PO-CH/NL/0486
PART A

PO CH/NL/0486
PART. A

PO CH/NL/0486
PART. A

1989 BUDGET
DEBATE

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM

Budget Debate.

13

486

PWP

CHANCELLOR OF THE EXCHEQUER

Agreed Newton Dunn
Fraser Man

PS - check on their
availability & report
back. I will then
speak to them re
margins of cost?
(post pre-
Christmas
Jordan)

PS Has
J. Wakeham
a date
yet? Nov
in diary

bd.40 CONFIDENTIAL [May not want to discuss @ Prayers yet?]

Budget GP

FROM: B O DYER
DATE: 28 February 1989

01-270 4520

BF next PM Weekend

Nelson/Forsyth Thurs/Mon

Ch

Could have John Moore, but don't want him to get too much credit!

AA

(Vmin Mr 8 discuss with PMC lunch Stated)

MR ALEX ALLAN Ch
(if not already resolved)

**BUDGET DEBATES : 1989**

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

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

<u>**Tuesday 14 March**</u>

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

<u>**Wednesday 15 March**</u>

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

† I am pursuing the Whips on this.

__Thursday 16 March__

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

__Monday 20 March__

3.30 to 10pm: Budget Debates, concluding day (Secretary of State for Employment to open for the Government with the Chancellor of the Exchequer winding up).

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

3. It would be helpful to know the Chancellor's wishes prior to next week's Business Statement - ie by Wednesday 8 March.

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

Brian

B O DYER

1136/29

**BUDGET 1988**

**SUMMARY OF DEBATE AND SPEAKERS**

| | | | |
|---|---|---|---|
| DATE OF BUDGET | 15.3.88 | Vol. 129 | Col 995-1018 |
| Date of Budget debate | 16.3.88 | Vol. 129 | Col 1118-1200 |
| | 17.3.88 | Vol. 129 | Col 1252-1320 |
| | 21.3.88 | Vol. 130 | Col 41-113 |

15 MARCH (BUDGET DAY)

| | |
|---|---|
| Nigel Lawson (C/Ex) | Col 995-1018 (Budget Statement) |
| Neil Kinnock | Col 1019-1023 (Opposition Reply to Budget) |

16 MARCH (DAY 1)

| | |
|---|---|
| Mr John Smith | Col 1118-1128 |
| Mr John Major | Col 1128-1140 |
| Mr Bruce Milan | Col 1140-1142 |
| Mr A J Beith | Col 1146-1152 |
| Mr Norman Lamont | Col 1194-1200 |

17 MARCH (DAY 2)

| | |
|---|---|
| Mr Kenneth Clarke (Chancellor of the Duchy of Lancaster & Minister of Trade & Industry) | Col 1252-1266 |
| Mr Robin Cook | Col 1263-1270 |
| Mr John Biffen | Col 1270-1273 |
| Mr Battle | Col 1290-1293 |
| Mr Chris Smith | Col 1310-1314 |
| Mr Peter Lilley | Col 1314-1320 |

21 MARCH (DAY 3)

| | |
|---|---|
| Mr Norman Fowler (S of S for Employment) | Col 41-46 |
| Mr Bryan Gould | Col 46-53 |
| Mr Edward Heath | Col 54-58 |
| Mr David Steel | Col 58-61 |
| Mr John Redwood | Col 80-83 |
| Mr Gordon Brown | Col 100-107 |
| Mr Nigel Lawson (C/Ex) | Col 107-113 |

BUDGET 1987

SUMMARY OF DEBATE AND SPEAKERS

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

17 MARCH (BUDGET DAY)

| | |
|---|---|
| Nigel Lawson (C/Ex) | Col 815-828 (Budget Statement) |
| Neil Kinnock | Col 229-836 (Opposition Reply to Budget) |

18 MARCH (DAY 1)

| | |
|---|---|
| Mr Roy Hattersley | Col 942-954 |
| Mr John MacGregor (CST) | Col 955-965 |
| Mr Roy Jenkins | Col 965-970 |
| Dr Oonagh MacDonald | Col 970-1008 |
| Mr John Moore (FST) | Col 1008-1014 |

19 MARCH (DAY 2)

| | |
|---|---|
| Mr Kenneth Clarke (Paymaster General & Minister for Employment) | Col 1055-1069 |
| Mr John Prescott | Col 1069-1076 |
| Mr George Gardiner | Col 1082-1089 |
| Mr Keith Raffon | Col 1109-1113 |
| Mr Peter Brooke MST | Col 1128-1135 |

23 MARCH (DAY 3)

| | |
|---|---|
| Mr Paul Channon (S of S for Trade and Industry | Col 22-30 |
| Mr John Smith | Col 29-37 |
| Robert Sheldon | Col 40-44 |
| Mr Ian Wrigglesworth | Col 84-89 |
| Mr Nigel Lawson | Col 105-111 |

# BUDGET 1986

## SUMMARY OF DEBATE AND SPEAKERS

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

**18 MARCH (BUDGET DAY)**

| | |
|---|---|
| Nigel Lawson (C/Ex) | Col 166-184 (Budget Statement) |
| Neil Kinnock | Col 185-213 (Opposition Reply to Budget) |

**19 MARCH (DAY 1)**

| | |
|---|---|
| Mr Roy Hattersley | Col 305-312 |
| Mr John MacGregor CST | Col 312-324 |
| Mr Roy Jenkins | Col 324-329 |
| Dr Oonagh MacDonald | Col 372-377 |
| Mr John Moore FST | Col 377-384 |

**20 MARCH (DAY 2)**

| | |
|---|---|
| Mr Kenneth Clarke (Paymaster General & Minister for Employment) | Col 424-438 |
| Mr John Prescott | Col 438-450 |
| Mr Ian Wrigglesworth | Col 455-463 |
| Mr Ian Stewart EST | Col 504-509 |

**24 MARCH (DAY 3)**

| | |
|---|---|
| Mr Norman Tebbit (Chancellor of the Duchy of Lancaster) | Col 628-638 |
| Mr John Smith | Col 638-648 |
| Mr Terry Davis | Col 694-700 |
| Mr Nigel Lawson | Col 700-734 |

BUDGET 1985

## SUMMARY OF DEBATE AND SPEAKERS

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

### 19 MARCH (BUDGET DAY)

| | |
|---|---|
| Nigel Lawson (C/Ex) | Col 787-804 (Budget statement) |
| Neil Kinnock | Col 805-810 (Opposition reply to budget) |

### 20 MARCH (DAY 1)

| | |
|---|---|
| Mr Roy Hattersley | Col 873-883 |
| Mr Peter Rees CST | Col 883-896 |
| Richard Wainwright | Col 896-900 |
| Dr Oonagh MacDonald | Col 949-955 |
| Mr John Moore FST | Col 955-962 |

### 21 MARCH (DAY 2)

| | |
|---|---|
| Mr Tom King (S/S Emp) | Col 1017-1026 |
| Mr John Prescott | Col 1026-1034 |
| Mr Tony Blair | Col 1072-1078 |
| Mr Barney Hayhoe MST | Col 1078-1083 |

### 25 MARCH (DAY 3)

| | |
|---|---|
| Mr Norman Tebbit (S/S Trade and Ind) | Col 32-42 |
| Mr John Smith | Col 42-51 |
| Mr Terry Davies | Col 98-105 |
| Mr Nigel Lawson | Col 105-112 |

PRIME 1984

## SUMMARY OF DEBATE AND SPEAKERS

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

### 13 MARCH (BUDGET DAY)

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

### 14 MARCH (DAY 1)

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

### 15 MARCH (DAY 2)

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

### 19 MARCH (DAY 3)

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

COPY NO 1 OF 9

13.

FROM: MARK CALL
DATE: 3rd March 1989

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mrs Chaplin
Mr Tyrie

POST-PRAYERS DISCUSSION: 3 MARCH 1989

1. THE BUDGET DEBATE

Tony Newton would be asked to open the debate on the Thursday, and Norman Fowler on the Monday.

2. BUDGET PACKAGE

With the exclusion of the abolition of stamp duty, NICs reform for the self-employed, and the VAT deregulation package, the total second year cost was now below £3½ billion. After discussion, it was agreed that:

- the Schedule E receipts basis should be included

- married women optants should be excluded

- the CGT set-off for unincorporated businesses could be included if affordable, ie second year cost below £2½ billion

- an increase in the small earnings exemption limit for the self-employed could be kept in reserve as a possible concession in Committee Stage.

pp MARK CALL

cst.rj/docs/8.3.1

BUDGET CONFIDENTIAL

FROM: A G TYRIE
DATE: 8 March 1989

FINANCIAL SECRETARY

cc: Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Mr Culpin
Mr Scholar
Mr Macpherson
Mr Kuczys
Mrs Chaplin
Mr Call

**BUDGET DEBATE: A MINOR POINT ON PENSIONS**

We will present this package partly as a further encouragement to personal pensions. But, as first sight the fact that we're setting both the PPP contributions cap and the occupational scheme earnings cap at the same level might mislead people into thinking that we were clamping down on both equally.

2. I am pretty sure that it can be shown, actuarially, that a high earner would be able to exceed the occupational earnings cap and therefore be better off taking the PPP route. I think it might be worth making this point in the budget debate.

A G TYRIE

a

Relate to your point re Budget speech

Right. Desirable to have a mention on this, as Kuczys notes, in the winding up as well as the passage for the Budget speech.

BUDGET CONFIDENTIAL

**Inland Revenue**

International Division
Somerset House

FROM: J P B BRYCE
DATE: 9 MARCH 1989

1. MR HOUGHTON
2. FINANCIAL SECRETARY

RESIDENCE: BUDGET DEBATES

1. I attach a draft statement on the residence proposals which you may wish to include in your winding up speech during the Budget Debates. The draft follows the line which you proposed in your minute of 17 February to the Chancellor, and which was endorsed at the Overview meeting on 20 February subject to further consideration being given to whether any specific mention should be made of the intention to stop loopholes.

Press Release

2. You may wish to consider whether publicity should be given to your statement by means of a Press Release. While wishing to adopt a generally low-key approach on this subject, the announcement of the dropping of the world income approach for non-UK domiciled foreigners is an important one for those concerned. And there will be many others interested in the Government's intentions in this area. If you thought there was something to be said for this, I attach a draft Press Release for your consideration.

---

c PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Gieve
Mr Gilhooly
Miss Hay
Mrs Chaplin
Mr Tyrie
Mr Isaac
Mr Beighton
Mr Houghton
Mr Bush
Mr Bryce
Mr Richardson
Miss McFarlane
PS/IR

Further Consultation

3. We assume that a further full-scale consultative exercise based on a new published document would be undesirable. If however some kind of consultation is to continue we would propose, with your agreement, to write to the representative bodies and firms of accountants, lawyers etc who commented on the consultative document:

- drawing attention to the terms of your statement,

- indicating that we may in due course be contacting some of them for further discussions, and

- inviting any further comments in the light of your statement.

4. The statement is in very general terms. The last sentence however indicates the possibility of legislation next year. There would be difficulties about making a reference to continuing consultations without a 1990 objective. If there were no such objective, the question of the Government's ultimate intentions in this field would inevitably arise and the greater the uncertainty, the less effective the consultative process might be. Although even a qualified commitment of the kind suggested is somewhat of a leap in the dark, you will wish to consider how an announcement without it would be interpreted and the impact it would have on the consultative exercise itself.

J P B BRYCE

RESIDENCE: DRAFT STATEMENT FOR FINANCIAL SECRETARY IN BUDGET DEBATES

Last July, the Government issued a consultative document which considered the possibility of simplifying the rules determining residence here for tax purposes and of relating liability to UK tax more closely to the degree of an individual's connection with this country.

It has always been recognised that any changes in this area must take account of the wider economic implications and, in particular, ensure that our tax environment is broadly comparable with other developed countries. This country derives considerable benefits from those who have come here from overseas to carry on business and other activities. We have no wish to see them leave.

I am grateful for the many responses which we received. They indicated broad support for simplifying the residence rules and for taking appropriate action against some blatant abuses of the present regime. On the other hand, considerable concern was expressed about the implications of moving to a world income basis of liability for certain categories of people who are not domiciled here.

We have now decided that the world income approach would not provide a satisfactory basis of taxation for non-UK domiciled foreigners who are resident in this country. We do not therefore intend to pursue it further for this particular group. An alternative approach considered in the document was a strengthening of the present remittance basis. It was generally recognised however that this could impose considerable additional complexity and substantial compliance costs.

I indicated at the outset of the consultative exercise that any changes in this field needed careful consideration and discussion. Many of the comments echoed this, and stressed the need for a longer period of consultation. I realise that the absence of any proposals for action this year will disappoint those who pressed for the early introduction of simpler and more objective residence rules. But these rules cannot be considered in isolation.

We intend therefore to continue the process of consultation with a view to developing possible proposals for legislation next year.

CONFIDENTIAL

DRAFT

# INLAND REVENUE
# Press Release

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

[ ] March 1989

## PERSONAL RESIDENCE

During the debate on the Budget on 15 March, the Financial Secretary to the Treasury, the Rt Hon Norman Lamont MP, announced that the Government is to continue the process of consultation on possible changes to the present residence rules and the scope of UK taxation on various categories of resident individuals.

He indicated that for non-UK domiciled foreigners who are resident in this country, the Government had concluded that the taxation of worldwide income and gains would not provide a satisfactory basis of taxation. It was not intended therefore to pursue this approach further for this group.

NOTES FOR EDITORS

### Background

1. In July last year the Inland Revenue issued a consultative document entitled "Residence in the United Kingdom: The Scope of UK Taxation of Individuals". The document invited comments on the possibility of:

- introducing new rules for determining whether an individual is resident in the UK;

- bringing the taxation of foreign domiciled residents more into line with that of UK domiciled residents; and

- introducing measures to counter various avoidance arrangements in the residence field.

2. In announcing the issue of this document, the Financial Secretary said that the aim was to move in the direction of greater simplicity, certainty and neutrality, and to relate liabilities to UK tax more closely to the degree of an individual's connection with this country.

chex.pj/jc/10.3.4

BUDGET CONFIDENTIAL ~~BF to mpm~~ 13/3

FROM: MRS JUDITH CHAPLIN
10th March 1989

CHIEF SECRETARY

MP

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

**BUDGET DEBATE: CHIEF SECRETARY'S SPEECH**

You asked for comments on the draft of your speech.

2. **Paragraph 2**. I am not sure you can cherry-pick a ragbag.

3. **Paragraph 8**. The beginning of this paragraph would be clearer if you had "recently" after "because" in the second line. On a more substantive point, is it wise to quote John Smith's words as I think this somehow gives them credibility. If you are going to use this argument would it not be better to paraphrase it, and also rubbish it at the same time since there was no overall change in the tax burden in the last Budget and a £4 billion reduction in the income tax could hardly have caused a £14 billion trade deficit.

4. **Paragraph 13**. Was it independent taxation that "inevitably limited the scope for changes this year"?

5. **Paragraph 14**. I would omit "It does not boost demand".

6. **Paragraph 20**. "Uniquely well-targeted" seems to me to be over-egging the pudding, as the Opposition will no doubt have worked out what has been "wasted" by not abolishing the UEL. (Indeed, I think this will be the excuse they give for not voting for the NICs reform.)

7. **Paragraph 32**. Should not the first sentence read "direct share ownership" or "share ownership by individuals"? And is it true that companies found it increasingly difficult to raise equity capital?

8. <u>Paragraph 34</u>. When the changes on PEPs are announced those who wanted front-end tax relief will say not enough has been done, but others will welcome the changes. If there is a sufficiently positive reaction your speech would be a good opportunity to publicise this.

9. <u>Paragraph 39</u>. I have already commented in an earlier minute to the Chancellor that I think it dangerous to say that the abolition of the earnings rule is "the <u>single unredeemed</u> tax pledge from the 1979 Manifesto", as it encourages people to reread the 1979 Manifesto and there are some singularly unhelpful sentences in there.

JC

JUDITH CHAPLIN

MP

BUDGET CONFIDENTIAL

**Inland Revenue**

Savings and
Investment Division
Somerset House

FROM: A W KUCZYS

10 MARCH 1989

1. MR CORLETT AWC 10/3

2. FINANCIAL SECRETARY

BUDGET DEBATES: WINDING UP SPEECH: 15 MARCH

I attach the following material for you to draw on in your winding-up speech in the Budget Debates:

1. Wider Share Ownership

[a. a piece on the share ownership survey (supplied by Mr Neilson)*]

b. a piece on employee share ownership (by Mr Williams)

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cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
Mr Scholar
Mr Culpin
Mr Odling-Smee
Mr Ilett
Mr Neilson
Mr Macpherson
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Isaac
Mr Corlett
Mr Bush
Mr Farmer
Mr Nield
Mr Kuczys
Mr Walker
Mr Hinton
Mr N Williams
PS/IR

*Mr Neilson will supply this direct
AWK

c. personal equity plans (especially their administration, but also the case against "Loi Monory").

The section on employee share ownership/employee participation contains references to profit-related pay, since we understand that the Paymaster General will not be speaking during the course of the Budget Debates.

Mr Nield is supplying separately a passage on unit trusts, which do not seem to belong under "wider share ownership".

2. Pensions

d. a survey of the pensions package (by Mr Hinton), referring to the point suggested by Mr Tyrie (his note of 8 March).

AWK

A W KUCZYS

The growth in employee share ownership under this Government has been a remarkable success story. More than 1.75 million employees have now benefited under the approved all-employee share schemes, receiving shares or options over shares worth initially over £4 billion. In 1987/88 alone nearly 1 million employees received shares or interests in shares worth over £1 billion. The number of approved share schemes continues to grow at an encouraging rate. The Revenue have now approved nearly 800 profit-sharing schemes and over 800 savings-related share option schemes, testifying to employers' increasing realisation of the benefits which employee participation in their company's success can bring.

These are impressive figures but we have no intention of stopping here. We are now proposing a whole range of measures designed to maintain the momentum created so far.

Substantial increases are to be made in the tax relief limits for employees participating in the all-employee share schemes. Together with the doubling of the maximum share price discount permitted in savings-related share option schemes this will make these schemes even more attractive.

In addition, the relaxation of the material interest test should make it easier for some companies to set up, and for more employees to participate in, employee share schemes.

[A planned re-launch of revised and updated Revenue publicity about these schemes later in the year will, we hope, help even more employers to find out what is available to them and introduce new schemes.]

My rt hon Friend also announced a new tax relief for employers wishing to promote employee share ownership. ESOPs - employee share ownership plans - involve trusts set up for the benefit of a company's employees, which invest in the company's shares and then distribute them to the workforce. It is already possible to establish an ESOP in the UK. There are a number in existence here. But I have been impressed by the argument that there is some uncertainty about whether, in certain circumstances, a company will get tax relief for contributions to an ESOP trust.

We propose to remove any uncertainty by providing that corporation tax relief will be due for payments made to ESOP trusts which satisfy certain requirements - for example, that the trust invests in shares promptly and distributes them within a reasonable time to all employees on a similar terms basis. But I regard it as particularly important that this wider tax relief is properly targeted to ensure that the objectives we are setting for these trusts are met. If, therefore, the trustees fail to distribute shares within a reasonable time, or to meet other requirements, they will be charged to tax at 35% in order, broadly, to recover the corporation tax relief which has turned out not to be due.

In addition to the specific corporation tax relief, the relaxation of the material interest test to which I referred earlier should also assist the introduction of this new kind of employee share ownership arrangements.

NB NOT YET CLEARED WITH DTI

I should underline that the Government has taken a comprehensive approach to dealing with the legislative barriers faced by ESOPs. Company law currently restricts the extent to which companies can give financial assistance to ESOP trusts. My rt hon and noble Friend, the Secretary of State for Trade and Industry, intends tabling amendments to this year's Companies Bill to remove this restriction.

Many claims have been made in support of ESOPs. By removing what was represented as the main obstacle to their development we hope that companies will now be encouraged to establish ESOPs in greater numbers than at present. In particular, companies which are perhaps unable or unwilling to introduce and operate the existing approved employee share schemes might, we hope, see this as the opportunity for extending share ownership to their employees too.

I stress that our underlying aim in making all these changes is to encourage arrangements which result in individual employees directly owning shares in the businesses in which they work.

I would like to turn briefly to profit-related pay where here too we are proposing a wide range of improvements.

We are pleased with the interest shown to date in profit-related pay. At the end of February there were 855 registered schemes covering 121,000 employees; this is encouraging progress for such a new initiative. Nevertheless we have received some representations about ways to improve PRP and the proposed changes seek to meet those representations. We have, for instance, increased the cash limit on tax-relieved PRP to £4,000 a year, which means up to £500 tax-free for the basic rate taxpayer. We have also simplified the PRP requirements by dropping the requirement that PRP must be at least 5 per cent of pay if profits are unchanged, whilst at the same time increasing the range of choices available to employers, for example by enabling them to set up schemes for central employment units, such as headquarters, with PRP based on the profits of the whole business, and by allowing certain alterations to be made to registered schemes without jeopardising their registration. The change to the material interest test which I have already mentioned will also enable more companies to set up PRP schemes.

Taking these measures together with the ones relating to employee share ownership which I described earlier, there are a substantial number of changes in this Budget designed to give practical expression to our continuing commitment to the encouragement of participation by employees in the prosperity of their company.

PERSONAL EQUITY PLANS

In the Budget my rt hon Friend proposed some important changes to personal equity plans.

I should like to dispel a widespread myth that PEPs have been a failure. That is simply not so. Another 115,000 plans were taken out in 1988, on top of the 270,000 in 1987. In the year after the stock market crash, and in comparison with the performance of (for example) unit trusts, that is by no means disappointing. Nor is it the case that only existing equity investors have been attracted to PEPs. For example one plan manager [Bradford and Bingley] describes its typical investor as "a 57-year old northern housewife sinking £1200 of her building society savings in shares for the first time".

Nonetheless, there is always room for improvement. Last Autumn we invited a number of plan managers to let us know what changes they would like to see. We have not, of course, adopted all of their suggestions. But the exercise proved very useful, and led to many of the improvements my rt hon Friend announced on Tuesday.

Apart from the increase (to £4,800) in the overall limit on annual investment, the most significant change is in the treatment of unit and investment trusts. Formerly a quarter of investment through a PEP could be in unit or investment trusts, with no restriction on what the trusts invested in. The new rule will be that, up to £2,400 a year, the whole investment can be in a unit or investment trust - but the trust must be invested at least 75 per cent in UK equities. We are thus maintaining the original objective of the scheme, but in a different way - a way which will help keep plan managers' costs down, and which will be more attractive to the small investor who cannot otherwise achieve a wide spread of investments. I am confident that PEPs based on unit and investment trusts can now be successfully marketed.

Similarly, instead of complex rules about how much investment in a PEP can be in cash, and for how long, there will in future be no such restrictions at all. But the original intention, that the tax exemption is for equity investment, is maintained. Interest earned on deposit will in future be subject to composite rate tax. As well as being simpler for plan managers and investors, this change will increase the flexibility to "go liquid" at times when investors believe equities have become over-valued.

We have stripped PEP rules down to a minimum. We have abolished the minimum holding period, and plan managers will no longer have to maintain separate portfolios for different plan years. Other changes made as a result of consultation with plan managers include a change from a calendar year to a tax year basis; a cut in the level of information which plan managers have to provide to the Inland Revenue; and simpler rules for switching from equities to unit trusts.

All these changes, which plan managers have asked for, will help to keep administration costs to a minimum. I hope they will encourage some plan managers, who have dropped out, to resume marketing PEPs.

I appreciate that plan managers and investors will need time to adjust to the new rules. So, although they may switch to the new arrangements at any time from 6 April, they do not have to do so until 31 December. And they have until April 1990 to adjust unit and investment trust holdings to reflect the new requirement that they should be mainly invested in UK companies.

One proposal which we were not persuaded by was that PEPs required tax relief on payments into a plan, as in the now defunct "Loi Monory" in France. Some suggested that, after say 5 years, such investments could be withdrawn free of tax. That would amount to a major subsidy: a higher rate taxpayer could purchase £100 worth of shares at a net cost of £60, and even if they had not risen in value over the period, obtain £100 tax free in 5 years' time. Not only would such a scheme need to be festooned with a complex web of restrictions to prevent even larger gains to be made through abuse; but I do not believe the British public need to be bribed to buy quoted UK shares.

Alternatively, some argued that the tax relief should be clawed back on withdrawal. The end result would be the same degree of tax benefit that PEPs have now, but with a great deal more complexity. We have decided to stick with the simpler, straightforward approach.

PENSIONS

The pensions proposals in the Budget build on the various measures this government has introduced to promote private pension provision and widen pensions choice. Personal pensions have already been a great success. And the proposal to allow people to have a direct say in how their personal pension fund is invested will encourage people to become much more closely involved in the way that their plans are managed. This will foster a much greater sense of ownership of pension rights which, with the substantially increased contribution limits (up by more than 50 per cent at certain ages compared to the present limits), will give a further boost to personal pensions.

Indeed, where people can afford to make the maximum contributions to a personal pension scheme, it will be possible to build up a bigger pension that way than through an approved occupational pension scheme.

More generally, by placing a ceiling on the total tax relief available, it has been possible to make important improvements to the tax system for occupational pensions. Employers can now provide whatever benefits are necessary to recruit and reward employees without being constrained by the pensions tax rules - something which up to now has been denied to them. This has also made it possible to simplify and improve the rules for the great majority of ordinary pension scheme members.

8021.

cst.pas/mc/2.13.3

BUDGET SECRET

MP

FROM: MARK CALL
DATE: 13 MARCH 1989

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Riley
Mr Pickford
Mr Mowl
Mr Gieve
Mr Gilhooly
Mr Macpherson
Miss Wallace
Miss Simpson
Mrs Chaplin
Mr Tyrie

Mr McNichol - IR

BUDGET DEBATE: CHIEF SECRETARY'S SPEECH

You asked for comments. For a first draft it reads extremely well, and I think strikes the right tone of sensible "work in progress" reforms, and gentle tease of John Smith. Paragraphs 5 to 7 read particularly well.

2. At the end of paragraph 9 you might add: "But to the RHG consistency is only an occasional luxury."

3. At the end of paragraph 12 add: "Maybe that, too, will turn out to be an endorsement of the Government's own policies."

4. Paragraph 16 add after second sentence: "But then maybe it is not surprising. He has, of course, never experienced such strength of public finances. He knows only about crisis management - by that I mean management of the crises his own administration created." Then continuing "It has enabled ...."

5. Paragraph 17. Do we want to be claiming the NICs measures as <u>tax</u> reduction, a la second sentence?

cst.pas/mc/2.13.3

6. "Economy, trade gap and inflation" section, page 2, second paragraph. I think the final sentence - "Today's trade gap is the means to ensure tomorrow's trade improvements" - may be going a bit over the top, but overall I agree with trying to take some credit for the high proportion of capital goods in the import figures.

7. In the small business section, 7th line, add after the sentence "The days when ...": "So too have the days when backing winners was a euphemism for rescuing losers."

MC

**MARK CALL**

cst.rj/docs/13.3.8

COPY NO 2 OF 10.

BUDGET SECRET

FROM: A G TYRIE
DATE: 13 March 1989

CHIEF SECRETARY

cc: Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Miss Wallace
Mrs Chaplin
Mr Call

BUDGET DEBATE SPEECH

I attach a short peroration.

Aur.

A G TYRIE

cst.rj/docs/13.3.4

## DRAFT PERORATION FOR THE CHIEF SECRETARY

In this budget we have further reformed the tax system. We have helped pensioners by abolishing the earnings rule. We have removed high marginal rates for those on lower incomes by reforming National Insurance Contributions. New tax incentives have been put in place to widen share ownership, including major improvements to PEPs. The taxation of pensions and life assurance have both been modernised.

All this has been done within a prudent and cautious fiscal framework, in which we plan to make a further massive repayment of debt next year, a fiscal stance which will buttress monetary policy in its task of bringing downward pressure on inflation.

We are enjoying the longest period of steady growth since the War, latterly combined with dramatic falls in unemployment. Our policies are working. The budget sticks with them. I commend it to the House.

Robert 07.14.3.89 **BUDGET CONFIDENTIAL**

PWP

From: R C M SATCHWELL

DATE: 14 March 1989

MR BRCYE - IR

cc
PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Gieve
Mr Gilhooly
Miss Hay
Mrs Chaplin
Mr Tyrie

Mr Isaac ) IR
Mr Houghton )
PS/IR

**RESIDENCE: BUDGET DEBATES**

The Financial Secretary was grateful for your minute of 9 March, which he has discussed with the Chancellor. They are inclined to stop at "..... for this particular group" in the second sentence of the last para of the first page of your draft statement. In the light of that, you agreed to consider whether it would be worth adding an additional sentence putting the whole issue to bed; and whether it is now wise to issue a Press Release. The Financial Secretary will discuss this at his meeting on his Budget Debate Speech tomorrow morning.

R.C.M.S.

**R C M SATCHWELL**
Private Secretary

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CHIEF SECRETARY TO THE TREASURY

FROM: MISS C EVANS
DATE: 14 March 1989

PS/CHANCELLOR

dealt
JP

0557

cc: PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Pickford
Mr Riley
Mr Culpin
Mr Sedgwick
Mr Mowl
Mr Gieve Mr McIntyre*
Mr Gilhooly
Mr Macpherson
Miss Wallace
Miss Simpson
Mrs Chaplin
Mr Tyrie
Mr Call

Mr MacNicol - IR

**CHIEF SECRETARY'S SPEECH IN THE BUDGET DEBATE**

... I attach a revised version of the Chief Secretary's speech for tomorrow's debate. Could final comments reach me by 10.00am tomorrow morning please.

CE

**MISS C EVANS**
**Private Secretary**

* paras 12 - 16
paras 21 - 29

**DRAFT OF 14 MARCH**

**CHIEF SECRETARY'S SPEECH FOR THE BUDGET DEBATE**

This is my RHF's sixth Budget. In these Budgets his measures have dramatically improved the supply performance of the economy, and simplified the corporate and income tax system to an extent that few people anticipated. He has reduced the rates of tax and the number of taxes. He has abolished more taxes than any other Chancellor this century. He has reduced tax distortions and tax breaks and moved steadily towards a much simpler and more efficient tax structure. No Chancellor for generations has so reformed our fiscal structure. That work has continued in this Budget.



2. The RHG has noticed none of this. He has also ignored the effect of these changes: the increased growth, the investment boom, the greater prosperity, the dramatic rise in the number of people with jobs, as well as the falling level of unemployment, [None of this might have happened, whilst the RHG cherry picks a rag bag of criticisms.]

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John Smith (1): Trade Gap and Forecasts

3. The RHG had some critical things to say about my RHF's stewardship. Of course, it is the RHG's job to be critical and he spares no effort in being so.

4. His criticisms were met fairly and squarely in my RHF's Budget statement. (The RHG was clearly not listening). My RHF explained the origin of our trade gap. It is the result of rapid economic growth, with private investment at its highest ever level as a share of national income. Fully three-quarters of our imports now consist of production and investment goods. Consumer goods are only a small proportion. The trade gap is not driven by a public sector deficit, it is investment led and that investment is the source of future growth in production, exports and jobs.

5. And having explained the cause, my RHF explained the remedy. The right action has been taken. The only effective way to slow down excessive demand is to put up the cost of borrowing. This worked in 1985 and it is working now. It will choke off inflation and the trade gap will close. There is no credible alternative.

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6. The RHG has been critical of my RHF's forecasts. But what did the RHG say in defence of his Government's forecasts of the trade gap? I quote:- "Obviously these are matters which are extremely difficult to forecast. I do not think getting them right or wrong is the prerogative of any Government". (OR 12 March 1979).

7. Such frankness is refreshing but it seems to have deserted the RHG now. But what was his solution to improve the trade gap?

8. It was dynamic. On March 12th 1979 the RHG told the House. "We believe that the best way to do that is to engage the attention of the sector working parties ...." So that is it. All we need is sector working parties. No incentives. No productivity growth. No supply side reform. Just a sector working party. Nor did the RHG propose a special remit for the working party. His ambitions were more limited. It was: 'Just engage its attention Clearly as Trade Secretary the RHG believed in the smack of firm indecision, and his policies are as elusive today as they were then.

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John Smith (2): Shadow Budget

9. Well not quite as elusive. Perhaps I am being unfair. Because recently the RHG proposed to the shadow Cabinet a shadow Budget package of tax cuts and spending which he costed at £3 billion. [It will in fact cost £4 billion, as I shall explain]. The curiosity about that is this. A day or so later the RHG criticised my RHF's Budget of last year as the cause of the growth of credit and the trade deficit.



10. If he believes that, then why does the RHG propose a further £3 billion package this year? The logic of his position is that he should be clawing back last year's reductions and not proposing more.



11. If he really believes what he has said over recent months he should not have proposed his package. Or, in doing so, he should have said that it would worsen the trade gap. But he did not say that. The truth is that he has been caught out. He knows that the Budget did not create the trade gap despite all he has said over recent months. And it is because he knows that, that the RHG felt it prudent to propose a tax/ spending package almost as large as last year's and larger than my RHF's proposals this year.

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12. I hope the RHG will continue to let me know of his policies. They are extremely useful. Let us look at them for a moment.

13. The RHG had three proposals, a reform of NICs, an increase in child benefit, and an increase in allowances.

14. I've done some adding up for him. The net cost of his proposals on NICs, including any money he might recoup by abolishing the UEL, is £2 billion. His child benefit proposal would cost £700 million.

15. The RHG claims that the total cost of the package would be £3 billion. So the RHG's third pledge, to increase personal allowances by more than indexation could not be funded. He would not even have enough money to raise allowances by 8¾ per cent. But the RHG wants to make an increase in personal allowances "substantially higher" than 8¾ per cent. So the RHG would have to spend at least £1 billion more to implement his package, and that's before he has spent a penny on any of the much vaunted pledges to increase public spending to which he is so attached, particularly on the so-called infrastructure.

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16. So the ~~time~~ true cost of his package is £4 billion, precisely the amount the RHG criticised the Chancellor for releasing in his Budget last year. So much for the sheer brass necked hyprocrisy of all the Opposition have been saying over recent months.



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The Budget

17. My RHF's Budget this year falls between the largest tax changes for a generation, which we made last year, and the introduction next year of Independent Taxation for husbands and wives. Independent Taxation is a substantial undertaking but it has not inhibited my RHF from proposing some further significant reforms this year.

Prudence and caution

18. But overall, as my RHF promised, this is a prudent and cautious Budget. It makes no reduction in the overall tax burden. It provides strong fiscal backing for a tough monetary stance. My RHF continues with the policies that have produced the strongest fiscal position of any leading country.

19. As a result we are forecasting a further fiscal surplus of £14 billion, the third successive year of surplus. As a result of the cumulative surpluses over these three years, we will have repaid some 16 per cent of public sector debt. By 1991-92 debt interest will have fallen to £14½ billion from over £18 billion this year. This means that [£3½ billion] will be available for more productive purposes than paying interest on past debts.

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Tax reform

20. This strong fiscal position is unmatched for decades. It has enabled my RHF to promote three important themes, which he has pursued steadily in six years as Chancellor. The predominant theme continues to be tax reform, designed

- to simplify and improve the tax system,

- to remove tax distortions,

- to maximise the freedom of individuals and companies to spend their own money and organise their own affairs.



21. In this context, the main reform in the Budget is to the structure of national insurance contributions.

22. At present, people earning just below the steps for each rate band face an actual reduction in take home pay as a result of an increase in their earnings. For example someone earning near the threshold of £115 who received an increase of £1 would find as a result of moving to a higher rate of national insurance that their take home pay fell by £1.37.

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23. This is clearly unsatisfactory, and my RHF's reform has abolished two of the three steps entirely. But it goes even further to help those on the lowest incomes. We have kept the first step of £43 income a week, which is the point of entry to the whole range of contributory benefits, but at a much reduced rate - the initial contribution has been reduced by 60 per cent from £2.15 to only 86 pence. This is the cheapest entry fee to the highest contributory benefits since the Beveridge system was introduced in 1948. This must be the bargain of the century.

24. This reform

- not only introduces this low cost contribution to benefits;

- it also removes distortions in the national insurance system;

- and also increases take home pay for the clear majority of people in work by around £3 a week. 70 per cent of the total benefit goes to those earning less than average male earnings.



 

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25. This reform carries a cost to the Exchequer of £2.8 billion in a full year. But it gives a simple, inexpensive and well structured system of contributions for the low paid.

26. The RHG has given only qualified support. [Perhaps he would have welcomed the proposal more fully if it had been recommended by a sector working party]?

27. [As I have said, the Opposition would abolish the upper limit on contributions. This would add massively to public expenditure on pensions. Unless of course the contributory principle was ignored with a shadow UEL on pension entitlement and employees got nothing in return for their higher contributions. In any event, nearly 2 million employees would immediately be worse off, [with someone on around £20,000 a year paying £3.75 a week more.]

28. [My RHF's reform maintains the contributory principle and helps the low paid without creating any losers. It is a much sounder reform.]

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29. I hope the RHG will support it. That would open up the possibility of a Parliamentary novelty. It is this. Will the Opposition actually vote for a reform that puts more money in the pockets of those on modest earnings? They voted against cuts in the basic rate of income tax in (1979, 1987, 1988) but this year on NICs they may repent. We shall see.

Pensions

30. Another significant measure in this Budget is my RHF's pensions proposals. We believe they will make an important contribution to simplicity and flexibility in the provision of pensions. This change follows the overwhelming logic of previous deregulation policies: to maximise freedom and minimise Government interference.

31. The proposals take Government out of the business of artificially limiting pension arrangements and will leave employers the freedom to offer their employees whatever pensions they see fit. No longer will that decision be determined by the tax regulations of the Inland Revenue. The restriction my RHF does propose is that tax relief will be limited to pensions based on earnings of £60,000, with, of course, full protection of existing rights for existing members of occupational pension schemes. Their current arrangements will not be adversely affected.

32. The £60,000 tax relief limit will, be increased in line with inflation to ensure it retains its value. Those earning more than this will be able to receive a top up pension without tax relief, which will not affect the tax privileges of the main scheme.

33. The logic under-pinning this change is that it is clearly right for the Government to limit the generous tax relief on pensions, in much the same way as we limit other reliefs. But there is absolutely no reason why the tax system should dictate the actual pensions people can have. In future it will not do so.



34. As a consequence of removing those artificial tax restraints, my RHF has we also been able to make some other worthwhile changes to the pensions regime. The rules affecting those who retire or leave early have been simplified and the arrangements for personal pensions have been improved. Contribution limits have been increased substantially for those over 35, and for the first time people will be able to manage their own personal pension investments .Taken together, these reforms will both increase choice and reduce bureaucracy for employers and employees. I hope these - and earlier pension reforms will remove much of the complexity and mystery in pension provision.

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Life Assurance

35. Last year the Inland Revenue published a consultative document setting out three main options for reform. As a result of the representations made, my RHF has accepted the view that reform was necessary but that it should be achieved within the existing system.

36. His proposals achieve this by making a number of changes to the current regime [that have the effect of ring-fencing pensions business expenses, improving the measurement of pension business profits in other respects and spreading the costs of acquiring new life assurance business over 7 years].

37. The measures have three advantages

- they remove current anomalies;

- they enable my RHF to reduce the rate of tax on policy holders' investment income from 35 per cent to 25 per cent, and the rate of 30 per cent on capital gains also to 25 per cent;

- and they also enable him to abolish life assurance policy duty entirely.

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38. I believe these measures will result in a fairer and more effective tax regime as well as removing uncertainty and anomalies and establishing a stable regime for a unique industry.

Capital ownership and savings

39. The second theme that runs through this and previous Budgets is the Government's determination to widen the ownership of property and capital. In this Budget my RHF has taken a number of measures to encourage savings and capital growth through wider share ownership.

40. Ten years ago share ownership by individuals was a dying habit. There were only 3 million shareholders of equities and the number was dwindling. As a result, companies found it increasingly difficult to raise equity capital from individuals. [to widen their share base and fund necessary further investment.]



41. All that has changed. Partly as a result of the extensive programme of de-nationalisation - for that is what privatisation is - there are now 9 million shareholders, one fifth of the adult population. Becoming a shareholder in industry and commerce, and building up capital, is now much more commonplace and this is a welcome trend.

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42. The Budget proposes a range of measures to give further encouragement to share ownership, aqain building on measures introduced previously Firstly, the PEP scheme is to be expanded by increasing the annual investment limit from £3000 to £4800 and by relaxing the limits on investment in unit and investment trusts. Secondly, shares from new issues can now be held in a PEP. The scheme has also been simplified and better tailored to small investors.

43. But as well as the intrinsic value of wider capital ownership, there are extra benefits when employees have a direct stake in their own company. The attraction of approved employee share ownership schemes has long been clear - they have grown substanially from only 30 in 1979 to nearly 1600.

44. To encourage this further, the Budget increases both the annual limit on the value of tax free shares and the monthly limit on save as you earn share option schemes. It also introduces a [new tax incentive ] for Employee Share Ownership Plans [which enable shares to be put into trusts for later transfer to employees.] This responds to a number of representations and will be of particular value to unquoted companies.

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Removing Injustices etc

45. A further characteristic of this Budget is the number of fiscal injustices and anomalies that have been removed. The most obvious example is the ending of the cliff edge steps in the national insurance system. But there are others as well. In particular there are two measures which will remove anomalies affecting elderly people.



46. The first is that we have fulfilled the single unredeemed pledge from the 1979 Manifesto and abolished the pensioners' earnings rule. As a result pensioners who choose to supplement their pension entitlement, built up over a lifetime's contributions, will no longer be penalised. Secondly, we are reducing the effective rate of tax in the short band of income where age allowance is withdrawn to well below 40 per cent [37½]. This was the subject of a lot of representations last year - not least from HM's who served on the Finance Bill - and I hope this change will be generally welcomed.

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47. At the same time, we have extended the higher level of age allowance, which my RHF introduced in 1987 for all those aged 80 or over, to those aged 75 or over. As a result those aged between 75 and 79 will be significantly better off, with a gain of £1.73 a week for a single person and £2.55 for an elderly couple. Moreover, fully ¾ of those in this age group will pay no income tax at all. This is a well targeted measure which matches the increase in Income Support of £2.50 for individuals and £3.50 for couples over 75 which comes into effect in October.



48. There are many other matters in this Budget that the House will want to discuss during the remainder of this debate and during the Finance Bill. The Budget extends the small companies' rate of corporation tax to a large number of businesses not previously benefiting from this lower rate. [It greatly simplifies the basis of assessment for Schedule E, so that tax is paid in the year income is received.] It provides further VAT relief for charities, gives relief from car tax for cars leased to the disabled, and doubles the annual limit for contributions to a Payroll Giving Scheme. And it substantially increases the incentive to use unleaded patrol, a feature which has been generally welcomed.

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Conclusion

49. The Government's economic and fiscal objectives are clear and this Budget reflects them. We wish to ensure growth without inflation, and to minimise tax rates to enable the greatest possible degree of taxpayer choice. We do not believe the Government knows better than the taxpayer how to spend the taxpayer's money, and we continue to move towards our objective of a basic rate of income tax of no more than 20p in the £ as soon as it is prudent to do so.

Peroration

50. In this budget we have further reformed the tax system. We have helped pensioners by abolishing the earnings rule. We have removed high marginal rates for those on low incomes by reforming National Insurance Contributions. New tax incentives have been put in place to widen share ownership, including substantial improvements to PEPs. The taxation of pensions and life assurance have both been modernised.



51. All this has been done within a prudent and cautious fiscal framework, in which we plan to make a further massive repayment of debt next year; and we think a fiscal stance which will buttress monetary policy in its task of bringing downward pressure on inflation.

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52. We are enjoying the longest period of steady growth since the War, latterly combined with dramatic falls in unemployment. Our policies are working. The Budget sticks with them. I commend it to the House

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Minuted

**Inland Revenue**

International Division
Somerset House

FST/ On balance, I would be inclined to omit the words in Mr Bryce's sq brackets, but I do not feel strongly about this. However, I would certainly omit the words in my sq brackets.

FROM: J P B BRYCE
DATE: 15 MARCH 1989

PS/FINANCIAL SECRETARY

**RESIDENCE: BUDGET DEBATES**

Following the meeting this morning, I attach a revised form of wording for the Financial Secretary's statement this afternoon. As agreed, this statement:

- does <u>not</u> refer to the possibility of further consultation on this topic; and

- does <u>not</u> refer to the "broad support" for changing the residence rules.

The Financial Secretary may wish to remove any uncertainty about the Government's intentions, by including the last sentence in square brackets. This would not, of course, rule out action on specific issues in a future year.

---

c PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Gieve
Mr Gilhooly
Miss Hay
Mrs Chaplin
Mr Tyrie
Mr Isaac
Mr Beighton
Mr Houghton
Mr Bush
Mr Bryce
Mr Richardson
Miss McFarlane
PS/IR

BUDGET CONFIDENTIAL

**Press Release**

I understand that it is not now the intention to issue an embargoed Press Release today. The Financial Secretary may however wish to consider whether a Press Release might be issued tomorrow in the light of the publicity given to the statement in tomorrow's papers. Perhaps you could let me know what he decides.

J P B BRYCE

BUDGET CONFIDENTIAL

**RESIDENCE: DRAFT STATEMENT FOR FINANCIAL SECRETARY IN BUDGET DEBATES**

Last July, the Government issued a consultative document which considered the possibility of simplifying the rules determining residence here for tax purposes and of relating liability to UK tax more closely to the degree of an individual's connection with this country.

It has always been recognised that any changes in this area must take account of the wider economic implications and, in particular, ensure that our tax environment is broadly comparable with other developed countries. This country derives considerable benefits from those who have come here from overseas to carry on business and other activities. We have no wish to see them leave.

I am grateful for the many responses which we received. These expressed a variety of views. Considerable concern was however expressed about the implications of moving to a world income basis of liability for certain categories of people who are not domiciled here.

We have now decided that the world income approach would not provide a satisfactory basis of taxation for non-UK domiciled foreigners who are resident in this country. We do not therefore intend to pursue it [for this particular group.] [In these circumstances, it is not our intention to put forward any further proposals in this area at this time. ]