
255	CGT: Technical changes associated with rebasing	(1½)
256	CGT: chattels exemption	(a few lines)
400	Tax deductible from tax credit payments to US companies	(½)

(In addition, the following two starters are still under consideration, but drafting has been completed

200	Main CT rate for 1989	(2 lines)
201	Small companies rate of CT for 1989	(a few lines)

Customs & Excise

2	Excise: power to estimate revenue duties payable	(¼)
3	Excise: restriction of duty-paid blending of made wine	(½)
4	Excise: measurement and declaration of original gravity of beer	(¼)
5	Excise: misdescription of substances as beer	(3 lines)
62	London Port banking: amendment to CEMA Section 17	(6 lines)

Treasury & Transport

605	Recovery vehicles	(5 lines)
631	Update reference to "registration" to include "registration book".	(not known)

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET

ANNEX B

STARTERS OF OVER 5 PAGES (INCLUDING SCHEDULES)

	No of pages	With Counsel	Drafting completed
Inland Revenue			
Number			
108 - Schedule E: Receipts Basis	5½	Yes	
116 - Amendments to PRP	8	Yes	
153 - Pensions: charges to tax rules	10	Yes	
209 - Capital allowances: pre consolidation amendments	7	Yes	
252 - CGT: Gifts relief	10	Yes	(why so complex?)
254 - CGT: Non-resident companies trading in the UK	6½	Yes	
301 - Stamp duty: rate on shares	7	Yes	
350 - Oil abandonment: PRT/CT relief	12½		
450 - Keith Committee - administrative improvements	26	Yes	
Customs and Excise			
Number			
1 - Excise: duty rates	13½		
30 - VAT: ECJ judgement on zero rates 31 - VAT: minor property changes	17½	Yes	

SECRET

B.L.O.

Treasury and Department of Transport

Nil

SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

STARTERS OF BETWEEN 2 AND 5 PAGES (INCLUDING SCHEDULES)

	No of pages	With Counsel	Drafting completed
Inland Revenue			
Number			
106 - Benefits-in-Kind: provided accommodation	2½		
107 - Reform of relief for relocation	2½		
112 - Review of Employee Share Schemes	2½		
113 - Employee Share Schemes (ESOPs)	3		
119 - Mixed residence and non-resident trusts	4½		
154 - Miscellaneous allowances	4	Yes	
156 - Unit Trusts: basis of charge	5	Yes	
205 - Advance Corporation Tax (change of ownership, surrender)	2		
206 - Close company legislation	5	Yes	
212 - Re-opening of claims etc	2	Yes	
215 - Life Assurance Review	5	Yes	
261 - IHT: Instruments of variation	3	Yes	
353 - PRT: relief for incremental oil fields investment	5	Yes	
402 - Individual residence	4½		
452 - Unauthorised disclosure of information provided to IR and C&E	5	Yes	
455 - Electricity privatisation - miscellaneous taxation provision	2½		
Customs and Excise			
Nil			
Transport and Treasury			
606 - Dishonoured cheques	2	Yes	
650 - ITV levy	4½		

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

STARTERS OF LESS THAN 2 PAGES (INCLUDING SCHEDULES)

	No of pages	With Counsel	Drafting completed
Inland Revenue			
100 - Income Tax allowances, basic rate limits and rates	¾		
103 - Benefits-in-kind: MISC 2	1		
104 - Benefits-in-kind: car and fuel benefit	1½		
110 - Schedule E: lump sum payments	1½		
114 - Taxation of Employee priority in company flotations	1	Yes	
115 - Employees' material interest	1	Yes	
117 - Mortgage interest relief limit for 1989-90	few lines	Yes	Yes
118 - Trusts: general review	1½		
151 - Charities: covenanted membership subscriptions	1	Yes	
152 - Tax relief for equity investment	¼		
158 - Charities: payroll giving limit	few lines	Yes	
200 - Main CT rate for 1989	2 lines	Yes	Yes
201 - Small companies rate of CT for Financial Year 1989	4½ lines	Yes	Yes
207 - Capital allowances at sports grounds	½	Yes	Yes
213 - Extension of pre-trading expenditure relief	7 lines	Yes	Yes
251 - CGT: Annual exempt amount	few lines	Yes	Yes
255 - CGT: Technical changes associated with rebasing	1½	Yes	Yes
256 - CGT: Chattels exemption	few lines	Yesa	Yes

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

	No of pages	With Counsel	Drafting completed
258 - Lloyds CG treatment	1		
259 - IHT - threshold and rate	½		
262 - CGT: sterling non-qualifying corporate bonds	¾	Yes	
263 - Gifts to Housing Associations	½		
301 - Stamp duty: rate on shares	¼	Yes	
400 - Tax deductible from tax credit payments to US companies	½	Yes	Yes
404 - Umbrella funds	1½		
451 - Sub-contractor tax scheme	½		
453 - Deep discounted government and parastatal bonds	1		
454 - Electronic payment of dividends	¾		

Customs and Excise

	No of pages	With Counsel	Drafting completed
2 - Excise: power to estimate revenue duties payable	13 lines	Yes	Yes
3 - Excise: restriction of duty-paid blending of made-wine	½	Yes	Yes
4 - Excise: measurement and declaration of original gravity of beer	10 lines	Yes	Yes
5 - Excise: misdescription of substances as beer	3 lines	Yes	Yes
6 - Excise: oil duties relief	1½	Yes	
35 - VAT: simplification of registration requirement	1½	Yes	
36 - Right to repayment of VAT/excise duties and consequential changes	1	Yes	
37 - VAT: bad debt relief	1½	Yes	
38 - VAT: review of default surcharge	1¼	Yes	
39 - Duty and tax relief for diplomats and visiting forces	1	Yes	
60 - Prosecution fine limits	1¼	Yes	

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

	No of pages	With Counsel	Drafting completed
61 - Seizure at export of probable cash proceeds of drug trafficking	½		
62 - London Port banking: amendment to CEMA Section 17	6 lines	Yes	Yes
63 - Unauthorised disclosure of confidential information	1	Yes	

Transport and Treasury

	No of pages	With Counsel	Drafting completed
602 - Special Types	¼	Yes	
603 - Rigid Goods Vehicles	1¼	Yes	
604 - Hackneys	¼	Yes	
605 - Recovery Vehicles	5 lines	Yes	Yes
632 - Grass cutting Vehicles	4 lines	Yes	
633 - Sale of registration numbers	1¾	Yes	
651 - Government stock: small estates	¼	Yes	
652 - Gifts redemption monies: new procedures	½	Yes	
654 - Redemption 3% 1986-1996: wind up of Annuities Account and sinking fund	½	Yes	
655 - Power to use NLF money to purchase and cancel Gilt Edged Securities ahead of redemption	6 lines	Yes	
656 - National Savings: Abolition of minimum interest rate provision	3 lines	Yes	

Note: In addition there are 3 Transport and 1 Treasury starters where length of legislation is still not known:

	No of pages	With Counsel	Drafting completed
601 - Trade Licensing		Yes	
606 - Dishonoured cheques		Yes	
631 - Update reference to "registration" to include "registration book"		Yes	Yes
657 - National Savings: Restriction of Investment and ordinary Accounts to personal holders		Yes	

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

ANNEX C

BUDGET STARTERS BY THEME

This annex breaks down budget starters into themes. The number preceding each starter is the reference number in the starters' handbook.

I. TAX REFORM

Reform in the 1989 Budget is likely to fall into four categories:

(a) **Abolition of taxes.**

301 Abolition of stamp duty on shares

(b) **Broadening the tax base**

On the direct tax side:

104 Car benefit scales

107 Reform of reliefs for relocation expenses

118 Review of Trusts

153 Pensions

215 Life assurance

251 CGT threshold

252 CGT gifts relief

402 Residence

On the indirect tax side:

30 ECJ judgement on zero rates

31 VAT: Minor property changes

(c) **Simplification/deregulation/improved administration**

6 Excise: oil duties reliefs

8 Excise: Simplified duty credit arrangements

35 Simplification of the VAT Registration Requirement

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

37	VAT bad debt relief
38	Default surcharge
108	Schedule E: Receipts basis
118	Trusts
206	Close company legislation
256	CGT: Chattels exemption
261	IHT: Instruments of Variation
402	Residence
451	Sub-contractors tax scheme

and various Keith type Starters:

2	Excise: Power to estimate Revenue duties payable
36	Right to repayment of VAT/Excise duties
212	Reopening of claims for reliefs
450	Keith Committee: Administrative improvements

(d) Starters made possible by or following on from 1988 Reform

104	Car benefit scales
118	Trusts
150	Charitable covenants
153	Pensions
206	Close company apportionment
251	CGT threshold
252	CGT gifts relief

II IMPACT ON INDIVIDUALS/FAMILIES

(i) As employee

100	Income tax rates etc

	107	Reform of reliefs for relocation expenses	-*
	112	Review of employee share schemes	+
	113	ESOPs	+
	114	Taxation of employee priority flotation	+
	115	PRP: employees' material interest	+
	116	Amendments to PRP	+
	153	Pensions	+/-
	158	Charities: payroll giving limit	+
(ii)	**As retired**		
	100	Age allowances: withdrawal rate, over 80s	+
	154	Tax relief for elderly's private medical insurance	+
	259	IHT threshold	
(iii)	**As saver**		
	a)	**Shares**	
	112/113	Employee share schemes/ESOPs	+
	114	Taxation of employee priority floatation	+
	152	PEPs	+
	251	CGT threshold	-
	301	Stamp duty	+
	b)	**Other**	
	153	Pensions	+/-
	156	Unit Trusts	+
	215	Life Assurance Review	-
	251	CGT threshold	-
	656	National Savings: Abolition of minimum interest rate provision	-

---

* (+) or (-) against a starter indicates the effect on the particular sub-heading.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

(iv)	As Homeowners/Renters		
	106	Benefits-in-kind: provided accommodation; rates abolition	-
	107	Relocation expenses	-
	117	Mortgage Interest Relief	
	31	VAT: minor property changes	-
	215	Life Assurance Review	-
	263	Gifts to housing associations	+
(v)	As Smoker/drinker		
	1	Excise duties	+
	5	Excise: Misdescription of substances as beer	+
(iv)	As car owner		
	1	VED, duties	+
	104	Car benefit scales	-
	606	Dishonoured cheques	(-)
	633	Sale of vehicle registrations	+
(vii)	As transport user		
	1	Excise duties	+
	604	Hackneys	-
(viii)	As 'fat cat'		
	104	Car benefit scales	-
	108	Schedule E: Receipts basis	+ /-
	110	Schedule E: Lump sum payments	-
	153	Pensions	-
	158	Charities: payroll giving limit	+
	206	Close company legislation	+
	251	CGT: Threshold	-
	252	CGT: gift reliefs	-

	256	CGT: chattels exemption	+
	258	Lloyds CG Treatment	-
	259	IHT threshold	
(ix)	**As 'foreigner'**		
	39	Duty and tax relief for diplomats/visiting forces	-
	402	Residence	-
	119	Mixed residence and non-resident trusts	-
III	**"INDUSTRIAL" EFFECTS**		
	Traders		
(i)	**Business general**		
	201	Small company threshold	+
	209	Capital allowances - pre consolidation amendments	
	30	VAT: ECJ judgement on zero rates	-
	33	VAT: Adjustment of input tax on capital goods	-
	36	Right to repayment of VAT/Excise duties	+
	37	VAT: Bad debt relief	+
	38	VAT: Review of default surcharge	+
(ii)	**Small businesses**		
	201	Small company's threshold	+
	213	Extension of relief for pre-trading expenditure (though N.B. mainly for Eurotunnel)	+
	451	Sub-contractor tax scheme	+
	657	National Savings: Restriction of Investment and Ordinary accounts to personal holders	-
	34	Revaloration of VAT threshold	
	35	VAT: Simplification of registration requirements	+

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

(iii)	**Financial Sector**		
	215	Life Assurance Review	-
	301	Stamp duty on shares	+
	156	Unit Trusts	+
	153	Pensions	?
	152	PEPs	+
	262	CGT: Sterling Non-qualifying corporate bonds	+
	404	Tax Charge on switching investment in off shore funds (Umbrella funds)	+
(iv)	**Motor industry and trade**		
	601	VED: Trade licensing	-
	104	Company cars	-
	40	VAT: research and development cars	+
(v)	**Transport industry**		
	602	VED for special types	-
	603	Rigid goods vehicles	-
	604	Hackneys	-
	605	Recovery vehicles	?
(vi)	**Food and agriculture**		
	632	Grass cutting vehicles definition	+
(vii)	**Drink and tobacco**		
	1	Excise duties	-
	3	Excise: Restriction of duty paid blending of made-wine	+
	4	Excise: Measurement and declaration of original gravity of beer	(-)
	5	Excise: Misdescription of substances as beer	+
	8	Excise: Simplified duty credit arrangements for tobacco	?

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

(viii) Oil companies

1	Excise duties	+
350	Oil abandonment PRT/CT reliefs	+
353	PRT - relief for incremental oil fields	+

(ix) Fuel and power

1	Excise duties	+
6	Excise: oil duties reliefs	+
30	VAT: ECJ judgement on zero rates	-
455	Electricity privatisation: Miscellaneous taxation provisions	

(x) Public sector traders privatisation

114	Taxation of employee priority flotation	+
30	VAT: ECJ judgement	
301	Stamp duty	
455	Electricity privatisation: Miscellaneous taxation provisions	

(xi) Sport

207	Capital allowances - safety at sportsgrounds	+
31	VAT: minor property changes (hire of boxes etc)	-

Non-trader/mixed

(i) Charities

30	VAT: ECJ Judgement	-
32	VAT and charities	+
150	Charitable covenants	+
151	Covenanted membership subscriptions - national trust	+
158	Charities: payroll giving limit	+
252	CGT gifts reliefs (charities exempt)	+

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

(ii) Health

1	Excise duties	-
154	Tax relief for elderly's private medical insurance	+

Non-nationals

(i) Overseas companies

254	CGT: non-resident companies trading in UK	-
400	Tax deductible from tax credit payments to U.S. companies	-
453	Deep discounted Government and foreign parastatal bonds	-
3	Restriction on duty-paid blending of made-wine	+
40	VAT: research and development cars	+

(ii) Relations with EC

156	Unit trusts	+
215	Life Assurance	-
301	Abolition of Stamp Duty on Shares	+
3	Restriction on duty-paid blending of made-wine	+
30	VAT: ECJ Judgement	+
31	VAT: Minor property changes	+
32	VAT: Charities	-?
33	VAT: Adjustment of input tax on capital goods	+
40	VAT: Research and development cars	+

IV ECONOMIC EFFECTS ON:

(i) Prices

1	Excise: Duty rates	-
30	VAT: ECJ	+

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

(ii) **Employment**

112-113	Employee Share Schemes	+
115-116	PRP	+
1,30,41	Various duties, VAT	+/-

(iii) **Investment and Savings**

112-113	Employee share schemes	+
152	PEPs	+
153	Pensions	-
215	Life Assurance	-
252	CGT - gifts relief	?
301	Stamp duty on shares	+
156	Unit trusts	+

(iv) **Environment**

1	Excise: Duty rates (lead free petrol)	+
6	Excise: Oil duties	+
350	Oil abandonment	+
602,603 604	VED special types, Rigids, Hackneys	+

V PUBLIC SECTOR FINANCES

(i) **Public expenditure**

1	Excise duties	+
30	VAT ECJ judgement	+
153	Pensions	?
107	Reform of relief for relocation costs	?

(ii) **Cost, PSDR etc**

[see scorecard]

VI LOOPHOLES

110	Schedule E: Lump sum payments	+
119	Mixed residence and non-resident trusts	+

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

205	ACT (Change of ownership, surrender)	+
262	IHT: Instruments of Variation	+
254	CGT: Non-resident companies	+
400	Tax deductible from tax credit payments to US companies	+
4	Excise: Measurement and declaration of original gravity of beer	+

VII CRIME AND PUNISHMENT

450	Keith Committee: Administrative improvements	+
60	Prosecution time limits	+
61	Seizure at export of probable cash proceeds from drug trafficking	+
63,452	Unauthorised disclosure of information	+/-
606	Dishonoured cheques: VED	+

VIII OTHER N.E.S.

255	CGT: technical changes associated with rebasing
631	Registration book and registration document
651	Government stocks: small estates
652	Gilt redemption monies
654	Wind up annuities account and sinking fund
655	Power to use NLF money to purchase and cancel gilt edged securities ahead of redemption
454	Electronic payment of dividends
62	London Port Banking: amendment of Customs and Excise management act

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

chex.md/aa/4 **BUDGET CONFIDENTIAL**

FROM: A C S ALLAN
DATE: 27 January 1989

CHIEF SECRETARY
FINANCIAL SECRETARY
PAYMASTER GENERAL
ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR ANSON
DAME A MUELLER
MR WICKS
MR HARDCASTLE
MR BYATT
MR SCHOLAR
MR CULPIN
MR SEDGWICK
MR RILEY
MR MACPHERSON
MISS J SIMPSON
MRS CHAPLIN
MR TYRIE
MR CALL
SIR A BATTISHILL IR
MR BEIGHTON IR
MR ISAAC IR
MR PAINTER IR
MR UNWIN C&E
MR JEFFERSON SMITH C&E

cc Mr Gilhooly
Mr Matthews
Mr G Bush - IR
PS/IR
Mr P R H Allen - C&E

Mr P Lewis - IR (item (i))
Mr Corlett - IR (items (iii)-(iv))
Mr Kuczys - IR (items (iii)-(iv))
Mr Luce (item (iii))
Mr L Harris (item (iii))
Mr J Dixon (item (iii))
Mr A J Walker - IR (item (iv))
Mr Neilson (item (iv))
Mr Houghton - IR (item (v))
Mr Bryce - IR (item (v))
Mr McGivern - IR (item (vi))
Mr J Reid - IR (item (vi))

BUDGET OVERVIEW MEETING: AGENDA FOR SECOND OVERVIEW MEETING ON MONDAY 30 JANUARY

... I attach the agenda for the second overview meeting, on Monday 30 January at 3.00pm.

ACSA

A C S ALLAN

AGENDA FOR SECOND OVERVIEW MEETING: MONDAY, 30 JANUARY 1989

Main items

(i) Budget Scorecard:

Circulated by Mr Culpin on 26 January
(also Mr P Lewis's minute of 26 January on car scales)

(ii) Minor Starters:

Mr Gilhooly's note of 26 January

Other items

(iii) Pensions:

(a) Mr Kuczys's note of 26 January, on tax regime for non-approved retirement arrangements.
(b) Note by Superannuation Division, Treasury, to be circulated later today (27 January)

(iv) PEPs:

(a) Mr A J Walker's note of 25 January
(b) Mr Neilson's note of 26 January on PEPs and new issues.

(v) Residence:

Mr Isaac's and Mr Bryce's notes of 25 January

Afterwards

(vi) Close Companies

The Financial Secretary's minute of 25 January, and and earlier papers fp.nh/tp/71 CONFIDENTIAL

FROM: MISS T A M POLLOCK
DATE: 27 January 1989

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Sir Peter Middleton
Sir Terence Burns
Mr J Anson
Dame Anne Mueller
Mr N Wicks
Mr Hardcastle
Mr I Byatt
Mr M Scholar
Mr R Culpin
Mr C Riley
Mr P Sedgwick
Mr A C S Allan
Mr S Matthews
Mr Gilhooly
Mr N Macpherson
Miss J Simpson
Miss M Hay
Mr G Michie
Mrs J Chaplin
Mr A Tyrie
Mr M Call

Sir Anthony Battishill)
Mr Beighton)IR
Mr Isaac)
Mr Painter)
Mr Bush)

Mr Unwin)
Mr Jefferson Smith)C&E
Mr P R H Allen)

Mr Jenkins - Parly Counsel

BUDGET OVERVIEW MEETING: 30 JANUARY: MINOR STARTERS

Please note the following changes should be made to Mr Gilhooly's minute of 26 January:

(i) Page 3 - Table 2 - State of Play with Parliamentary Counsel.

Figures for Inland Revenue should now read:

	Instructions not yet with Counsel	Being drafted by Counsel	Drafting Completed	Total
no of starters	22	21	9	52
no of pages	48¾	117¾	3	169½

(ii) Annex B - page 5

amend "Note" to read "2 Transport and 1 Treasury starters..." and delete starter no 606 from subsequent list.

MISS T A M POLLOCK

chex.ul/aa/1.30.1

BUDGET SECRET
BUDGET LIST ONLY

REF NO. ACSA/89/3
COPY NO. 3. OF 47.

NOT TO BE COPIED

RECORD OF THE SECOND BUDGET OVERVIEW MEETING:
AT 3.00 PM ON MONDAY 30 JANUARY 1989

Present

Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Dame A Mueller
Mr Wicks
Mr Hardcastle
Mr Byatt
Mr Scholar
Mr Culpin
Mr L J Harris (Item 3 only)
Mr Luce (Item 3 only)
Mr Odling-Smee (Item 4 only)
Mr Riley
Mr Sedgwick
Mr Gilhooly (Items 1&2 only)*
Mr Macpherson
Mr Neilson (Item 4 only)
Miss J C Simpson
Mrs Chaplin
Mr Tyrie
Mr Call

Mr Beighton - IR
Mr Isaac - IR
Mr Painter - IR
Mr G Bush - IR (Items 1&2 only)*
Mr Corlett - IR (Items 3&4 only)
Mr Houghton - IR (Item 5 only)
Mr P Lewis - IR (Items 1&2 only)
Mr McGivern - IR (Item 6 only)
Mr Bryce - IR (Item 5 only)
Mr Kuczys - IR (Items 3&4 only)
Mr J H Reed - IR (Item 6 only)
Mr A J Walker - IR (Item 4 only)

Mr Unwin - C&E
Mr Jefferson Smith - C&E

Mr Jenkins - Parly Counsel
(Items 1&2 only)

(* receive complete minutes)

Papers:

(i) **Budget Scorecard:**

Mr Culpin's minute of 26 January;
Mr P Lewis's minute of 26 January on car scales

(ii) **Minor Starters:**

Mr Gilhooly's note of 26 January

(iii) **Pensions:**

(a) Mr Kuczys' note of 26 January, on tax regime for non-approved retirement arrangements

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

(b) Mr Luce's minute of 27 January on public service schemes

(iv) **PEPs**:

(a) Mr A J Walker's note of 25 January

(b) Mr Neilson's note of 26 January on PEPs and new issues

(v) **Residence**:

Mr Isaac's and Mr Bryce's notes of 25 January

(vi) **Close Companies**:

The Financial Secretary's minute of 25 January, and earlier papers

Scorecard

3. The Chancellor noted that important submissions were due from the Inland Revenue on life assurance and on ESOPS, and from the Revenue and Customs on unauthorised disclosure. Work on these topics needed to be taken forward urgently.

4. The Chancellor noted there were three new starters on which further rapid work was needed:

(i) Applying employers' NICs to subsidised mortgages; this was not a matter for the Finance Bill, but the details needed to be fixed in time for the Budget.

(ii) Tax relief for resident landlords ("rent-a-room").

(iii) An alternative proposal on small companies CT thresholds, incorporating a £5,000 'tax-free' slice.

5. In discussion of the Scorecard the following points were raised:

(i) Customs would be putting a paper on unleaded petrol to the Economic Secretary later in the week, for discussion at the following week's Overview; this should cover the option of a surcharge on two star petrol to bring it up to the price of four star, coupled with a reduction in the duty on unleaded petrol to produce a pump price differential of 2p a litre.

(ii) The proposals on VED on coaches and lorries had now been agreed, subject to some further work on the details.

(iii) We were still aiming to issue draft clauses on VAT on non-domestic construction etc. soon. Further discussion on the transitional arrangements was taking place separately.

(iv) The proposals on car scales were agreed.

(v) There was a firm decision to legislate to ensure that the would not have to deal with a world in which stamp duty on shares remained after Taurus had been introduced. There was a possibility that Taurus might be introduced on 1 December rather than 1 January, but that was unlikely. If the announced start date for the abolition of Stamp Duty was 1 January, Taurus would not, in practice, be introduced before that.

(vi) The Chancellor asked for an urgent submission on the hard cases raised by the abolition of CGT deferral on gifts, including in particular the position of agriculture.

(vii) The staff costs of legislating to put the benefits-in-kind charge for provided accommodation onto a new basis after domestic rates had been abolished were extremely large. This change, and the staff costs, would be inevitable at some stage. But it was not required this year. It was agreed to drop this starter.

Minor starters

6. Mr Jenkins said that the Finance Bill at present seemed to be long but manageable, though he could not take any firm view on the starters for which he had not yet received instructions. The Chancellor said it was vital that instructions should reach Parliamentary Counsel without delay. All tax changes included for policy reasons must be in the Bill when published, although anti-avoidance measures could reasonably be introduced at Committee stage.

7. In discussion of the various starters, the following points were made:

(i) Starter 350, on oil abandonment, had been dropped.

(ii) Starter 118, on trusts, was a tidying up exercise: it involved minor provisions to stop people using revocable trusts to replace student covenants; and similar provisions to deal with husbands and wives under independent taxation. It had been decided that these provisions were not essential last year but should be introduced this year.

(iii) Starter 119, on mixed residence and non-resident trusts, was to counter an Appeal Court judgment. This was being taken to the House of Lords, and judgment was expected in May or June. It was agreed that we should wait until

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

after the House of Lords judgment, and if necessary, bring forward provisions at Committee stage.

(iv) Starter 258, on Lloyd's Capital Gains, needed to be considered alongside the abolition of COBO. This complex of issues needed a separate discussion shortly. The abolition of COBO was an important deregulatory measure, which must not be overlooked in the Budget presentation.

(v) Starter 455, on electricity privatisation, needed to be sorted out with Department of Energy. If it was not possible to reach agreement quickly, this could reasonably be kept for introduction at Committee Stage.

(vi) The Revenue would be putting up a submission on Starter 454, on electronic payment of dividends to the Financial Secretary later in the week, recommending that action should be deferred until next year.

(vii) Starter 116, on PRP, was lengthy but nearly all drafted.

(viii) Starter 113, on ESOPS, was proving difficult. The Revenue would be putting a note to the Financial Secretary this week. There were difficult problems on the CGT side, which were still not resolved, and might expand the amount of legislation to more than five pages. The Chancellor said he definitely wanted to include the ESOPS provision in the Budget. His inclination was to do the related CGT change as well, but decisions on that would need to be taken in the light of the Revenue submission.

(ix) No instructions had yet been sent to Parliamentary Counsel on Starter 650, on the ITV levy. This should be remedied urgently (subsequent enquiries established that

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

the Home Office would be putting instructions to Counsel within the next ten days).

(x) The drafting of Starter 108, on Schedule E receipts basis, was nearly complete.

(xi) It was important to make sure that Starter 107, on reform of relief for relocation costs, was ready for the Bill when published.

(xii) Starter 209, on capital allowances, was lengthy, but nearly complete, and largely, if not wholly, uncontroversial.

(xiii) Starter 252, on CGT gifts relief, was proving difficult to draft because of the number of exceptions and exemptions. It was very controversial, and that was why an early submission on hard cases was needed.

(xiv) Starter 254, on non-resident companies, was not critical for this year but was already drafted.

(xv) Starter 450, on Keith, was very largely drafted, and was uncontroversial except for some aspects of fixed penalties.

(xvi) Starter 353, on oil incrementals, was unlikely to need as much as five pages.

8. The Inland Revenue reported that there was a possible late starter on CGT avoidance. The Chancellor noted that all late starters must be introduced by the end of Committee Stage: no new provisions should be introduced at Report.

Pensions

9. The meeting considered the question of the "classical" versus the "adapted income tax" models for additional top-up pensions above the new limits. It was noted that the "adapted income tax" approach carried the disadvantage that it forced the Revenue to become more directly involved in the administration of pensions. And the "classical" approach was much more transparent. On the other hand, it carried almost overwhelming presentational difficulties, including major difficulties for the public sector. After discussion, it was agreed that further work should be based on the "adapted income tax" approach.

10. Three main sets of difficulties with the "adapted income tax" approach were identified. First, there needed to be some sort of limits to the types of investment which could be made. Second, some solution to the problem of the schemes being run by those who benefited from them needed to be found. Third, the possibility of the beneficiary avoiding tax by becoming non-resident on retirement needed to be considered.

11. In discussion, the following points were made:

(i) Some form of restriction was needed under the "adapted income tax" approach, to avoid overgenerosity. One possibility might be to deny tax relief altogether on employee contributions. This would, in practice, mean that top-up schemes would be likely to be non-contributory.

(ii) However, top-up schemes would, by definition, go only to the higher paid. If they were non-contributory, this could be presentationally awkward, since, to lower paid

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

employees the non-contributory aspect would appear to be an additional perk.

(iii) There was a case for requiring the funds to be managed by an independent, authorised intermediary, who would account for tax on the build-up within the fund and who might be required to deduct tax at source before top-up pensions were paid out. In these circumstances there was less need for a limit on tax-relieved employee contributions.

(iv) It was clear that loanbacks should be prohibited. The other limits in paragraph 18 of Mr Kuczys' note should also be set.

12. <u>The Chancellor</u>, summing up a long discussion, said that further work should concentrate on the following scheme: "adapted income tax" approach; full relief on employers and employees contributions; no tax relief for build-up in the fund; full tax charge on exit; ban on loanbacks etc (as in Mr Kuczys' paragraph 18); no other limits; schemes to be managed by an approved on-shore financial intermediary who would be responsible for payments of tax.

13. The meeting discussed briefly the implications for <u>public service schemes</u>. It was agreed to confine the unfunded scheme effects of the adapted income tax" approach to taxing the lump sums available under public service schemes, and to leave the rest to pay negotiations. It was also agreed that top-up schemes would probably be necessary in the public services. Primary legislation might be needed in order to amend judges' pension provisions - though this might not be the case if the changes were limited only to the payment of tax on lump sums. The Chancellor would discuss these issues with the Lord Chancellor before the Budget.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

PEPs

14. There was some discussion about the choice between an overall limit on accumulated PEP holdings (a 'capital' PEP) and an annual investment limit. The following points were made:

(i) a capital PEP would be of great attraction to plan managers, who would sell it hard; and it made sense to consider PEP holdings as a stock rather than a flow. Without a capital limit, successive annual tranches of PEPs could build up to very large holdings.

(ii) On the other hand, a capital PEP could more readily be presented as a bonanza for the rich; and the higher limits on unit and investment trusts which had been agreed for annual PEPs would anyway give big incentives to plan managers. A capital limit could always be applied later if PEPs were a runaway success.

15. Summing up, the <u>Chancellor</u> said it was on balance agreed that we should retain an annual limit on PEPs, which should be set at £4,800, with the ceiling on unit and investment trust holdings set at £2,400.

16. Mr Neilson's note solved the problems of adding <u>new issues</u> to an existing PEP, providing there was headroom within the annual limit. It did not greatly matter that managed PEPs could not apply for privatisation issues directly.

Residence

17. After a short discussion, it was agreed that there should be nothing in this year's Finance Bill on residence. But early consideration was needed on the form of words for the Chancellor to use in his Budget Statement to explain the precise position we

had reached. The Inland Revenue would be putting a submission to the Financial Secretary on this later in the week, explaining in detail what the receipts basis would look like. There did not seem much scope for a minimum tax.

Close Investment Companies

18. There was some discussion about the choice between a 35 per cent or 40 per cent CT rate for close investment companies. The following points were made:

(i) There were some genuine close investment companies engaged in providing property for rent, and special provision for them would be needed, especially if there were a 40 per cent CT rate. There were probably some other 'genuine' close investment companies, for example those which had run down their trading activities; but against this there were probably also some people using close property companies to avoid tax.

(ii) With a 35 per cent rate the case for a distribution test was less strong than with a 40 per cent rate. But not having a distribution test would produce some hard cases among companies currently paying at 25 per cent.

(iii) The revenue cost of either a 35 per cent or a 40 per cent rate would be tiny in relation to the total amounts in theory at risk. With a 40 per cent rate the cost in the FSBR period would be likely to be negligible.

(iv) It would be undesirable to reduce the close investment company rates if the main corporation tax rate were reduced. This would be easier if the close investment company rate was 40 per cent rather than 35 per cent.

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

19. Summing up, the Chancellor said it was agreed on balance that we should go for a 40 per cent corporation tax rate for close investment companies, with a distribution test.

ACSA

A C S ALLAN

30 January 1989

Distribution

Those present
Mr S Matthews
Sir A Battishill - IR
PS/IR
Mr P R H Allen - C&E

(note: all members of the permanent Overview cast receive the full minutes, even where they did not attend all the items).

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

AGENDA FOR SECOND OVERVIEW MEETING: MONDAY, 30 JANUARY 1989

Main items

(i) Budget Scorecard:

Circulated by Mr Culpin on 26 January
(also Mr P Lewis's minute of 26 January on car scales)

(ii) Minor Starters:

Mr Gilhooly's note of 26 January

Other items

(iii) Pensions:

(a) Mr Kuczys's note of 26 January, on tax regime for non-approved retirement arrangements.
(b) Note by Superannuation Division, Treasury, to be circulated later today (27 January)

(iv) PEPs:

(a) Mr A J Walker's note of 25 January
(b) Mr Neilson's note of 26 January on PEPs and new issues.

(v) Residence:

Mr Isaac's and Mr Bryce's notes of 25 January

Afterwards

(vi) Close Companies

The Financial Secretary's minute of 25 January, and and earlier papers

FROM: A C S ALLAN
DATE: 31 January 1989

CHIEF SECRETARY
FINANCIAL SECRETARY
PAYMASTER GENERAL
ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR ANSON
DAME A MUELLER
MR WICKS
MR HARDCASTLE
MR BYATT
MR SCHOLAR
MR CULPIN
MR SEDGWICK
MR RILEY
MR MACPHERSON
MISS J SIMPSON
MRS CHAPLIN
MR TYRIE
MR CALL
SIR A BATTISHILL IR
MR BEIGHTON IR
MR ISAAC IR
MR PAINTER IR
MR UNWIN C&E
MR JEFFERSON SMITH C&E

cc Mr Gilhooly
Mr Matthews
Mr G Bush - IR
PS/IR
Mr P R H Allen - C&E

Mr Wilmott - C&E (item(ii))
Mr McGivern - IR (item (iii))
Mr Corlett - IR (item (v))
Mr Kuczys - IR (item (v))
Mr Luce (item (v))
Mr L Harris (item (v))
Mr P Lewis - IR (item (vi))
Mr Farmer - IR (item (vi))
Mr Cayley - IR (items (vi)-(viii))

BUDGET OVERVIEW MEETING: PROVISIONAL AGENDA FOR THIRD OVERVIEW MEETING ON MONDAY 6 FRBRUARY

... I attach the provisional agenda for the third overview meeting, on Monday 6 February at 3.00pm. As usual, all papers must be circulated by close of play on Thursday 2 February.

ACSA

A C S ALLAN

PROVISIONAL AGENDA FOR THIRD OVERVIEW MEETING: MONDAY, 6 FEBRUARY 1989

Main items

(i) Budget Scorecard:

To be circulated by Mr Culpin on 26 January

(ii) Unleaded Petrol:

Note by Customs, to be circulated.

(iii) Small companies' CT thresholds

Note by the Revenue, to be circulated.

(iv) Unauthorised Disclosure of Confidential Information

Mr G Bush's note of 27 January.

Other Items

(v) Pensions

Note By the Revenue, to be circulated

(vi) ESOPS

Note by the Revenue, to be circulated.

(vii) CGT and gifts

Note by Mr Cayley, IR, to be circulated.

(viii) CGT Avoidance on Sale of Subsidiaries

Mr Isaac's and Mr Cayley's notes of 30 January.

FROM: A C S ALLAN
DATE: 3 February 1989

CHIEF SECRETARY
FINANCIAL SECRETARY
PAYMASTER GENERAL
ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR ANSON
DAME A MUELLER
MR WICKS
MR HARDCASTLE
MR BYATT
MR SCHOLAR
MR CULPIN
MR SEDGWICK
MR RILEY
MR MACPHERSON
MISS J SIMPSON
MRS CHAPLIN
MR TYRIE
MR CALL
SIR A BATTISHILL IR
MR BEIGHTON IR
MR ISAAC IR
MR PAINTER IR
MR UNWIN C&E
MR JEFFERSON SMITH C&E

cc Mr Gilhooly
Mr Matthews
Mr G Bush - IR
PS/IR
Mr P R H Allen - C&E

Mr Wilmott - C&E (item(ii))
Mr Corlett - IR (item (iv))
Mr Kuczys - IR (item (iv))
Mr Luce (item (iv))
Mr L Harris (item (iv))
Mr P Lewis - IR (item (v))
Mr Farmer - IR (item (v))
Mr Reed - IR (item (v))
Mr Cayley - IR (items (v)-(vi))

BUDGET OVERVIEW MEETING: AGENDA FOR THIRD OVERVIEW MEETING ON MONDAY 6 FRBRUARY

... I attach the agenda for the third overview meeting, on Monday 6 February at 3.00pm.

Duncan Sparkes
p.p. A C S ALLAN

AGENDA FOR THIRD OVERVIEW MEETING: MONDAY, 6 FEBRUARY 1989

Main items

(i) Budget Scorecard:

Mr Culpin's note of 2 February.

(ii) Unleaded Petrol:

Mr Wilmott's note of 2 February; Mr Matthews' note of 2 February.

(iii) Unauthorised Disclosure of Confidential Information

Mr G Bush's note of 27 January and Mr Hutton's note of 27 January attached to it; PS/FST's note of 30 January.

Other Items

(iv) Pensions

Mr Isaac's note of 2 February and Mr Kuczys' note of 2 February attached to it; Mr L J Harris' note of 2 February.

(v) ESOPS

Mr Painter's note of 2 February and Mr Lewis' note of 2 February attached to it.

(vi) CGT and gifts

Mr Cayley's note of 2 February; PS/Chancellor's note of 2 February; Mr Cayley's note of 31 January.

REF NO. ACSA/89/4
COPY NO. 45A OF 45

RECORD OF THE THIRD BUDGET OVERVIEW MEETING:
AT 3.00 PM ON MONDAY 6 FEBRUARY 1989

Present

Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Dame A Mueller
Mr Wicks
Mr Hardcastle
Mr Byatt
Mr Scholar
Mr Culpin
Mr L J Harris (Item 4 only)
Mr Sedgwick
Mr Riley
Mr Gilhooly (Items 1-4 only)*
Mr Matthews (Items 1- 4 only)*
Mr Neilson (Item 5 only)
Mr Macpherson
Miss Simpson
Mrs Chaplin
Mr Tyrie
Mr Call

Sir A Battishill - IR
Mr Beighton - IR
Mr Isaac - IR
Mr Painter - IR
Mr G Bush - IR (Items 1&2 only)*
Mr Corlett - IR (Item 4 only)
Mr McGivern - IR (Item 5 only)
Mr P Lewis (Item 5 only)
Mr Cayley (Items 5 & 6 only)
Mr Farmer (Item 5 only)
Mr Kuczys - IR (Item 4 only)

Mr Jefferson Smith - C&E
Mr Wilmott - C&E (Item 2 only)

(* receive full minutes)

....

Papers:

(i) Budget Scorecard:

Mr Culpin's note of 2 February.

(ii) Unleaded Petrol:

Mr Wilmott's note of 2 February; Mr Matthews' note of 2 February.

(iii) Unauthorised Disclosure of Confidential Information

Mr G Bush's and Mr Hutton's notes of 27 January; PS/FST's note of 30 January.

(iv) **Pensions**

Mr Isaac's and Mr Kuczys' notes of 2 February; Mr L J Harris' note of 2 February.

(v) **ESOPs**

Mr Painter's and Mr Lewis' notes of 2 February.

(vi) **CGT and gifts**

Mr Cayley's note of 2 February; PS/Chancellor's note of 2 February; Mr Cayley's note of 31 January.

Scorecard

In discussion, the following points were raised:

(i) The Chancellor asked about the basis of the +£200 figure for 1990-91 arising from the life assurance changes. It was explained that this was a notional figure; the actual figure would, depending on the package chosen, fall between £0 and £200 million for 1990-91.

(ii) The Chancellor asked for a breakdown of the call on the fiscal adjustment in 1989-90 and in 1990-91 of the main Budget measures .

Unleaded petrol

2. The Chancellor said that he would want to give a clear explanation in the Budget Speech of the full implications of the changes in petrol duty.

3. The Chancellor noted that the UK already ranked third in the EC league in terms of the differentials in favour of unleaded petrol. If any of the Options A to D were pursued, the UK would

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

move into second place. The practical choices were between Option A (increase the present tax differential for unleaded to 2p a litre; increase the duty on two star leaded to make it at least as expensive as four star leaded) and Option B (as A, but with no change in the duty on two star leaded). There was little purpose in cutting duty on unleaded petrol by any more than was necessary, since there was likely in any case to be a large increase in the consumption of unleaded petrol over the next couple of years.

4. The <u>Economic Secretary</u> thought there was also a case for not making any change to the duty on unleaded petrol and confining the Budget changes to imposing a punitive duty on two star. This might be more effective than Customs & Excise envisaged. Once garages had switched their two star pumps to unleaded, the difference in leaded and unleaded prices would be plain and easy to advertise. It was noted, however, that this option would be harder to present in the Budget.

5. After a brief discussion, <u>it was agreed</u> to go ahead on the basis of Option A. The Department of the Environment would need advance notification, particularly of the proposals on two star petrol, so that they could plan their information campaign accordingly; the Chancellor would see Mr Ridley soon. Other Departments (eg Energy and Transport) would be informed later, as necessary. They could be told the likely differentials between leaded and unleaded duty. But not the absolute amounts.

6. The <u>Chancellor</u> asked Customs for a note on what vehicles or other equipment could run only on two star leaded petrol and not on either unleaded or four star leaded.

Unauthorised disclosure

7. Sir A Battishill said that the papers represented the joint views of the Revenue and Customs. The interests of the two Departments were very similar. The Departments would want the protecting powers to be focused not on the confidentiality of information to Government, but on the confidentiality of information to individuals. The Revenue wished to protect the following categories of information: that which was given to them by individuals; that which was derived from that information; that which was sent back to taxpayers in response to that information; the judgements in the Department which were made on the basis of that information; and information from third parties about individual taxpayers. There were a number of categories of information which the Revenue would also like to protect which were not directly related to its work, eg information on national insurance contributions; and information acquired by the Valuers on rating. It might be harder to extend privilege to the latter category, and he would not wish to press the need for protection further than was essential.

8. The Chancellor asked for a note on the position in other comparable countries; in particular, whether there was a clear distinction between the protection of information held by fiscs and the protection of other Government information.

9. Mr Jefferson Smith said that the Customs position was similar to the Revenue. Customs would, however, wish the protection powers to extend beyond strictly tax matters to other legitimate Customs interests (eg licences, drugs).

10. After a short discussion, the approach proposed by the Revenue and Customs was agreed; it was important that the sanctions should apply, so far as was possible, to former

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

officials as well as current ones. The Chancellor asked the Financial Secretary and the Economic Secretary to sort out the remaining details. He would then minute the Prime Minister and other interested Ministers (such as the Home Secretary and the Attorney General). We should aim for a pre-Budget announcement, probably during the passage of the Official Secrets Bill, which should be linked with the similar announcement planned for the arrangements to protect social security information.

Pensions

11. The Chancellor noted that Mr Kuczys' paper set out a range of options for the future tax regime for non-approved ("top-up") retirement arrangements. He was, provisionally, attracted to Option E. It was noted that the genesis of this approach lay in the need to put a cap on tax privileged pensions. Alternative approaches were either presentationally impossible or required elaborate rules to avoid exploitation, which would be difficult to implement in the context of deregulation. Hence this approach, which rested on the notion that, so far as possible, top-up pensions should be subject to existing rules.

12. In discussion, the following points were made:

(i) companies would be able to get full CT relief for specific contributions to an individual's top-up pension, and the money would then be taxed as income in the hands of the individual. This would not apply to more generalised provisions. This followed existing tax rules;

(ii) at present, companies could pay contributions into an unprivileged fund, but an individual pension could not

BUDGET SECRET

B.L.O.

SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

exceed the total cap even if it combined privileged and unprivileged elements. Under this Option, there would be no limit to the unprivileged element;

(iii) over time, one effect of Option E might be to encourage the development of money purchase schemes. There would be an incentive for individuals to take their employers' pension contribution as pay, and invest it directly themselves;

(iv) if possible, the employers' contribution should be taxed in the hands of employees through the PAYE and not the P11D system. Employer NICs should, in principle, be chargeable;

(v) it could be argued that this proposal represented an incentive to pay-as-you-go schemes at the expense of funded schemes. However, all the proposal did was to remove existing tax privileges. The greater security inherent in funded schemes would still apply;

(vi) the impact of Option E should be set in perspective. It would in the main apply to earnings above the £60,000 ceiling, which would itself be indexed;

(vii) the £60,000 cap meant that the rules for schemes below that level could be simplified, for example for those taking early retirement.

13. The <u>Chancellor</u>, summing up, said that Option E would undoubtedly be highly controversial. He was convinced, however, that we should go ahead on this basis. The details of the scheme should be worked up quickly. A "child's guide" should be prepared.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

14. The Chancellor noted that Option E would dispose of the presentational problems in relation to public service pensions. The problem of judicial pensions remained, however, and he would need to speak to the Lord Chancellor shortly. He asked for a brief to be provided for that meeting.

ESOPs

15. The Financial Secretary said that three forms of relief were under discussion as ways of encouraging ESOPs. These were: Corporation Tax relief on company contributions to an employee benefit trust; CGT relief for the proprietor selling his shares to an employee benefit trust; and CGT and additional income tax relief for build-ups within the employee benefit trust. There was a clear case for doing the first of these. Of the remaining two, he strongly favoured the second, which would, if implemented, make a substantial contribution to increasing the attractiveness of ESOPs. But the Revenue had advised that it would not be possible to devise a sufficiently watertight approach in time for this year's Finance Bill.

16. Mr Painter said that the difficulty lay in the need to protect against abuse. There was considerable scope for manipulation of Corporation Tax relief, but it should be possible to draft legislation in time for this year's Finance Bill. The CGT reliefs were, however, particularly open to abuse and it would be very difficult to sort out what was necessary and draft legislation this year. The difficulty of confining changes to Corporation Tax relief was that this would seem small beer. Much lobbying had, nonetheless, concentrated on this relief.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

17. In discussion, the following points were made:

(i) complicated anti-avoidance measures could be defended where a relief to help "genuine" ESOPs was being provided;

(ii) rollover relief, rather than complete CGT exemption, was all that would be needed to remove the disincentive on transferring shares to ESOPs. But that would create a precedent by expanding rollover relief well beyond its present definition, and would in practice amount to virtual exemption anyway;

(iii) the Revenue's would have difficulties in preparing the Corporation Tax clauses in time for the Bill as published given the work also needed on the proposed provisions for CGT trading relief and for rent-a-room.

18. The <u>Chancellor</u> said it was unfortunate that it would not be possible to take all the steps which might be desirable. He was, however, prepared to leave the CGT changes to another year provided that the Corporation Tax changes could be brought into the Finance Bill as published, without harming progress on the CGT trading relief and rent-a-room proposals. The Financial Secretary should also consider whether or not a time-limit on distributions was required and, if so, what period that should be.

<u>CGT and gifts</u>

19. In a brief discussion, it was agreed to proceed with the present proposal on the basis set out in the papers. The

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

possibility of maintaining relief for agricultural landlords should, however, be kept as a possible concession at Committee stage.

ACSA

A C S ALLAN

7 February 1989

Distribution

Those present
Mr Anson
Mr C D Butler (Item 3 only)
Mr Luce (Item 4 only)

PS/IR
Mr Unwin - C&E
Mr P R H Allen - C&E

(Note: All members of the permanent Overview cast receive the full minutes, even where they did not attend all the items).

chex.ps/jmt2/90

1. Mrs Bynoe to see. ~~C D Butler~~

REF NO. ACSA/89/4

COPY NO. 45 OF 45

2. Mr ACS Allan.

Thanks for sharing this to me. I have noted comments and action to follow. I do not need to keep this in EDG.

CDB 8/2

BUDGET - SECRET

RECORD OF THE THIRD BUDGET OVERVIEW MEETING:
AT 3.00 PM ON MONDAY 6 FEBRUARY 1989

Present

Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Dame A Mueller
Mr Wicks
Mr Hardcastle
Mr Byatt
Mr Scholar
Mr Culpin
Mr L J Harris (Item 4 only)
Mr Sedgwick
Mr Riley
Mr Gilhooly (Items 1-4 only)*
Mr Matthews (Items 1- 4 only)*
Mr Neilson (Item 5 only)
Mr Macpherson
Miss Simpson
Mrs Chaplin
Mr Tyrie
Mr Call

Sir A Battishill - IR
Mr Beighton - IR
Mr Isaac - IR
Mr Painter - IR
Mr G Bush - IR (Items 1&2 only)*
Mr Corlett - IR (Item 4 only)
Mr McGivern - IR (Item 5 only)
Mr P Lewis (Item 5 only)
Mr Cayley (Items 5 & 6 only)
Mr Farmer (Item 5 only)
Mr Kuczys - IR (Item 4 only)

Mr Jefferson Smith - C&E
Mr Wilmott - C&E (Item 2 only)

(* receive full minutes)

....

Papers:

(i) **Budget Scorecard:**

Mr Culpin's note of 2 February.

(ii) **Unleaded Petrol:**

Mr Wilmott's note of 2 February; Mr Matthews' note of 2 February.

(iii) **Unauthorised Disclosure of Confidential Information**

Mr G Bush's and Mr Hutton's notes of 27 January; PS/FST's note of 30 January.

(iv) **Pensions**

Mr Isaac's and Mr Kuczys' notes of 2 February; Mr L J Harris' note of 2 February.

(v) **ESOPs**

Mr Painter's and Mr Lewis' notes of 2 February.

(vi) **CGT and gifts**

Mr Cayley's note of 2 February; PS/Chancellor's note of 2 February; Mr Cayley's note of 31 January.

BUDGET - SECRET

Unauthorised disclosure

7. Sir A Battishill said that the papers represented the joint views of the Revenue and Customs. The interests of the two Departments were very similar. The Departments would want the protecting powers to be focused not on the confidentiality of information to Government, but on the confidentiality of information to individuals. The Revenue wished to protect the following categories of information: that which was given to them by individuals; that which was derived from that information; that which was sent back to taxpayers in response to that information; the judgements in the Department which were made on the basis of that information; and information from third parties about individual taxpayers. There were a number of categories of information which the Revenue would also like to protect which were not directly related to its work, eg information on national insurance contributions; and information acquired by the Valuers on rating. It might be harder to extend privilege to the latter category, and he would not wish to press the need for protection further than was essential.

8. The Chancellor asked for a note on the position in other comparable countries; in particular, whether there was a clear distinction between the protection of information held by fiscs and the protection of other Government information.

9. Mr Jefferson Smith said that the Customs position was similar to the Revenue. Customs would, however, wish the protection powers to extend beyond strictly tax matters to other legitimate Customs interests (eg licences, drugs).

10. After a short discussion, the approach proposed by the Revenue and Customs was agreed; it was important that the sanctions should apply, so far as was possible, to former

officials as well as current ones. The <u>Chancellor</u> asked the Financial Secretary and the Economic Secretary to sort out the remaining details. He would then minute the Prime Minister and other interested Ministers (such as the Home Secretary and the Attorney General). We should aim for a pre-Budget announcement, probably during the passage of the Official Secrets Bill, which should be linked with the similar announcement planned for the arrangements to protect social security information.

BUDGET - SECRET

ACSA

A C S ALLAN

7 February 1989

Distribution

Those present
Mr Anson
Mr C D Butler (Item 3 only)
Mr Luce (Item 4 only)

PS/IR
Mr Unwin - C&E
Mr P R H Allen - C&E

(Note: All members of the permanent Overview cast receive the full minutes, even where they did not attend all the items).

BUDGET - SECRET

JONATHAN

FROM: A C S ALLAN

DATE: 8 February 1989

CHIEF SECRETARY
FINANCIAL SECRETARY
PAYMASTER GENERAL
ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR ANSON
DAME A MUELLER
MR WICKS
MR HARDCASTLE
MR BYATT
MR SCHOLAR
MR CULPIN
MR SEDGWICK
MR RILEY
MR MACPHERSON
MISS J SIMPSON
MRS CHAPLIN
MR TYRIE
MR CALL
SIR A BATTISHILL IR
MR BEIGHTON IR
MR ISAAC IR
MR PAINTER IR
MR UNWIN C&E
MR JEFFERSON SMITH C&E

cc Mr Gilhooly
Mr Matthews
Mr G Bush - IR
PS/IR
Mr P R H Allen - C&E

Mr Monck (item(iv))
Mr Odling-Smee (items (iv)&(vi))
Mr McGivern - IR (item (vii))
Mr Corlett - IR (items (iv)&(v))
Mr Kuczys - IR (item (v))
Mr Luce (item (v))
Mr L Harris (item (v))
Mr P Lewis - IR (item (iv))
Mr Jenkins (Parly Counsel) (item (i))

BUDGET OVERVIEW MEETING: PROVISIONAL AGENDA FOR FOURTH OVERVIEW MEETING ON MONDAY 13 FEBRUARY

... I attach the provisional agenda for the fourth overview meeting, on Monday 13 February at 3.00pm. As usual, all papers must be circulated by close of play on Thursday 9 February.

ACSA

A C S ALLAN

PROVISIONAL AGENDA FOR FOURTH OVERVIEW MEETING: MONDAY, 13 FEBRUARY 1989

Main items

(i) Budget Scorecard:

Note by Mr Culpin. to be circulated. (Discussion to include state of play on instructions to Parliamentary Counsel)

(ii) Lollipops:

Note by FP, to be circulated

(iii) Stamp Duty:

Note by Mr Monck, to be circulated

(iv) NICs on subsidised mortgages:

Note by FP, to be circulated.

Other Items

(v) Pensions

Note by the Revenue, to be circulated

(vi) Life assurance

Note by the Revenue, to be circulated.

(vii) Rent-a-room

Note by the Revenue, to be circulated

chex.md/keep/aa.4 **BUDGET CONFIDENTIAL**

FROM: A C S ALLAN
DATE: 8 February 1989

CHIEF SECRETARY
FINANCIAL SECRETARY
PAYMASTER GENERAL
ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR ANSON
DAME A MUELLER
MR WICKS
MR HARDCASTLE
MR BYATT
MR SCHOLAR
MR CULPIN
MR SEDGWICK
MR RILEY
MR MACPHERSON
MISS J SIMPSON
MRS CHAPLIN
MR TYRIE
MR CALL
SIR A BATTISHILL IR
MR BEIGHTON IR
MR ISAAC IR
MR PAINTER IR
MR UNWIN C&E
MR JEFFERSON SMITH C&E

cc Mr Gilhooly
Mr Matthews
Mr G Bush - IR
PS/IR
Mr P R H Allen - C&E

Mr Monck (item(iv))
Mr Odling-Smee (items (iv)&(vi))
Mr McGivern - IR (item (vii))
Mr Corlett - IR (items (iv)&(v))
Mr Kuczys - IR (item (v))
Mr Luce (item (v))
Mr L Harris (item (v))
Mr P Lewis - IR (item (iv))
Mr Jenkins (Parly Counsel) (item (i))

BUDGET OVERVIEW MEETING: PROVISIONAL AGENDA FOR FOURTH OVERVIEW MEETING ON MONDAY 13 FEBRUARY

... I attach the provisional agenda for the fourth overview meeting, on Monday 13 February at 3.00pm. As usual, all papers must be circulated by close of play on Thursday 9 February.

ACSA

A C S ALLAN

fp.nh/tp/7 BUDGET SECRET COPY NO. 1 OF 36 COPIES

FROM: MISS T A M POLLOCK
DATE: 9 February 1989

1. MR CULPIN
2. CHANCELLOR OF THE EXCHEQUER

5-6 pages dropped.

206 pages to go - of which 49-50 yet to reach Counsel.

RC 9/2

cc Chief Secretary
Financial Secretary
Economic Secretary
Paymaster General
Sir Peter Middleton
Sir Terence Burns
Mr J Anson
Dame Anne Mueller
Mr N Wicks
Mr Hardcastle
Mr I Byatt
Mr M Scholar
Mr C Riley
Mr P Sedgwick
Mr A C S Allan
Mr S Matthews
Mr N Macpherson
Miss J Simpson
Miss M Hay
Mr G Michie
Mrs J Chaplin
Mr A Tyrie
Mr M Call

Sir Anthony Battishill
Mr Beighton)
Mr Isaac) IR
Mr Painter)
Mr Bush)

Mr Unwin)
Mr Jefferson Smith) C&E
Mr P R H Allen

Mr Jenkins - Parly Counsel

BUDGET OVERVIEW MEETING 13 FEBRUARY: BUDGET STARTERS

Since your last meeting on Budget starters (30 January) 6 starters have been dropped. There have been 5 new Revenue starters:

Number 204 - Business Expansion Scheme (previously dropped)
216 - Set-off of trading losses against capital gains
217 - Tax relief for residential landlords
218 - Lloyds Stock lending
264 - Capital Gains Avoidance on sale of subsidiaries.

STATE OF PLAY WITH PARLIAMENTARY COUNSEL

	Instructions not yet with Counsel	Being drafted by Counsel	Drafting completed	TOTAL
INLAND REVENUE				
- no of starters	15	25	12	52
- no of pages	30¾	122½	3½	156¾
CUSTOMS AND EXCISE				
- no of starters	2	9	5	16
- no of pages	14	28½	1¼	43¾
TREASURY & TRANSPORT				
- no of starters	*1	10	5	16
- no of pages	4½	5¾	¾	11
T O T A L				
- no of starters	18	44	22	84
- no of pages	49¼	156¾	5½	211½

* Home Office starter (ITV Levy)

NOTES: "Pages" includes schedules.
Length of one or two starters not yet known: these are included in "number of starters", but not in "pages".
Excludes 4 Customs starters being dealt with by Treasury order.

There are currently 84 live starters. Of these:

22 starters with around 5½ pages have been drafted by Counsel.
44 starters with around 156¾ pages are being drafted by Counsel.
18 starters with around 49¼ pages have not been seen by Counsel.

2. The attached table sets out in more detail the state of play with Parliamentary Counsel.

3. The following list describes those starters still awaiting instructions to Counsel:

Inland Revenue

No	Title	No of Pages
100	Income Tax	2/3
103	Benefits in kind: misc 2	1
104	Benefits in kind: car and car fuel benefit	1½
110	Schedule E: Lump sum payments	1-2
113	ESOPs	3
118	Trusts: general review	1-2
*119	Mixed residence and non-resident trusts	4-5
152	PEPs	¼
205	Advance Corporation Tax (change of ownership, surrender)	2
216	Set-off of trading losses against Capital Gains	1¼
217	Tax relief for residential landlords	1¼
218	Lloyds Stock lending	¼
259	IHT: threshold and rate	½
*264	Capital Gains Avoidance on Sale of Subsidiaries	6-12
455	Electricity privatisation: misc tax provisions	2-3

Customs & Excise

1	Excise Duty rates (inc VED)	13½
+61	Seizure at export of probable cash proceeds of drug trafficking	½

* To be included at Committee stage.

\+ A further submission is awaited and this may also be introduced at Committee stage.

<u>Home Office</u>

650	ITV Levy	4-5

T. Pollock

MISS T A M POLLOCK

FROM: MISS T A M POLLOCK
DATE: 10 February 1989

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Paymaster General
PS/Sir Peter Middleton
PS/Sir Terence Burns
PS/Dame Anne Mueller
Mr J Anson
Mr N Wicks
Mr Hardcastle
Mr I Byatt
Mr M Scholar
Mr C Riley
Mr P Sedgwick
Mr Culpin
Mr A C S Allan
Mr S Matthews
Mr N Macpherson
Miss J Simpson
Miss M Hay
Mr G Michie
Mrs J Chaplin
Mr A Tyrie
Mr M Call

PS/Sir Anthony Battishill
Mr Beighton)
Mr Isaac) IR
Mr Painter)
Mr Bush)

PS/Mr Unwin)
Mr Jefferson Smith) C&E
Mr P R H Allen

Mr Jenkins - Parly Counsel

BUDGET OVERVIEW MEETING 13 FEBRUARY: BUDGET STARTERS

Amendment to my minute of 9 February.

2. Please substitute the attached table for the table circulated with my minute.

3. The original table should have been classified 'Budget Secret' (please classify before destroying) and omitted to include the 'Notes'.

T Pollock

MISS T A M POLLOCK

STATE OF PLAY WITH PARLIAMENTARY COUNSEL

	Instructions not yet with Counsel	Being drafted by Counsel	Drafting completed	TOTAL
INLAND REVENUE				
- no of starters	15	25	12	52
- no of pages	30¾	122½	3½	156¾
CUSTOMS AND EXCISE				
- no of starters	2	9	5	16
- no of pages	14	28½	1¼	43¾
TREASURY & TRANSPORT				
- no of starters	*1	10	5	16
- no of pages	4½	5¾	¾	11
T O T A L				
- no of starters	18	44	22	84
- no of pages	49¼	156¾	5½	211½

* Home Office starter (ITV Levy)

NOTES: "Pages" includes schedules.
Length of one or two starters not yet known: these are included in "number of starters", but not in "pages".
Excludes 4 Customs starters being dealt with by Treasury order.

FROM: A C S ALLAN

DATE: 10 February 1989

CHIEF SECRETARY
FINANCIAL SECRETARY
PAYMASTER GENERAL
ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR ANSON
DAME A MUELLER
MR WICKS
MR HARDCASTLE
MR BYATT
MR SCHOLAR
MR CULPIN
MR SEDGWICK
MR RILEY
MR MACPHERSON
MISS J SIMPSON
MRS CHAPLIN
MR TYRIE
MR CALL
SIR A BATTISHILL IR
MR BEIGHTON IR
MR ISAAC IR
MR PAINTER IR
MR UNWIN C&E
MR JEFFERSON SMITH C&E

cc Mr Gilhooly
Mr Matthews
Mr G Bush - IR
PS/IR
Mr P R H Allen - C&E

Mr Monck (item(iv))
Mr Odling-Smee (item (iv))
Mr McGivern - IR (item (vi))
Mr Corlett - IR (items (iv)&(vi))
Mr Kuczys - IR (item (vi))
Mr Luce (item (vi))
Mr L Harris (item (vi))
Mr P Lewis - IR (item (v))
Miss M Hill IR (item (iv))
Mr Jenkins (Parly Counsel) (item (i))

BUDGET OVERVIEW MEETING: AGENDA FOR FOURTH OVERVIEW MEETING ON MONDAY 13 FEBRUARY

... I attach the agenda for the fourth overview meeting, on Monday 13 February at 3.00pm.

ACSA

A C S ALLAN

AGENDA FOR FOURTH OVERVIEW MEETING: MONDAY, 13 FEBRUARY 1989

Main items

(i) Budget Scorecard:

(a) Scorecard circulated by Mr Culpin on 9 February. (Discussion to include state of play on instructions to Parliamentary Counsel)

(b) Mr Riley's note of 9 February on the package and the fiscal adjustment.

(ii) Ministerial Budget Representations:

Mr K Sedgwick's note of 9 February

(iii) Lollipops:

Mr Gilhooly's note of 9 February

(iv) Stamp Duty:

Mr Monck's note of 9 February on privatisation and the Stock Exchange

(v) NICs on subsidised loans:

Mr Macpherson's note of 9 February

Other Items

(vi) Pensions

Mr Kuczys' and Mr Hinton's notes of 9 February

(vii) Rent-a-room

Mr McGivern's note of 8 February to the Financial Secretary, on tax relief for resident landlords.

PROVISIONAL AGENDA FOR FOURTH OVERVIEW MEETING: MONDAY, 13 FEBRUARY 1989

Main items

(i) Budget Scorecard:

Note by Mr Culpin. to be circulated. (Discussion to include state of play on instructions to Parliamentary Counsel)

(ii) Lollipops:

Note by FP, to be circulated

(iii) Stamp Duty:

Note by Mr Monck, to be circulated

(iv) NICs on subsidised mortgages:

Note by FP, to be circulated.

Other Items

(v) Pensions

Note by the Revenue, to be circulated

(vi) Life assurance

Note by the Revenue, to be circulated.

(vii) Rent-a-room

Note by the Revenue, to be circulated

COPY NO 30 OF 31 COPIES

FROM: MISS M P WALLACE
DATE: 13 February 1989

MR RILEY

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Wicks
Mr Hardcastle
Mr Byatt
Mr Scholar
Mr Culpin
Mr Sedgwick
Mr A C S Allen
Mr Gilhooly
Mr S W Matthews
Mr Pickford
Mr Macpherson
Miss Simpson
Mrs Chaplin
Mr Tyrie
Mr Call

Sir A Battishill - IR
Mr Isaac -IR
Mr Painter - IR

Mr Unwin - C&E
Mr Jefferson-Smith - C&E

BUDGET STATEMENT: OUTLINE

... I attach the outline of the Budget statement which I put to the Chancellor on Friday evening.

2. The ordering of the various sections will no doubt change, when we have the Chancellor's comments, and as we write it up. In particular, some of the tax measures could just as well go in one section as another (eg perks, or PRP): we can think further about this depending on the overall balance of the speech, as it develops.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

3. I shall be putting a first full draft of the speech to the Chancellor this Friday, 17 February. In the meantime, I should be grateful for any comments you or others may have on the overall structure.

MPW.

MOIRA WALLACE

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

OUTLINE

A. INTRODUCTION

Vigorous growth, employment/unemployment, unprecedented strength of public finances. Reaffirm policies that brought success, crucially determination on inflation.

B. ECONOMIC BACKGROUND

2. 88 activity much stronger than expected worldwide. Figures.

3. UK maintains place at top of growth league cf main European competitors, with another year of vigorous growth.

4. Judge that in 88 output growth [4½ per cent] in line with income and output measures but higher than unreliable expenditure measure.

Discrepancies between different measures of GDP an increasing problem in 88. Part of wider problem

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

with economic stats, of concern to Govt, TCSC, outside commentators - launched Review, conclusions announced/expected shortly.

5. In meantime have to take most sensible view can of what is happening on basis of raw data we have.

6. Present our best estimates in FSBR. Which also sets out unadjusted figures. Full press notice on methodology. Not gone whole way (why). In some cases adjustment makes little difference. In some cases figures less favourable. But believe that adjusted figures nearer accurate picture of what is happening to demand and output, and it is these shall be using in setting out background.

7. 4½ per cent means xth year of [steady growth/ growth above y]. Within this <u>manufacturing</u> esp strong in 88 at [6 3/4 per cent] (past previous peak)

8. Productivity.

9. <u>Employment</u> : new figs and falls in unemployment

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

10. Manufacturing investment (past previous peak). Investment generally. Investment and consumption.

11. Faster than expected growth in domestic demand a sign of confidence in Govt's handling of economy. But led to [capacity constraints] faster growth in imports, and deterioration in current account. Estimate deficit at [£10 billion]. Large but no problem financing. Govt commitment to fiscal prudence and monetary discipline recognised.

12. But with stronger growth of domestic demand also some resurgence of inflationary pressures. Have had no hesitation in acting, and interest rates taking effect. But in short term perversely caused rise in recorded inflation.

13. For 89, already signs of desirable deceleration of demand. (Evidence) Expect to continue. Forecast investment to remain high (reasons). More marked effect on consumer spending. (Reasons). GDP growth forecast to be correspondingly slower than in recent years at x.

14. With mortgage rate increases coming into RPI early in year, (and reductions from early 88 dropping out of the annual figures) recorded inflation will peak at around x% [next month] before falling back to y% by end of year.

15. Current account may take longer to improve. Same in 89 as 88. Improve later. Import growth to slow with domestic demand. Trade performance should improve as capacity constraints wear off. No sign of any financing problems [as long as seen to maintain prudent policies].

16. [Manifestly no loss of confidence in £. Ended yr slightly firmer, but generally period of welcome stability. Risks / prospects internationally]

17. Risk at home ... pay. If employers fail to control, Govt will not bail them out, jobs will be lost.

THE MEDIUM TERM

18. Have shown that will take necessary action - however unpalatable - to bring the economy back on

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

to track set out in MTFS. Now entering 10th year: MTFS remains central framework of policy.

19. Determined to maintain steady downward pressure on inflation, downward path for money GDP.

20. Critics of early versions argued that aims could only be achieved at expense of lost output; but record proves otherwise.

21. This year, however, some resurgence of inflationary pressure. Action taken to restrain demand, bring money GDP growth and inflation back down; path set out in MTFS.

22. [Something on savings]

23. [More on current account]

<u>**Monetary Policy**</u>

24. Within MTFS central role in bringing inflation down belongs to monetary policy, buttressed by prudent fiscal stance.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

25. Inflation a monetary phenomenon: monetary policy key to fight against inflation. Means interest rates. Alternatives don't work. [Credit controls]

26. Shall therefore continue to ensure that interest rates are at the level necessary to ensure downward pressure on inflation. MO and other evidence suggests domestic inflationary pressures now easing as predicted in response to tightening of monetary stance. [It may however be necessary to maintain the current level of short-term interest rates for some time yet.]

27. Decisions on the appropriate monetary stance will continue to take full account of role of exchange rate. Have made clear increases in domestic costs will not be accommodated either by monetary expansion or by exchange rate depreciation. Appropriate that exchange rate strengthened slightly in light of emerging inflationary pressures. [[Objective-stability subject to overriding need to bear down on inflation.]]

28. [Ultimate objective stable prices] No government could be proof against short-term fluctuations along the way. But can guarantee the will to ensure that they are only short-term.

29. Accordingly confirm 1989-90 target for MO growth of 1-5 per cent, set last year. Measured on twelve month basis will start the next financial year above top of this range reflecting high growth figures in spring and summer of 88. But growth of MO over latest 6 months very low - equivalent to X at an annual rate - so twelve month growth will fall below 5 per cent within a few months.

[Here, or somewhere else, a section on COBO, benefits of liberalisation generally?]

Public Sector Finances

30. Prudent fiscal policy always part of MTFS: need to limit burden of debt and public sector's claim on savings and inflows of capital. Needs to be set in medium term context. Not short-term "demand management" tool, but key element of

successful supply side policies [expand]: pattern of taxes and expenditure, and impact on supply side.

31. Last year provided for PSDR of X in 1988-89. Public finances have turned out to be even stronger (give figures). Reflects buoyant economy, so revenues up sharply, public expenditure down as a share of GDP. 1988-89 Public Expenditure outturn and reasons. Also higher privatisation proceeds.

32. Strong position enables Government to repay debt, and reduce the public expenditure burden of debt servicing on present and future generations. [Illustrate with some figures.]

33. This makes room for further debt repayment, tax reductions, or increased expenditure elsewhere on priority services. Already seen latter (cf Autumn Statement).

34. Implications for funding. Restructuring. New techniques etc. [Finance Bill powers to enable government to buy gilts from Issue Department and cancel them.]

35. Factors bearing on PSDR in 1989-90:

- as always prudent and cautious approach essential;

- must not undo all the progress of recent years, and the strong position that we have built up.

- present strong position partially reflects cyclical influences which will tend to unwind as economy reverts to more sustainable path;

[- gradualist approach essential, to avoid sharp changes in fiscal stance and disruption of the economy;]

36. Conclude that should provide for PSDR in 1989-90 of X.

37. Beyond 1989-90, expect to see PSDR revert [gradually/eventually] to zero - a balanced budget. Illustrative path [for medium term] set out in

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

MTFS. Though precise path may vary, should permit continuation of steady process of tax reform. To which we now turn.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

TAXATION SECTION

1. BUSINESS

Main CT rate. International comparisons? Businesses doing fine, so no major change. But small companies profits limit

Pre-trading expenditure relief (plus any other minor business changes)

Oil incrementals

ITV levy

Perks: cars
subsidised mortgages
relocation

PRP

Simplification/deregulation:

close companies
VAT package
Schedule E receipts basis

2. SAVINGS

Rationale. Discrimination in tax treatment of different kinds of savings. Redress in favour of ownership.

[N.B. Independent taxation and savings]

Stamp Duty

Unit trusts

Life Assurance

Pensions .

Wider share ownership

PEPs
ESOPs / ESS

3. TAXES ON SPENDING

mention VAT ECJ stuff in passing
already announced VAT deregulation
VAT on charities

charities generally:

PRG
[National Trust starter]

VED:
equity (get coaches and rigids up to track costs)
simplification (reduce number of rates)

number plates

excise duties: rationale for unleaded petrol

4. CGT:

limit
gift deferral
block avoidance - cobo tax changes, etc

5. INCOME TAX

allowances (age allowance)'

rates

chex.md/keep/aa.4 **BUDGET CONFIDENTIAL**

FROM: A C S ALLAN
DATE: 14 February 1989

CHIEF SECRETARY
FINANCIAL SECRETARY
PAYMASTER GENERAL
ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR ANSON
DAME A MUELLER
MR WICKS
MR HARDCASTLE
MR BYATT
MR SCHOLAR
MR CULPIN
MR SEDGWICK
MR RILEY
MR MACPHERSON
MISS J SIMPSON
MRS CHAPLIN
MR TYRIE
MR CALL
SIR A BATTISHILL IR
MR BEIGHTON IR
MR ISAAC IR
MR PAINTER IR
MR UNWIN C&E
MR JEFFERSON SMITH C&E

cc Mr Gilhooly
Mr Matthews
Mr G Bush - IR
PS/IR
Mr P R H Allen - C&E

Mr Deacon IR (item (ii))
Mr Haigh IR (item (ii))
Mr Johns IR (item (iii))
Mr Harris (item (iv))
Mr Luce (item (iv))
Mr Corlett IR (item (iv))
Mr Kuczys IR (item (iv))
Mr Houghton IR (item (v))
Mr Bryce IR (item (v))

BUDGET OVERVIEW MEETING: PROVISIONAL AGENDA FOR FIFTH OVERVIEW MEETING ON MONDAY 18 FEBRUARY

... I attach the provisional agenda for the fifth overview meeting, on Monday 18 February at 3.00pm.

ACSA

A C S ALLAN

PROVISIONAL AGENDA FOR FIFTH OVERVIEW MEETING: MONDAY, 18 FEBRUARY 1989

<u>**Main items**</u>

(i) <u>Budget Scorecard</u>:

To be circulated by Mr Culpin

(ii) <u>Life Assurance</u>:

Note by the Revenue, to be circulated

(iii) <u>Oil incrementals</u>:

No new papers; report of EST's meeting with Mr Morrison

<u>Other Items</u>

(iv) <u>Public Sector pensions</u>:

Note by Mr Harris, to be circulated

(v) <u>Residence</u>:

Mr Isaac's note of 3 February, on a receipts basis.

BUDGET CONFIDENTIAL

BUDGET OVERVIEW MEETING:
PROVISIONAL AGENDA FOR FOURTH OVERVIEW MEETING, ON MONDAY 18 FEBRUARY

Main items

(i) Scorecard

To be circulated by Mr Culpin.

(iii) ~~R~~Life Assurance

Note by FP, to be circulated.

(ii) Unleaded Petrol

Note by Customs, to be circulated

(iv) Oil increments

~~(v)~~ Other items — No new papers; report of EST's meeting with Mr Morrison

(v) Public sector pensions

Note by Mr Harris, to be circulated

(vi) Stamp Duty

Note by the Revenue, to be circulated.

(vii) Residence

Mr Isaac's note of 3 February on a receipts basis.

FROM: A C S ALLAN

DATE: 14 February 1989

CHIEF SECRETARY
FINANCIAL SECRETARY
PAYMASTER GENERAL
ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR ANSON
DAME A MUELLER
MR WICKS
MR HARDCASTLE
MR BYATT
MR SCHOLAR
MR CULPIN
MR SEDGWICK
MR RILEY
MR MACPHERSON
MISS J SIMPSON
MRS CHAPLIN
MR TYRIE
MR CALL
SIR A BATTISHILL IR
MR BEIGHTON IR
MR ISAAC IR
MR PAINTER IR
MR UNWIN C&E
MR JEFFERSON SMITH C&E

cc Mr Gilhooly
Mr Matthews
Mr G Bush - IR
PS/IR
Mr P R H Allen - C&E

Mr Deacon IR (item (ii))
Mr Haigh IR (item (ii))
Mr Johns IR (item (iii))
Mr Harris (item (iv))
Mr Luce (item (iv))
Mr Corlett IR (item (iv))
Mr Kuczys IR (item (iv))
Mr Houghton IR (item (v))
Mr Bryce IR (item (v))

BUDGET OVERVIEW MEETING: PROVISIONAL AGENDA FOR FIFTH OVERVIEW MEETING ON MONDAY 18 FEBRUARY

... I attach the provisional agenda for the fifth overview meeting, on Monday 18 February at 3.00pm.

ACSA

A C S ALLAN

PROVISIONAL AGENDA FOR FIFTH OVERVIEW MEETING: MONDAY, 18 FEBRUARY 1989

Main items

(i) Budget Scorecard:

To be circulated by Mr Culpin

(ii) Life Assurance:

Note by the Revenue, to be circulated

(iii) Oil incrementals:

No new papers; report of EST's meeting with Mr Morrison

Other Items

(iv) Public Sector pensions:

Note by Mr Harris, to be circulated

(v) Residence:

Mr Isaac's note of 3 February, on a receipts basis.

chex.md/keep/aa.4 BUDGET CONFIDENTIAL

FROM: A C S ALLAN

DATE: 17 February 1989

CHIEF SECRETARY
FINANCIAL SECRETARY
PAYMASTER GENERAL
ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR ANSON
DAME A MUELLER
MR WICKS
MR HARDCASTLE
MR BYATT
MR SCHOLAR
MR CULPIN
MR SEDGWICK
MR RILEY
MR MACPHERSON
MISS J SIMPSON
MRS CHAPLIN
MR TYRIE
MR CALL
SIR A BATTISHILL IR
MR BEIGHTON IR
MR ISAAC IR
MR PAINTER IR
MR UNWIN C&E
MR JEFFERSON SMITH C&E

cc Mr Gilhooly
Mr Matthews
Mr G Bush - IR
PS/IR
Mr P R H Allen - C&E

Mr Deacon IR (item (iv))
Mr Haigh IR (item (iv))
Mr Johns IR (item (iii))
Mr Precott IR (item (iii))
Mr Monck (item (v))
Mr McIntyre (item (v))
Mr Mace IR (item (v))
Mr Gieve (item (vi))
Mr Houghton IR (item (vii))
Mr Bryce IR (item (vii))

BUDGET OVERVIEW MEETING: AGENDA FOR FIFTH OVERVIEW MEETING ON MONDAY 20 FEBRUARY

... I attach the agenda for the fifth overview meeting, on Monday 20 February at 3.00pm.

ACSA

A C S ALLAN

AGENDA FOR FIFTH OVERVIEW MEETING: MONDAY, 20 FEBRUARY 1989

Main items

(i) Budget Scorecard:

Circulated by Mr Culpin

(ii) Car tax relief on cars supplied to motability for leasing:

Mr Jefferson Smith's note of 16 February.

(iii) Oil incrementals:

Mr Prescott's note of 16 February on PRT - incremental investment allowance

(iv) Life Assurance:

Mr Deacon's note of 16 February

(v) NICs:

Mr McIntyre's minute of 16 February

(vi) Presentation:

Mr Culpin's minute of 16 February

Other Items

(vii) Residence:

Mr Isaac's note of 3 February, on a receipts basis.
Note by the Financial Secretary (to be circulated).

mjd6/2

BUDGET CONFIDENTIAL

PWP

FROM: A C S ALLAN

DATE: 19 February 1988

CHIEF SECRETARY
FINANCIAL SECRETARY
PAYMASTER GENERAL
ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
SIR G LITTLER
MR ANSON
SIR A WILSON
MR BYATT
MR SCHOLAR
MR CULPIN
MR SEDGWICK
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR CALL
MR BATTISHILL - IR
MR ISAAC - IR
MR PAINTER - IR
MR UNWIN - C&E
MR KNOX - C&E

cc Mr Riley
Miss Sinclair
PS/IR
Mr P R H Allen - C&E
Mr R I G Allen (Item(iv))
Mr Pickford (Item(iv))

Mr P Lewis - IR)
Mr McGivern - IR)
Mr Prescott - IR) Item(iii)
Miss Rhodes - IR)

BUDGET OVERVIEW MEETING: AGENDA FOR SIXTH OVERVIEW MEETING ON MONDAY 22 FEBRUARY

The sixth overview meeting will be held on Monday 22 February at
... 3.00pm. The agenda is attached.

ACSA

A C S ALLAN

mjd6/2

BUDGET CONFIDENTIAL

AGENDA FOR SIXTH OVERVIEW MEETING: MONDAY, 22 FEBRUARY 1988

(i) Budget Scorecard:

Circulated by Mr Culpin on 18 February.

(ii) Deadline for Budget Decisions:

(a) Mr McManus' note of 17 February

(b) Mr P R H Allen's note of 19 February

(iii) Fringe Benefits

(a) Mr Keith's note of 17 February on Capital Allowances: Expensive Cars.

(b) Mr Prescott's note of 18 February on Directors' Dining Rooms and Luncheon Vouchers.

(c) Mr P Lewis' note of 18 February on Car Parking.

(iv) Presentation

Mr Culpin's minute of 19 February

chex.ps/aa/46

BUDGET - SECRET

BLO

REF. NO. ACSA/89/8.

COPY NO. 1 OF 48.

RECORD OF THE FIFTH BUDGET OVERVIEW MEETING:
AT 3.00 PM ON MONDAY 20 FEBRUARY 1989

Present

Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Dame A Mueller
Mr Wicks
Mr Hardcastle
Mr Byatt
Mr Monck (Item 5 only)
Mr Scholar
Mr Culpin
Mr Riley
Mr Sedgwick
Mr Gieve (Items 1-6 only)
Mr Gilhooly
Mr McIntyre (Item 5 only)
Mr Pickford (Items 1-6 only)
Mr Macpherson
Mrs Chaplin
Mr Tyrie
Mr Call

Sir A Battishill - IR
Mr Beighton - IR
Mr Painter - IR
Mr Johns - IR (item 3 only)
Mr Prescott - IR (item 3 only)
Mr Deacon - IR (item 4 only)
Mr Haigh - IR (item 4 only)
Mr Mace - IR (item 5 only)
Mr Houghton - IR (item 7 only)
Mr Bryce - IR (item 7 only)

Mr Unwin - C&E
Mr Jefferson Smith - C&E

....

Papers:

(i) Budget Scorecard:

Mr Culpin's minute of 16 February.

(ii) Car tax relief on cars supplied to Motability for leasing:

Mr Jefferson Smith's minute of 16 February.

(iii) Oil incrementals:

Mr Prescott's minute of 16 February on 'PRT - incremental investment allowance'.

BUDGET-SECRET
BCO

(iv) **Life Assurance**:

Mr Deacon's minute of 16 February.

(v) **NICs**:

Mr McIntyre's minute of 16 February.

(vi) **Presentation**:

Mr Culpin's minute of 16 February.

(vii) **Residence**

Mr Isaac's minute of 3 February, on a receipts basis. The Financial Secretary's minute of 17 February.

Scorecard

In discussion, the following points were made:

(i) on stamp duty, it would be consistent with past practice to take behavioural effects into account and show a small plus in the first year. The Revenue would be providing advice shortly on how to handle pilot schemes for paperless transactions before stamp duty was abolished. If it proved impossible to devise a suitable arrangement, then the only option might be to bring the start date forward and introduce rough and ready provisions which would make it unattractive to undertake private transactions before then. But it would be very much better to find an acceptable way of dealing with pilot transactions;

(ii) instructions for about 20 pages of the Bill (other than for those provisions to be introduced at Committee) had yet to reach Parliamentary Counsel. It was important to get these to Counsel as soon as possible. It was noted that the provisions on Keith and on deep discounted bonds

BUDGET-SECRET

BLO

had proved to need more Finance Bill space than had been expected;

(iii) Customs were providing advice on unleaded petrol for the following week's Overview. There probably was a need for a post-Budget campaign, in spite of doubts by Department of the Environment, to explain: the proposals on two star; the costs of conversion; and the fact that cars converted to unleaded petrol could still use four star leaded petrol;

(iv) on car scales, the Financial Secretary would provide a short further note on the question of whether a better distinction could be drawn between cars provided solely as a perk and cars which were an essential tool of the trade;

(v) the Inland Revenue were providing an urgent note on the personal pensions "loophole" in the new pensions proposals; it was not clear what - if any - action should be taken;

(vi) FP would provide a note on what proportion of those companies with profits of over £100,000 benefited from the changes in CT small company thresholds;

(vii) in the presentation of the PEP proposals, it was a useful point that £2,400 had been the original PEP limit;

(viii) on Lloyd's indexed bonds, it was very doubtful whether there was any realistic prospect of our wishing to issue indexed gilts with a maturity of less than five years, and so there would be little harm in making the limit for the new provisions five years rather than three years. On the other hand, it was argued that when the existing avoidance route was blocked off it was more likely that Lloyd's would look for new instruments rather than extending the maturity of indexed bonds. The Financial Secretary would look at this point again.

Car tax relief on cars supplied to Motability for leasing

2. The Chancellor invited comments on the proposed relief. In discussion, the following points were made:

(i) introducing the relief would make mobility allowance a more attractive benefit, and mobility allowance take-up and expenditure might therefore increase as a result;

(ii) the concession might, however, ease the pressure for higher expenditure on disability benefits arising from the OPCS reports;

(iii) legislation would not be specifically targeted at Motability, but the practical effect would be that the concession could only be attracted via Motability. Experience had shown that any wider concession would be in practice impossible to police;

(iv) a relief along these lines would be well received not just by the disabled people who would get the cars from Motability, but also by carers.

3. Summing up, the Chancellor said that the balance of argument was in favour of making this concession. It was agreed.

Oil incrementals

4. The Economic Secretary reported that he had seen the Minister of State (Energy) last week. Mr Morrison had thought that the

BUDGET-SECRET

BCO

Columba project would go ahead regardless of whether the incremental investment allowance was introduced. Since Columba was the only project which would definitely benefit from the allowance, the case for introducing the relief did not seem strong. There were two other potential projects which could benefit, but this was not certain. He therefore favoured dropping the starter. It was confirmed that the relevant oil company (Chevron) had not been given to believe that the allowance would be introduced. After a brief discussion, the Chancellor said it was agreed that the starter should be dropped.

5. The Chancellor noted that the Economic Secretary intended to write to UKOOA, giving a steer on which proposals concerning the tax treatment of expenditure arising from abandonment Ministers would be willing to study further. The Economic Secretary said that the main option was for tax relief for alienated funds. There were also implications arising from the Secretary of State for Energy's proposal to allow tax relief for accounting provisions for nuclear decommissioning in the electricity industry. A third related area was the possible change to restrict or possibly abolish payment of interest on repayments of PRT arising from the carry-back of losses.

6. The Chancellor said that the issues need careful study. There was considerable revenue at stake. While the Economic Secretary should continue to plan to send out letters on Budget Day, it was clear that further consideration would be needed before a final decision was taken.

Life assurance

7. The Chancellor said that Mr Deacon's paper lucidly summarised the conclusions reached. Was it true that we could say that the industry's main proposals were accepted? Mr Deacon said that the industry had preferred Option C to Options A and B. It had also

accepted that more work would be required on the taxation of pensions' profits. The industry would not like the changes to the treatment of acquisition expenses, but this would be offset by the other proposals in the package. The Financial Secretary counselled caution over arguing too strongly that the industry's wishes were met.

8. After a brief discussion, the Chancellor said that it was agreed to proceed on the basis set out in Mr Deacon's paper, subject to settling a number of outstanding details. Careful consideration should now be given to the presentation of the package. He invited the Financial Secretary to take this forward.

NIC reform

9. The Chancellor said that, in the context of this year's Budget, he was attracted by the idea of an NIC reform at the lower end. The 1985 reform had been chiefly concerned with employers' NICs; but it had been felt that it was difficult to reduce employers' NICs at the lower end without a matching cut in employee NICs. The system now had three steps. The first step, whose height had been reduced from 9 per cent to 5 per cent, could be justified as the entry fee for contributory benefits. But there was no justification for the subsequent steps. They had been introduced because the cost of turning them into thresholds had been too high at the time. We now had the opportunity of abolishing these steps altogether. The cost of this could be contained within the restraint of a prudent and cautious Budget.

10. In a lengthy discussion, the following points were made:

(i) some doubted whether this change represented good value for money; and, although the PSDR would be large, and the macroeconomic effect of this package relatively small, nonetheless there was a case for great caution;

BUDGET-SECRET
BCO

(ii) on the other hand, the forecasts of the PSDR had increased substantially since the original package had been settled; it was difficult to argue that in those circumstances one should do nothing in response. It was important that a tight monetary policy should be supported by a firm fiscal stance. But even after the NIC package, the Budget surplus would be so large that it was hard to argue that we did not have a supportive fiscal stance;

(iii) the National Insurance Fund was in very large surplus. There would inevitably be pressure to reduce the surplus at some stage.

(iv) the NIC package was to be preferred to an increase in personal allowances; an increase in allowances would open the presumption that future cuts in taxation would be shared between rates and allowances, which would be undesirable; although raising thresholds did help the Revenue by reducing the numbers paying tax, that in turn reduced the constituency who favoured tax cuts;

(v) a NIC reform was also, on balance, to be preferred to a cut in the basic rate. Cutting the basic rate was the Government's declared objective; but it would open up questions about last year's Budget and the macroeconomic stance. And the NIC package was to be preferred on distributional grounds to both a cut in the basic rate and an increase in thresholds;

(vi) the fact that the first year impact of the proposed NIC package was much lower than the second year effect had some advantages. But there was a danger of crowding out

BUDGET-SECRET
BCD

tax cuts in future years, especially if the PSDR reduced sharply as activity slowed down;

(vii) there was some danger of a reaction by employers that their NIC burden had not been cut. But on the other hand the steps for employers were not nearly so significant, since employers would tend to pay a single NIC bill for all their employees;

(viii) the bottom NIC step would still be steep. There was a case for leaving NIC reform until it was possible to eliminate it altogether. But on the other hand there was a case under the contributory principle for retaining a step; and to wait for enough money to eliminate or reduce the step would probably mean that NIC reform was never implemented; there was, however, a case for looking at a variant of the proposed package, in which the first step was reduced to around £1;

(ix) any substantial erosion of the contributory principle would be damaging: without it, it would be difficult to avoid assimilating NICs and income tax. That would have potentially significant public expenditure costs; and, more seriously, would make it very difficult to resist allowing tax reliefs to run against NICs;

(x) with the NIC reform, someone on half average earnings would pay less in tax and NICs as a proportion of his income than in 1978-79; and that would very nearly be true for a married couple. Without this change, a married man with two children on average earnings would pay a larger proportion of his income in tax and NICs in 1989-90 than in 1988-89;

BUDGET-SECRET
BC2

(xi) the presentation of the package should be that this completed the reform of NICs at the lower end.

11. Summing up, the Chancellor said that he felt this was the year to make this change. The balance of the argument was that we should introduce a package along the lines of Mr McIntyre's Option 4, accepting that this might well mean that the 20 per cent basic rate target was reached a year later than would otherwise be the case. The option of a smaller initial step should, however, be considered further.

12. There was some discussion about whether the UEL should be increased as part of the package. The following points were made:

(i) raising the UEL would save about £125 million in the first year and £250 million in a full year. It would also have the distributional advantage that the whole of the benefit was concentrated on those below the UEL;

(ii) against that, it potentially increased SERPs entitlements; it presented problems for handling the self-employed; and it increased the marginal tax plus NIC rate from 25 per cent to 34 per cent for 700,000 people;

(iii) the present costings were very rough, especially of the SERPs consequentials, and it would be unwise to take a final decision on the UEL until the GAD had had a chance to examine the costings;

(iv) if the UEL was increased, there would need to be a new formula for setting it in future; on balance, it seemed best to make it a new multiple of the basic pension.

BUDGET - SECRET
BCD

Summing up, the Chancellor said that Mr McIntyre should consult GAD urgently to refine the costings; this should be on the strict understanding that they did not talk to DSS. Mr Mace would independently investigate the costings using the Inland Revenue model. The Chancellor would explain his proposals to Mr Moore; it would be highly desirable if the Report Stage of the Social Security Bill could be delayed until after Easter to allow these proposals to be introduced then.

13. If the UEL was raised, consideration would be needed about what, if any, change should be made to the UPL. The options were to do nothing; or to raise the UPL along with the UEL but cut Class IV contribution rates. Doing nothing would be much the simplest option. But it would be slightly odd to decouple the UPL and UEL. The problem would not, of course, arise if the UEL was not increased.

Presentation

14. In a brief discussion, the Chancellor asked Mr Culpin to prepare a further updated note for the following week's Overview meeting. Mr Culpin should also circulate a list of "awkward questions", together with - as appropriate - suggested answers.

15. The Chancellor said that the present note demonstrated that there were too many "categories". Next week's discussion should consider how best these could be reduced.

Residence

16. The Chancellor, summing up a brief discussion, said it was agreed that we should proceed on the basis set out in the Financial Secretary's note. Consideration should be given to whether any specific mention should be made of the intention to stop loopholes. It would be appropriate for the outcome of the

BUDGET - SECRET

BLO

Review to be announced not in the Budget Speech, but by the Financial Secretary during his wind-up speech in the Budget Debates.

ACSA

A C S ALLAN

21 February 1989

Distribution

Those present
Mr S Matthews
Miss J Simpson
Mr Isaac - IR
Mr G Bush - IR
PS/IR
Mr P R H Allen - C&E

(note: all members of the permanent Overview cast receive the full minutes, even where they did not attend all the items).

REF. NO. ACSA/89/8.
COPY NO. 3. OF 48.

RECORD OF THE FIFTH BUDGET OVERVIEW MEETING:
AT 3.00 PM ON MONDAY 20 FEBRUARY 1989

Present

Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Dame A Mueller
Mr Wicks
Mr Hardcastle
Mr Byatt
Mr Monck (Item 5 only)
Mr Scholar
Mr Culpin
Mr Riley
Mr Sedgwick
Mr Gieve (Items 1-6 only)
Mr Gilhooly
Mr McIntyre (Item 5 only)
Mr Pickford (Items 1-6 only)
Mr Macpherson
Mrs Chaplin
Mr Tyrie
Mr Call

Sir A Battishill - IR
Mr Beighton - IR
Mr Painter - IR
Mr Johns - IR (item 3 only)
Mr Prescott - IR (item 3 only)
Mr Deacon - IR (item 4 only)
Mr Haigh - IR (item 4 only)
Mr Mace - IR (item 5 only)
Mr Houghton - IR (item 7 only)
Mr Bryce - IR (item 7 only)

Mr Unwin - C&E
Mr Jefferson Smith - C&E

....

Papers:

(i) Budget Scorecard:

Mr Culpin's minute of 16 February.

(ii) Car tax relief on cars supplied to Motability for leasing:

Mr Jefferson Smith's minute of 16 February.

(iii) Oil incrementals:

Mr Prescott's minute of 16 February on 'PRT - incremental investment allowance'.

(iv) **Life Assurance:**

Mr Deacon's minute of 16 February.

(v) **NICs:**

Mr McIntyre's minute of 16 February.

(vi) **Presentation:**

Mr Culpin's minute of 16 February.

(vii) **Residence**

Mr Isaac's minute of 3 February, on a receipts basis. The Financial Secretary's minute of 17 February.

Scorecard

In discussion, the following points were made:

(i) on stamp duty, it would be consistent with past practice to take behavioural effects into account and show a small plus in the first year. The Revenue would be providing advice shortly on how to handle pilot schemes for paperless transactions before stamp duty was abolished. If it proved impossible to devise a suitable arrangement, then the only option might be to bring the start date forward and introduce rough and ready provisions which would make it unattractive to undertake private transactions before then. But it would be very much better to find an acceptable way of dealing with pilot transactions;

(ii) instructions for about 20 pages of the Bill (other than for those provisions to be introduced at Committee) had yet to reach Parliamentary Counsel. It was important to get these to Counsel as soon as possible. It was noted that the provisions on Keith and on deep discounted bonds

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

had proved to need more Finance Bill space than had been expected;

(iii) Customs were providing advice on <u>unleaded petrol</u> for the following week's Overview. There probably was a need for a post-Budget campaign, in spite of doubts by Department of the Environment, to explain: the proposals on two star; the costs of conversion; and the fact that cars converted to unleaded petrol could still use four star leaded petrol;

(iv) on <u>car scales</u>, the <u>Financial Secretary</u> would provide a short further note on the question of whether a better distinction could be drawn between cars provided solely as a perk and cars which were an essential tool of the trade;

(v) the Inland Revenue were providing an urgent note on the <u>personal pensions</u> "loophole" in the new pensions proposals; it was not clear what - if any - action should be taken;

(vi) FP would provide a note on what proportion of those companies with profits of over £100,000 benefited from the changes in <u>CT small company thresholds</u>;

(vii) in the presentation of the <u>PEP</u> proposals, it was a useful point that £2,400 had been the original PEP limit;

(viii) on <u>Lloyd's indexed bonds</u>, it was very doubtful whether there was any realistic prospect of our wishing to issue indexed gilts with a maturity of less than five years, and so there would be little harm in making the limit for the new provisions five years rather than three years. On the other hand, it was argued that when the existing

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

avoidance route was blocked off it was more likely that Lloyd's would look for new instruments rather than extending the maturity of indexed bonds. The Financial Secretary would look at this point again.

Car tax relief on cars supplied to Motability for leasing

2. The Chancellor invited comments on the proposed relief. In discussion, the following points were made:

(i) introducing the relief would make mobility allowance a more attractive benefit, and mobility allowance take-up and expenditure might therefore increase as a result;

(ii) the concession might, however, ease the pressure for higher expenditure on disability benefits arising from the OPCS reports;

(iii) legislation would not be specifically targeted at Motability, but the practical effect would be that the concession could only be attracted via Motability. Experience had shown that any wider concession would be in practice impossible to police;

(iv) a relief along these lines would be well received not just by the disabled people who would get the cars from Motability, but also by carers.

3. Summing up, the Chancellor said that the balance of argument was in favour of making this concession. It was agreed.

Oil incrementals

4. The Economic Secretary reported that he had seen the Minister of State (Energy) last week. Mr Morrison had thought that the

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

Columba project would go ahead regardless of whether the incremental investment allowance was introduced. Since Columba was the only project which would definitely benefit from the allowance, the case for introducing the relief did not seem strong. There were two other potential projects which could benefit, but this was not certain. He therefore favoured dropping the starter. It was confirmed that the relevant oil company (Chevron) had not been given to believe that the allowance would be introduced. After a brief discussion, the Chancellor said it was agreed that the starter should be dropped.

5. The Chancellor noted that the Economic Secretary intended to write to UKOOA, giving a steer on which proposals concerning the tax treatment of expenditure arising from abandonment Ministers would be willing to study further. The Economic Secretary said that the main option was for tax relief for alienated funds. There were also implications arising from the Secretary of State for Energy's proposal to allow tax relief for accounting provisions for nuclear decommissioning in the electricity industry. A third related area was the possible change to restrict or possibly abolish payment of interest on repayments of PRT arising from the carry-back of losses.

6. The Chancellor said that the issues need careful study. There was considerable revenue at stake. While the Economic Secretary should continue to plan to send out letters on Budget Day, it was clear that further consideration would be needed before a final decision was taken.

Life assurance

7. The Chancellor said that Mr Deacon's paper lucidly summarised the conclusions reached. Was it true that we could say that the industry's main proposals were accepted? Mr Deacon said that the industry had preferred Option C to Options A and B. It had also

accepted that more work would be required on the taxation of pensions' profits. The industry would not like the changes to the treatment of acquisition expenses, but this would be offset by the other proposals in the package. The Financial Secretary counselled caution over arguing too strongly that the industry's wishes were met.

8. After a brief discussion, the Chancellor said that it was agreed to proceed on the basis set out in Mr Deacon's paper, subject to settling a number of outstanding details. Careful consideration should now be given to the presentation of the package. He invited the Financial Secretary to take this forward.

NIC reform

9. The Chancellor said that, in the context of this year's Budget, he was attracted by the idea of an NIC reform at the lower end. The 1985 reform had been chiefly concerned with employers' NICs; but it had been felt that it was difficult to reduce employers' NICs at the lower end without a matching cut in employee NICs. The system now had three steps. The first step, whose height had been reduced from 9 per cent to 5 per cent, could be justified as the entry fee for contributory benefits. But there was no justification for the subsequent steps. They had been introduced because the cost of turning them into thresholds had been too high at the time. We now had the opportunity of abolishing these steps altogether. The cost of this could be contained within the restraint of a prudent and cautious Budget.

10. In a lengthy discussion, the following points were made:

(i) some doubted whether this change represented good value for money; and, although the PSDR would be large, and the macroeconomic effect of this package relatively small, nonetheless there was a case for great caution;

(ii) on the other hand, the forecasts of the PSDR had increased substantially since the original package had been settled; it was difficult to argue that in those circumstances one should do nothing in response. It was important that a tight monetary policy should be supported by a firm fiscal stance. But even after the NIC package, the Budget surplus would be so large that it was hard to argue that we did not have a supportive fiscal stance;

(iii) the National Insurance Fund was in very large surplus. There would inevitably be pressure to reduce the surplus at some stage.

(iv) the NIC package was to be preferred to an increase in personal allowances; an increase in allowances would open the presumption that future cuts in taxation would be shared between rates and allowances, which would be undesirable; although raising thresholds did help the Revenue by reducing the numbers paying tax, that in turn reduced the constituency who favoured tax cuts;

(v) a NIC reform was also, on balance, to be preferred to a cut in the basic rate. Cutting the basic rate was the Government's declared objective; but it would open up questions about last year's Budget and the macroeconomic stance. And the NIC package was to be preferred on distributional grounds to both a cut in the basic rate and an increase in thresholds;

(vi) the fact that the first year impact of the proposed NIC package was much lower than the second year effect had some advantages. But there was a danger of crowding out

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

tax cuts in future years, especially if the PSDR reduced sharply as activity slowed down;

(vii) there was some danger of a reaction by employers that their NIC burden had not been cut. But on the other hand the steps for employers were not nearly so significant, since employers would tend to pay a single NIC bill for all their employees;

(viii) the bottom NIC step would still be steep. There was a case for leaving NIC reform until it was possible to eliminate it altogether. But on the other hand there was a case under the contributory principle for retaining a step; and to wait for enough money to eliminate or reduce the step would probably mean that NIC reform was never implemented; there was, however, a case for looking at a variant of the proposed package, in which the first step was reduced to around £1;

(ix) any substantial erosion of the contributory principle would be damaging: without it, it would be difficult to avoid assimilating NICs and income tax. That would have potentially significant public expenditure costs; and, more seriously, would make it very difficult to resist allowing tax reliefs to run against NICs;

(x) with the NIC reform, someone on half average earnings would pay less in tax and NICs as a proportion of his income than in 1978-79; and that would very nearly be true for a married couple. Without this change, a married man with two children on average earnings would pay a larger proportion of his income in tax and NICs in 1989-90 than in 1988-89;

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET SECRET B.L.O. SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

(xi) the presentation of the package should be that this completed the reform of NICs at the lower end.

11. Summing up, the <u>Chancellor</u> said that he felt this was the year to make this change. The balance of the argument was that we should introduce a package along the lines of Mr McIntyre's Option 4, accepting that this might well mean that the 20 per cent basic rate target was reached a year later than would otherwise be the case. The option of a smaller initial step should, however, be considered further.

12. There was some discussion about whether the UEL should be increased as part of the package. The following points were made:

(i) raising the UEL would save about £125 million in the first year and £250 million in a full year. It would also have the distributional advantage that the whole of the benefit was concentrated on those below the UEL;

(ii) against that, it potentially increased SERPs entitlements; it presented problems for handling the self-employed; and it increased the marginal tax plus NIC rate from 25 per cent to 34 per cent for 700,000 people;

(iii) the present costings were very rough, especially of the SERPs consequentials, and it would be unwise to take a final decision on the UEL until the GAD had had a chance to examine the costings;

(iv) if the UEL was increased, there would need to be a new formula for setting it in future; on balance, it seemed best to make it a new multiple of the basic pension.

Summing up, the Chancellor said that Mr McIntyre should consult GAD urgently to refine the costings; this should be on the strict understanding that they did not talk to DSS. Mr Mace would independently investigate the costings using the Inland Revenue model. The Chancellor would explain his proposals to Mr Moore; it would be highly desirable if the Report Stage of the Social Security Bill could be delayed until after Easter to allow these proposals to be introduced then.

13. If the UEL was raised, consideration would be needed about what, if any, change should be made to the UPL. The options were to do nothing; or to raise the UPL along with the UEL but cut Class IV contribution rates. Doing nothing would be much the simplest option. But it would be slightly odd to decouple the UPL and UEL. The problem would not, of course, arise if the UEL was not increased.

Presentation

14. In a brief discussion, the Chancellor asked Mr Culpin to prepare a further updated note for the following week's Overview meeting. Mr Culpin should also circulate a list of "awkward questions", together with - as appropriate - suggested answers.

15. The Chancellor said that the present note demonstrated that there were too many "categories". Next week's discussion should consider how best these could be reduced.

Residence

16. The Chancellor, summing up a brief discussion, said it was agreed that we should proceed on the basis set out in the Financial Secretary's note. Consideration should be given to whether any specific mention should be made of the intention to stop loopholes. It would be appropriate for the outcome of the

Review to be announced not in the Budget Speech, but by the Financial Secretary during his wind-up speech in the Budget Debates.

ACSA

A C S ALLAN

21 February 1989

Distribution

Those present
Mr S Matthews
Miss J Simpson
Mr Isaac - IR
Mr G Bush - IR
PS/IR
Mr P R H Allen - C&E

(note: all members of the permanent Overview cast receive the full minutes, even where they did not attend all the items).

2 of 30

FROM: N I MACPHERSON
DATE: 20 February 1989

1. MR GILHOOLY 20/2

2. CHANCELLOR

cc: Principal Private Secretary
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Anson
Mr Scholar
Mr Culpin
Mr Riley
Mr Sedgwick
Mr Gilhooly
Mr Matthews
Miss Simpson
Miss Wallace
Mrs Chaplin
Mr Tyrie
Mr Call

Sir Anthony Battishill)
Mr Beighton)
Mr Isaac)IR
Mr Painter)
Mr Calder)

Mr Unwin)C&E
Mr Jefferson Smith)

NB: attachment dismembled to make attachment to my minute of 21/2
AA
21/2

FSBR CHAPTER 4

I attach a draft Chapter 4 of the FSBR, plus table 4.1 and the Annex.

2. It would be helpful to know if you are content with the summary section. This describes in summary form the significant tax changes. It does not at this stage contain anything on NICs. Paragraphs 4.16 and 4.18 on life assurance

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

and unit trusts refer to tax rates being reduced to 25 per cent. No explicit link has been made with the basic rate.

3. Table 4.1 includes a positive yield from stamp duty abolition in 1989-90 in line with the decision taken at today's Overview. (The figure of +£50 million is highly provisional and is likely to be revised downwards in the next Scorecard). The abolition of life assurance policy duty has been scored in the stamp duty section (Item 52) making the yield of the main life assurance package (Item 24) more transparent. Are you content with this? Also do you want us to spell out the benefit of stamp duty abolition to the life assurance industry?

4. The introduction to the Annex to Table 4.1 has been revised to take on board the changed methodology to costing revenue effects, set out in Mr Odling-Smee's minute of 5 October, with which you agreed.

N I Macpherson

N I MACPHERSON

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

D

Pensions

4.13 The tax regime for pensions will be amended. For occupational schemes the main features will be:

employers will be able to set up "top up" schemes for their employees, with no limits on benefits, but without special tax reliefs;

a limit will be placed on pensions paid from tax approved schemes, based on earnings of £60,000 a year. This is consistent with a privileged pension of up to £40,000 a year or maximum tax free lump sum of up to £90,000. The earnings limit will be indexed to prices;

the rules for tax approved pensions, particularly affecting those who take early retirement, will be simplified and improved.

These changes will apply to schemes set up on or after Budget day and to new members joining existing schemes on or after that date.

4.14 New simplified rules will be introduced for monitoring additional voluntary contributions. Any surplus contributions made will be returned to employees, subject to a special tax charge.

ANNEX TO CHAPTER 4

Explanatory notes to Table 4.1

Table 4.1 gives the direct effects of changes in taxation. Estimates are rounded to the nearest £5 million. "Negligible" means less than £3 million.

The direct effect of a tax change is the difference between the yield of the tax which would arise on the basis of the rate of tax, allowances, etc prevailing before the Budget (the pre-Budget regime) and the yield after the changes proposed in the Budget (the post-Budget regime). The difference in yield is generally calculated by applying the pre- and post-Budget regimes to the same tax base. This base is the post-Budget base - that is, the levels of income, consumption, profits, etc forecast for future years on the assumption that all the measures proposed in the Budget take effect.

Tax changes may cause changes in taxpayers' behaviour, which in turn can alter the tax base and hence revenue. The direct effects are estimated subject to the constraint that, in general, total incomes and total expenditure are fixed at their post-Budget levels. Thus the estimates in the table do not include income effects - that is, effects arising solely from the impact of changes in taxes on disposable incomes. Nor do they include the effects of changes in the tax base arising from changes in pre-tax incomes, the general level of prices or other macro economic variables which may result from the proposed tax change. But other behavioural effects are taken into account where it is thought that they will have a significant effect on the yield.

For Customs & Excise taxes and duties, all the estimates of yield incorporate the effects of the tax changes on relative prices and associated changes in the pattern of consumers' expenditure. Aggregate income and consumers' expenditure at

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

factor cost are assumed not to change. [This is a slight modification of previous practice in which nominal consumers' expenditure at market prices, rather than at factor cost, was held constant.] Examples where behavioural effects are taken into account for Inland Revenue taxes include changes involving the take-up of a new or modified relief and changes to the rates of stamp duty or CGT [update in the light of Budget measures].

The post-Budget forecast of each tax given in Table 1.2 takes account of all the effects of the measures announced in the Budget, and not just the direct effects included in table 4.1.

The figures in the first column of Table 4.1 show the direct effect of the Budget proposals on receipts in 1989-90. Budget proposals are compared with a non-indexed base - that is, with the pre-Budget regime of allowances, thresholds and rates of duty at 1988-89 levels.

The figures in the second column show the direct effect of the Budget proposals on receipts in 1989-90, measured against an indexed base. The indexed base for 1989-90 is obtained by increasing 1988-89 allowances, thresholds and rates of duty by 6.8 per cent, the increase in the RPI over the year to December 1988.

The figures in the third column show the direct effect on receipts in 1990-91, also measured against an indexed base. For this comparison, both the Budget proposals and the indexed base for 1989-90 have been further indexed by the forecast movement in the RPI between the fourth quarters of 1988 and 1989 (shown in Table 3.12).

The remainder of this annex provides a commentary on the Budget proposals in Table 4.1; the paragraph numbers refer to the lines in this table. Additional information is provided for those proposals where the effect on tax liabilities in

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

the first complete year to which the change applies (full year effect) is substantially different from the effect on receipts in either 1989-90 or 1990-91; or where the impact of the proposal is expected to build up over a period of years.

Income Tax

1 to 7 The increases in the main personal allowances and the basic rate limit are in line with the statutory indexation provisions (based on the increase of 6.8 per cent in the RPI in the year to December 1988). The higher age allowance formerly for those aged 80 and over will be extended to those aged 75 years and over.

8 The age allowance withdrawal rate will be reduced from £2 of allowances for each £3 of income to £1 for each £2 of income above the limit of £11,400.

9 For 1989-90 the scales for taxing car benefits will be increased by 20 per cent from their 1988-89 levels.

10 The extra-statutory concession which has exempted from tax certain reimbursements by employers of additional housing costs incurred by their employees who have had to move with their jobs to more expensive locations will be withdrawn from 6 April 1989. There will be transitional relief for those already benefiting from the concession and for those who enter into a

commitment to move before 6 April 1989 and who start a job in the new location by 1 July 1989.

11 The extra-statutory concession which has exempted job-related relocation expenses from any charge to income tax will be put on a statutory footing from 1989-90, but no relief will be available for any capital loss incurred on the disposal of the old property.

12 Tax relief will be available (with basic rate relief given at source) for eligible premiums paid in 1990-91 and subsequent years for private medical insurance for those aged 60 years and over. The cost for 1990-91 assumes an increase in take-up in the region of 10 per cent as a result of the new relief. Eventual costs will depend, among other things, on the extent to which medical insurance for the over-60s is promoted and taken up.

13 The amendments to the tax rules for pension schemes will mean that:

for tax approved schemes, earnings over £60,000 will be ignored for the purpose of calculating benefits (consistent with a maximum pension of £40,000, or tax-free lump sum of £90,000). Other amendments will be made to the tax rules to improve early retirement benefits, to allow a two-thirds final salary pension on retirement after 20 years' service between ages 50 and 70 and to simplify calculation of tax-free lump sums. These

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

15 The condition for relief for charitable covenants will be relaxed so that where a member of a heritage charity is given free entry to view the charity's property, that benefit will not disqualify the covenant payments from relief. The cost will depend on take-up.

16 Amendments to the profit related pay (PRP) legislation will

abolish the '5 per cent test' on a PRP scheme's eligibility for registration;

increase to £4,000 the cash limit on the amount of PRP attracting tax relief;

provide a facility for scheme employers to alter, subject to conditions, the rules of PRP schemes which have already been registered; and

enable PRP schemes to be registered for certain employment units for which the amount of PRP will depend upon the profits of the whole business rather than of the employment unit itself.

17 The annual limit on the value of shares which may be appropriated to an employee under an approved employee profit-sharing share scheme (ICTA 1988 Section 186) will be increased, with effect from 6 April 1989, from £1,250 or 10 per cent of pay subject to a maximum of £5,000 to £2,000 or 10 per cent of pay subject to a maximum of £6,000. The limit on monthly savings made by an employee under an approved savings-related share option scheme

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

(ICTA 1988 Section 185) will be increased, from a day to be appointed, from £100 to £150. The maximum discount on the share price at which options may be granted under these schemes will be increased from 10 per cent to 20 per cent. The kinds of shares which may be used in a company's approved employee share scheme will be extended to include those of a member of a consortium owning the company where the member owns one-twentieth or more of the company's ordinary share capital.

18 There will be a relaxation in the conditions under which income tax relief is given to employees who benefit by virtue of their employment from priority in applying for a public offer of shares.

19 Changes will be made in the material interest tests of an employee's eligibility to participate in an approved employee share scheme and in a registered profit-related pay scheme, and of an individual's entitlement to close company interest relief. Subject to certain conditions, these changes will exclude shares held by a trust of which the employee is a beneficiary when reckoning his material interest, [provided that he has received no more than limited benefit from the trust].

20 Relief for interest on loans to acquire Business Expansion Scheme shares on or after 14 March 1989 will be abolished.

21 From 6 April 1989 Schedule E emoluments will be assessed for the year in which they are

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

received instead of the year for which they are earned. There will be a transitional cost, but from 1992-93 when the transition is complete, there will be an annual yield of about £50 million.

22 As part of the introduction of Independent Taxation, outright gifts between husband and wife will be taken outside the rule which treats certain settlement income as the settler's for higher rate tax purposes. For certain other settlements the present rule will be extended to the basic rate producing a small revenue yield.

23 Legislation will be introduced to make clear the amount of UK tax that is deductible from UK tax credits to which non-residents may be entitled under a double taxation convention. This measure will prevent a potential Exchequer loss of about £15 million a year.

Income tax and corporation tax

24. From 1 January 1990, the rules for taxing life assurance companies' profits will be reformed:

to prevent the expenses of pension and general annuity business from being set against taxable income and gains of other life assurance business;

to spread the relief for the costs of acquiring new business (other than pension and general annuity business) over seven years, subject to transitional

arrangements in the first four years to phase out the present immediate relief; and

to reduce the corporation tax rate on income and capital gains allowable to policyholders to 25 per cent.

The yield in 1990-91 and the immediately following years is reduced by the proposed transitional arrangements, and by the carry-forward of unrelieved expenses from past years. The yield is likely to peak in 1995-96, diminishing thereafter. The yield in all years depends on developments in the industry, particularly in the level of new business, and is therefore highly uncertain.

25 The apportionment rules for close companies will be abolished. A higher rate of corporation tax of 40 per cent will be introduced for close investment companies which distribute less than a specified percentage of their profits. A close investment company will no longer get tax relief for interest payments, annual payments or management expenses unless these would have been deductible if paid by an individual.

26 The legislation relating to capital allowances for safety expenditure at sports grounds will be amended from 1 January 1989 to take account of the extensions of safety certificate requirements to regulated stands at undesignated sports grounds.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

27 Minor amendments will be made to the capital allowances legislation to correct defects and anomalies in advance of the consolidation of that legislation.

28 The period for which relief may be available for business expenditure incurred before a trade begins will be increased from three to five years. The cost of this proposal will take some years to build up and could amount of tens of millions of pounds.

29 The requirements for subcontractors in the construction industry to provide tax vouchers will be reduced, principally by aggregation of successive small payments onto a single voucher.

Income tax and capital gains tax

30 The main changes are:

an increase in the overall annual limit on investment in a Personal Equity Plan to £4,800;

within that an increase in the limit for investment in authorised unit trusts and investment trusts to £2,400, coupled with a new requirement that the trust must invest mostly in UK equities;

significant simplifications for plan managers; and

the facility for new share issues to be brought within plans.

The costs assume take-up in the region of 400,000 in the first full year. The cost is likely to reach £30 million after 5 years.

31. After 5 April 1989, if an unincorporated trader makes a trading loss and realises a capital gain in the same income tax year of assessment he will be able to set off the loss against the gain. [The estimated full year costs accrued in 1989-90 and 1990-91 are £50 million and £75 million respectively.]

Income tax, corporation tax and capital gains tax

32 In the light of recommendations of the Keith Committee, administrative changes will be made:

to update the system of monetary penalties for tax offences in line with inflation and remove obsolete penalties;

to introduce a uniform time limit of 20 years for recovery of tax lost through default;

to allow taxpayers further time to claim reliefs where an Inspector discovers that further tax is due;

to modernise the Inland Revenue's powers to obtain information about a taxpayer under enquiry, to allow questions to be put to the taxpayer, provide greater

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

safeguards for the taxpayer and protect audit papers and tax advice from disclosure by his accountant;

to amend the Inland Revenue's search powers to provide greater safeguards for the taxpayer;

to create a new criminal offence for the deliberate destruction of documents called for under the Inland Revenue's information powers;

to change the filing date for returns of PAYE and NIC deductions by employers from 19 April to 19 May, tighten up the penalties for filing gradually over a period of years, leading to the introduction of automatic penalties for all late filing (but not before 1995).

The effect on revenue in subsequent years is expected to be small.

33 From Budget Day the existing corporate deep discount legislation in Schedule 4 ICTA 1988 will be widened to include non-variable deep discounted securities issued by non-corporate borrowers. On a sale or redemption the accrued discount will be taxed as income. Any excess or shortfall will be taxed as a capital gain or loss unless the security is exemption from capital gains tax as a qualifying corporate bond. Where deep discounted securities have variable features so that the precise accrued discount at any particular time cannot be determined in advance (including certain index linked

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

bonds), the whole of the uplift between cost price and sale or redemption price will be taxed as income. The eventual yield is very uncertain but is estimated at around £50 million.

34 A tax charge will be imposed on UK investors on gains when they switch holdings within an offshore fund.

Corporation Tax

35 The profits limit for the small companies' corporation tax rate of 25 per cent for financial year 1989 will be raised from £100,000 to £150,000 and the limit for marginal relief will be raised from £500,000 to £750,000

36 From 1 January 1990 all unit trusts that are UCITS (Undertakings for Collective Investment in Transferable Securities) under the relevant European Communities legislation will be subject to corporation tax on their income at a rate of 25 per cent, with no relief being given for interest paid by them. The cost will rise to about £20 million from 1991-92 onwards.

37 Payments made by a company to an [employee share trust] will be deductible in calculating its corporation tax liability where the trust meets conditions aimed at ensuring the acquisition of shares in the company by its employees.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

42 Capital gains tax gifts relief (which allows deferral on gifts) will be restricted to certain types of gift, the main categories being gifts of business and heritage assets and gifts on which there is an immediate charge to inheritance tax. The revenue yield in 1991-92 is estimated at £40 million. The change will not affect gifts to charities or between spouses.

43 The capital gains tax rules applying to assets held by Lloyd's underwriters in their premiums trust funds will be amended to facilitate stock lending to market makers.

Capital Gains Tax and Corporation Tax

44 Changes will be made to the rules for the taxation of capital gains of foreign businesses with UK branches or agencies or with operations on the UK continental shelf. The main effect will be to counter possible developments which could lead to a significant loss of tax.

45 Technical changes will be made to clarify how the provisions in the Finance Act 1988 for rebasing the taxation of capital gains to 1982 should apply in certain special situations.

46 Chattels with a disposal value of less than £3,000 are exempt from charges on capital gains. The limit will be raised to £5,000.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

47 Certain sterling bonds will be exempted from capital gains tax and corporation tax on gains. The main effect will be to counter use of the indexation allowance in ways which could cause a significant loss of tax.

Capital gains tax and Inheritance Tax

48 Certain gifts to registered housing associations will qualify for capital gains tax deferral and inheritance tax exemption.

Inheritance Tax

49 The estimated full year cost of indexation attributable to taxable estates in 1989-90 is £80 million.

50. The facility for varying the disposition of a deceased person's assets will be limited to those variations making adequate provision for dependent relatives of the deceased.

Stamp Duty

51 The following stamp duties will be abolished from 1 April 1990:

the present ½ per cent ad valorem duty on the transfer of UK registered securities;

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

61 From 1 July 1990, VAT will be applied at the standard rate to fuel and power supplied to businesses.

62 From 1 July 1990, VAT will be applied at the standard rate to water and sewerage services supplied to industry.

63 VAT relief for charities will be extended to charity and certain other fund-raising events, medical sterilising equipment and classified and certain other types of advertising.

64 From 1 May 1989, all cars used by manufacturers for research and development purposes will be relieved of VAT.

Excise duties

65-72 There will be no change in the rates of duty on alcoholic drinks, tobacco products and most hydrocarbon oils.

73 The duty arrangements for made-wine will be brought into line with those applicable to wine [of fresh grapes] by prohibiting duty-paid blending.

74 The rules for determining the original gravity of beer for duty purposes will be clarified.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

75 The duty on unleaded petrol will be reduced by the equivalent of 3.2p a gallon, 0.7p a litre (including VAT). A surcharge of 5p a gallon, 1.1p a litre (including VAT), will be introduced on 2 and 3 star petrol.

Vehicle excise duties

76 There will be no change in the duties on cars, light vans, motor cycles and most lorries.

77 From 15 March 1989, the number of duty rates for taxis, coaches and lorries will be reduced from over sixty to five and rates will be adjusted.

78 From 15 March 1989, the rates of duty on certain rigid lorries will be increased to bring them more into line with rates for articulated vehicles of similar gross weight. The rate of duty for special types capable of carrying very long, wide or heavy loads will be increased to £3,100.

Other

79 A pilot scheme making certain registration numbers available for sale to the public will begin in December 1989.

80 From 1 January 1990, the additional payments made by ITV programme contractors will be assessed on a mixture of net advertising revenue and profits.

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

81 Criminal sanctions will be provided against unlawful disclosure of information relating to an identifiable taxpayer by employees or former employees of revenue departments.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

chex.md/keep/aa.4 BUDGET CONFIDENTIAL

FROM: A C S ALLAN

DATE: 22 February 1989

CHIEF SECRETARY
FINANCIAL SECRETARY
PAYMASTER GENERAL
ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR ANSON
DAME A MUELLER
MR WICKS
MR HARDCASTLE
MR BYATT
MR SCHOLAR
MR CULPIN
MR SEDGWICK
MR RILEY
MR MACPHERSON
MISS J SIMPSON
MRS CHAPLIN
MR TYRIE
MR CALL
SIR A BATTISHILL IR
MR BEIGHTON IR
MR ISAAC IR
MR PAINTER IR
MR UNWIN C&E
MR JEFFERSON SMITH C&E

cc Mr Gilhooly
Mr Matthews
Mr G Bush - IR
PS/IR
Mr P R H Allen - C&E
Mr McGivern - IR (item ii)
Mr Elliott - IR (item ii)
Mr Wilmott - C&E (item iii)
Mr Corlett - IR (item (iv))
Miss M Hill - IR (item (iv))
Mr Monck (items (iv) & (v))
Mr Neilson (item iv)
Mr McIntyre (item (v))
Mr Mace - IR (item (v))
Mr Gieve (items (vi) & (vii))
Mr Pickford (item (vi) & (vii))

BUDGET OVERVIEW MEETING: AGENDA FOR SIXTH OVERVIEW MEETING ON MONDAY 27 FEBRUARY

... I attach the agenda for the sixth overview meeting, on Monday 27 February at 3.00pm.

pp. A C S ALLAN

AGENDA FOR SIXTH OVERVIEW MEETING: MONDAY, 27 FEBRUARY 1989

Main items

(i) Budget Scorecard:

Mr Culpin's note of 23 February;
Mr Culpin's note of 24 February on "Revised Budget Package".

(ii) CGT set-off against trading losses (Starter 216):

PS/Chancellor's note of 23 February to PS/Financial Secretary; Financial Secretary's note of 22 February; Mr Elliott's (IR) note of 20 February to Financial Secretary

(iii) Unleaded Petrol:

Mr Wilmott's (C&E) note of 23 February

(iv) Stamp Duty:

Ms Hill's (IR) note of 22 February to Financial Secretary ("Stamp Duty: Paperless Transactions"); Mr Monck's note of 24 February (to be circulated)

(v) NICs:

Further discussion

(vi) Presentation:

Mr Culpin's minute of 16 February
Mr Culpin's note of 24 February on "Revised Budget Package".

(vii) Press Notices:

Mr Flanagan's note of 23 February; Mr Denton's (IR) note of 23 February and enclosures; Mr P R H Allen's (C&E) note of 23 February and enclosures.

Other items

(viii) Tax relief for abandonment and nuclear provisions

Mr Scholar's note of 23 February.

chex.ps/aa/11

BUDGET SECRET
BUDGET LIST ONLY

REF NO. ACSA/89/12 NOT TO BE COPIED
COPY NO. 3 OF 50.

RECORD OF THE SIXTH BUDGET OVERVIEW MEETING:
AT 3.00 PM ON MONDAY 27 FEBRUARY 1989

Present

Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Dame A Mueller
Mr Hardcastle
Mr Byatt
Mr Monck (Items4-5 only)
Mr Scholar
Mr Culpin
Mr Riley
Mr Gieve (Items 1-7 only)
Mr Gilhooly (Items 1-7 only)*
Mr McIntyre (Item 5 only)
Mr Neilson (item 4 only)
Mr Pickford (Items 5-7 only)
Mr M Williams (Item 8 only)
Mr Macpherson
Mrs Chaplin
Mr Tyrie
Mr Call

Sir A Battishill - IR
Mr Beighton - IR
Mr Isaac - IR
Mr Painter - IR
Mr McGivern - IR
(items 2&8 only)
Mr Elliott - IR (item 2 only)
Mr Corlett - IR (item 4 only)
Miss M Hill - IR (item 4 only)
Mr P Lewis - IR (item 5 only)
Mr Mace - IR (item 5 only)
Mr Johns - IR (item 8 only)
Mr Prescott - IR (item 8 only)
Mr J Reed - IR (item 8 only)

Mr Unwin - C&E
Mr Jefferson Smith - C&E
Mr Wilmott - C&E
(items 1&3 only)

(*receives full minutes)

Papers:

(i) **Budget Scorecard:**

Mr Culpin's note of 23 February;

Mr Culpin's note of 24 February on "Revised Budget Package"

(ii) **CGT set-off against trading losses (Starter 216):**

PS/Chancellor's note of 23 February to PS/Financial Secretary; Financial Secretary's note of 22 February; Mr Elliott's (IR) note of 20 February to Financial Secretary

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

(iii) **Unleaded Petrol:**

Mr Wilmott's (C&E) note of 23 February

(iv) **Stamp Duty:**

Ms Hill's (IR) note of 22 February to Financial Secretary ("Stamp Duty: Paperless Transactions"); Mr Monck's note of 24 February

(v) **NICs:**

Various papers (including Mr Lewis's note of 27 February on car scales, circulated at the meeting)

(vi) **Presentation:**

Mr Culpin's minute of 16 February
Mr Culpin's note of 24 February on "Revised Budget Package"

(vii) **Press Notices:**

Mr Flanagan's note of 23 February; Mr Denton's (IR) note of 23 February and enclosures; Mr P R H Allen's (C&E) note of 23 February and enclosures.

(viii) **Tax relief for abandonment and nuclear provisions:**

Mr Scholar's note of 23 February.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

<u>**Scorecard**</u>

In discussion the following points were made:

(i) there was a strong case on presentational grounds for getting the first year cost of the package, on an indexed basis, below £2 billion if possible One option was to drop the change to a receipts basis for Schedule E. It was noted that, without this change, it might be necessary to introduce an additional anti-avoidance provision to counter a recent Court judgement; and if we did not make the change this year, it might be some years before it was possible to bring it forward again, because of work on independent taxation etc. However, on balance, it was agreed to drop this measure;

(ii) it was agreed that the <u>CGT chattels exemption limit</u> should be raised from £3,000 to £6,000, rather than to £5,000. This should have a negligible cost;

(iii) there were still some doubts about the yield from the new <u>ITV levy</u>. We were waiting for a reply from the Home Secretary;

(iv) all the main instructions were now with Counsel (except for those relating to Committee Stage amendments). There were still some decisions to be taken on life assurance, but these, although complex, were second order;

(v) there was some concern about the amount to be introduced at Committee; this already totalled some 20 pages. The lengthiest provisions were those on CGT avoidance, but these should not be contentious. It would be desirable to get the (short) provisions on the Netherlands Antilles into the Bill as published. It would not be sensible to include the anti-avoidance provision on trusts in the

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

Bill as published, since we were waiting for the House of Lords' judgement. It was possible that the Department of Energy might not be in a position to propose legislation on electricity privatisation in time for this year's Finance Bill;

(vi) the decisions on excise duties other than petrol were confirmed. It was agreed to go ahead with the VAT deregulation package;

(vii) on life assurance, it would be helpful to see the costs/yields from the individual measures. The best presentation would probably be to put ring-fencing pensions business first, and present the other measures as producing no net yield. It would be necessary to check whether, over a run of years, it was true to say that the whole of the net yield came from ring-fencing pension business.

CGT set-off against trading losses (Starter 216)

2. The Chancellor noted that this starter had arisen from a Budget representation by the Secretary of State for Trade and Industry. It was intended to provide a "lollipop" to the self-employed. There were, however, other areas of possible assistance to the self-employed (eg NICs) which might be more attractive. On balance, he was inclined to drop the starter for this year. It would be reinstated as a starter for next year's Budget. This was agreed.

Unleaded petrol

3. The Chancellor noted that the proposed differentials were lower than those in Germany. The price differential in the UK would, however, be the third largest in Europe.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

4. In discussion, the following points were made:

(i) it could be argued that loading tax on 2 star was unnecessary, given the secular decrease in consumption of 2 star. On the other hand, encouraging the phasing out of 2 star would release storage capacity;

(ii) although the trend in consumption was already moving towards unleaded petrol, there was a clear expectation that further action would be taken in the Budget;

(iii) the calculations in the paper assumed that the duty change would all be passed on to pump prices. It would be important to ensure as far as possible that duty changes were passed on, and that public statements about the effect on pump prices could be substantiated.

5. The Chancellor said that the package in the paper should be implemented. However, the differential between unleaded petrol and 4 star leaded should be increased by 0.8 pence duty plus VAT, to ensure that the resulting pump price differential could be safely described as about 2 pence a litre. He invited the Economic Secretary to consider how best to present this package. The general presumption that unleaded petrol gave rise to a less effective performance should be countered; some evidence might be gathered from the oil companies, and they might be invited to make some statements here themselves.

Stamp duty

6. The Financial Secretary said that three problems had been identified:

(i) deals involving two non-resident parties might not be covered by the SDRT charge (the "black hole" problem);

(ii) double or multiple charges to SDRT;

(iii) situations where a charge was legally due, but impossible to collect.

The papers suggested that enabling powers, on which Regulations could be based, might be sufficient to deal with the majority of these problems during the interim period. It might, however, be necessary to introduce an ESC to deal with problems arising from the Water sale.

7. In discussion, the following points were made:

(i) the problems with the "black hole" arose from the dematerialisation of the transactions, rather than from the abolition of stamp duty;

(ii) the potential problems created by the Water sale could be overcome by the co-operation of the Stock Exchange. For example, calculation of the tax due in the first six weeks could be done via TALISMAN, and the tax liability on further paperless transactions might be done through intermediaries; there were, however, limits to which the Stock Exchange could reasonably be expected to set up arrangements for the payment of tax when this was not now done;

(iii) the implications of stamp duty abolition for documents which must at present legally be stamped was a matter for the DTI; separate legislation on this might be needed;

(iv) it was possible that the Abbey National conversion in July could produce problems similar to those for Water. In these circumstances there was little to be gained from bringing the start date for abolition of stamp duty forward to 1 January 1989: that could still leave

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

transitional problems and would add to the first year cost of the Budget package.

8. The Chancellor, summing up, said that the regulation-making powers for the interim period should be included in the Finance Bill. 1 April 1990 was confirmed as the start date. He asked the Inland Revenue for a note, in consultation with the Financial Secretary and the Economic Secretary, on how the measures could best be presented.

NICs

9. The Chancellor said what was proposed was a worthwhile, though expensive, reform of employee NICs at the lower end. Of the various options, he thought the simplest to present would be to charge NICs at 2 per cent on earnings up to the LEL and 9 per cent thereafter. He preferred this presentation to the alternative of describing the entry fee as 2 per cent of the LEL, since people were used to paying NICs on all their earnings. There were two subsidiary issues to be settled: should the UEL be raised (and if not, should car scales be increased further); and should NICs for the self-employed be cut.

10. In discussion of the UEL, the following points were made:

(i) raising the UEL would mean that the £3 per week benefit from the NICs package was cut off at a sensitive part of the earnings distribution;

(ii) looked at simply in revenue and expenditure terms, raising the UEL looked a good buy: the discounted additional revenue was probably twice the discounted costs from extra SERPS entitlements;

(iii) raising the UEL would increase the marginal tax + NIC rate for 700,000 people by 9 per cent.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

11. On the potential for an offsetting increase in car scales if the UEL was not raised, the following points were made:

(i) there was an awkwardness of timing, because the NIC benefit would be received only from 1 October whereas increases in car scales would bite before then. The Revenue were investigating whether it was possible to time the recoding of car scales to coincide with the NIC reductions, but that looked very complicated;

(ii) the options for the increase in car scales ranged from 30 per cent to 40 per cent. On the one hand, the losers from a 40 per cent increase coupled with the NIC package were concentrated on 'perk' cars and on those with larger incomes, and most of the losses were quite small; and since there was a widespread expectation that car scales would be raised very substantially, a 40 per cent increase would not be received with great surprise. On the other hand, a 40 per cent increase would raise real problems with those whose business mileage was high and whose personal use was small.

Summing up, the Chancellor said it was agreed that the UEL should not be increased, and car scales should be increased by a third. The recoding of the new car scales should follow the normal timetable.

12. There was considerable discussion about whether, and if so how large, a cut should be made in NICs for the self-employed. An increase in Class IV rates had already been ruled out, so the issue was whether Class II rates should be cut. The present formula set Class II rates at the sum of employer and employee NICs at the LEL (less 5p to allow for the fact that the self-employed did not qualify for unemployment benefit). On that basis, Class II rates would be cut from £4.25 to £2.95. There was

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED

also a strong case for cutting Class III contributions in line with the cut in employee NICs. In discussion the following points were made:

(i) this would in one sense be generous to the self-employed, since they paid NICs at the Class II rate all the way up to an income of £5,000 a year;

(ii) on the other hand, it would be very difficult to justify not following the formula and making the cuts for the self-employed; and it would be widely perceived as unfair if Class III rates were cut but not Class II;

(iii) it would be possible to forget the '5p' in the formula, but on balance it was agreed there was little to be gained in pursuing that;

(iv) the review of NICs for the self-employed was unlikely to be relevant to this decision: that was looking at the longer-term prospects for merging Class II and Class IV NICs;

(v) it would be very difficult to justify a position where less NICs were paid in respect of an employee on the LEL than a self-employed person would pay on the same earnings;

(vi) on balance, it was not attractive to make a further change to the tax relief applicable to self-employed NICs.

Summing up, the Chancellor said it was agreed that Class II NICs should be cut to £2.95; and that an appropriate cut should be made in Class III NICs.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

Presentation

13. The Chancellor said that a separate meeting on presentation would be arranged.

Press notices

14. The Chancellor thanked the Revenue and Customs both for producing drafts of the press notices to the tight deadline that had been set, and also for the generally high quality of the drafts. He asked Ministers to check through the drafts carefully on the subjects for which they had been allocated responsibility for presentation, and pass any comments back to Customs and the Revenue. General points on presentation could be covered at the separate meeting being arranged. It was possible that specific meetings might be needed on the presentation of the proposals on pensions and on life assurance.

Tax relief for abandonment and nuclear provisions

15. Mr Scholar said that the arguments in the paper proceeded from the assumption that electricity provisioning would be confined to reprocessing. On that basis Ministers could consider whether they were attracted by the oil industry's proposal on alienated funds, or its proposals on CT.

16. In discussion, the following points were made:

(i) the read-across from the alienated funds proposal for oil to electricity was limited. There were no real equivalents to alienated funds in the electricity industry. Moreover, the different tax regime for oil (including PRT) could be used to justify special treatment;

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

(ii) on the other hand, the nuclear electricity industry would argue that it was a fortiori special;

(iii) the present position for nuclear generation of electricity was as follows. There were three categories of expenditure: decommissioning of plant; reprocessing/removal of the nuclear core in old plant; current reprocessing of waste. Subject to final examination, the position under present legislation was: decommissioning of plant was clearly capital expenditure and provisioning would not attract tax relief; provisioning for current reprocessing would be allowable under existing law; provisioning for reprocessing fuel from old plant would possibly be allowable. It would not, however, be possible to reopen decisions concerning years for which the tax decisions were settled;

(iv) it seemed likely that the extent of allowable expenditure under existing law would be sufficient to satisfy the Secretary of State for Energy;

(v) as far as the oil industry was concerned, alienated funds would be particularly attractive to the oil companies if tax rates on North Sea oil extraction were reduced. The more genuinely alienated were the funds, the less attractive they would be to the companies;

(vi) the alternative package set out in paragraph 10(i) of Mr Scholar's note should be acceptable to a sufficient number of companies in the industry.

17. After further discussion, the <u>Chancellor</u> summed up that tax relief on alienated abandonment funds should not be pursued further at this stage. Instead, the alternative package at paragraph 10(i) of Mr Scholar's note should be further explored, with a view to containing its repercussions within acceptable

limits. Further work should be undertaken in-house; subject to points arising from that, discussions should be opened up with the oil industry. Tax relief for alienated funds should be reconsidered only if it did not prove practicable to arrive at a satisfactory package on the basis proposed.

ACSA

A C S ALLAN

28 February 1989

Distribution

Those present
Mr Wicks
Mr Sedgwick
Mr S Matthews
Miss J Simpson
Mr G Bush - IR
PS/IR
Mr P R H Allen - C&E

(note: **all members of the permanent Overview cast receive the full minutes, even where they did not attend all the items).**

BUDGET SECRET
BUDGET LIST ONLY
NOT TO BE COPIED