

• PO-CH/NL/0639 PT C

PO CH/NC/0639
PART. C

PO CH/NC/0639
PART. C

1987 BUDGET.

27-4-87

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM

BUDGET SECRET

No 23 of 23 Copies



FROM: CATHY RYDING

DATE: 9 March 1987

RP

ECONOMIC SECRETARY

cc: CST
 FST
 MST
 5 Sir P Middleton
 Sir G Littler
 Sir T Burns
 Mr Cassell
 Mrs Lomax
 10 Mr Peretz
 Mr Scholar
 Mr Hall
 Mr Ilett
 Miss Sinclair
 25 Mr Haigh
 Mr Cropper
 Mr Ross Goobey
 mr Tyrie
 Mr Painter - IR 287
 20 Mr Johns - IR 288
 PS/IR 289
 22 Mr Jefferson Smith - C&E 290

IMPACT OF THE BUDGET ON THE FINANCIAL SECTOR

The Chancellor has seen Mr Cassell's minute to the Economic Secretary of 6 March.

2. The Chancellor has noted the final couple of sentences of paragraph 21 on VAT: partial exemption rules - that companies making new issues could find it cheaper to use offshore facilities and that at this stage it has not been possible to see how an exemption can be made without knocking a major hole in the partial exemption package. The Chancellor has commented that, at first sight, this is the only potential problem.

A handwritten signature in dark ink, appearing to be 'CR' or similar initials.

CATHY RYDING

**BUDGET SECRET
BUDGET LIST ONLY**

NOT TO BE COPIED

REF : M 87 3

COPY NO: 8 OF 8

PRIME MINISTER

This minute sets out my proposals for the Budget this year.

2. My aim, as in previous years, has been to devise a Budget which will give us a solid financial framework, with a safety margin built into it, for the year ahead; which will reduce taxation within the limits of prudence; and which will improve incentives and encourage enterprise.

3. I will minute you separately about my proposals for monetary targets and the PSBR when the final pieces of the jigsaw are available, early next week. But it is already plain that we shall be able this year both to plan on a PSBR substantially below the level envisaged in last year's MTF5 and at the same time to afford a tax reduction of £2½ billion in 1987-88 rising to just under £3 billion in 1988-89.

Income tax

4. I propose to increase the main personal allowances by the statutory indexation factor of 3.7 per cent. As last year, I am sure our priority must be to cut the basic rate - the starting rate for everyone, and the marginal tax rate for 95 per cent of all taxpayers. I am therefore proposing a 2p cut, to 27 pence in the pound. This will do more than any other measure available to us to add momentum to the growth of the enterprise culture. It is desirable in itself and is the best means of improving the longer term potential of the economy. It also highlights the difference between our approach and that of the Opposition.

5. Our presentation of these proposals should, I suggest, follow closely the line which we got across so successfully last year:

**BUDGET SECRET
BUDGET LIST ONLY**

NOT TO BE COPIED

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET

SECRET

B.L.O.

SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

that it is aimed at the vast majority of taxpayers and will help all the sensitive groups in the middle - the nurse, the teacher married to a bank clerk and so on. To strengthen our presentation I propose, as last year, to set the higher rate bands so as to ensure that higher rate taxpayers will not benefit disproportionately from the income tax changes as a whole. Thus the first (40 per cent) higher rate threshold would be fully revalorised, the second (45 per cent) threshold partially revalorised, and the subsequent higher rate thresholds left unchanged.

6. For two groups I propose increases in the allowances beyond simple indexation: for those over 80 the age allowance will be increased by twice the indexation factor, ie by 7.4 per cent; and the blind allowance will go up from £360 to £540.

Excise duties

7. Apart from three minor changes in Vehicle Excise Duty and an increase in gaming machine duty, I am proposing no increases in the excise duties this year. This means that the overall impact of the Budget on the RPI as conventionally measured will be about 0.15 per cent (entirely reflecting the effect of the basic rate cut on mortgage payments), well below last year's 0.5 per cent. Although I expect some criticism from the health lobby I am sure that public opinion will well understand why I am not proposing tax increases on fuel, drinks and tobacco this year. I shall be reducing the duty on unleaded petrol by 5p a gallon, this honouring my promise last year; and I shall be abolishing the duty on on-course betting, recouping the revenue by the increase in the gaming machine duty.

Business and enterprise

8. My other Budget proposals are designed to carry further the themes of my previous Budgets. I am again taking action to tilt the balance towards small businesses, both by cutting their tax rates and by lightening the administrative load they bear. The small

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET

SECRET

B.L.O.

SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

companies' rate of Corporation Tax comes down to 27 per cent, in line with the basic rate cut. The self-employed will benefit from the reductions in income tax.

9. I am also legislating to ease the burden of VAT on small businesses. My proposals here follow the lines of the consultation exercise we launched last autumn. The main change here is the introduction of "cash accounting" which will mean that companies with an annual turnover of up to £¼ million (and not £100,000, as in the consultation document) will not have to pay VAT until they themselves have been paid by their customers. This will help their cash flow, as well as giving them automatic bad debt relief, something for which they have long asked. I would personally have liked to set a still higher limit, probably £½ million; but I have reluctantly concluded, on the basis of legal and other expert advice, that that would jeopardise our prospects of getting the necessary derogation from the EC Commission. I shall also be introducing optional annual accounting, which will enable small companies to make VAT payments on account and send only one return a year to Customs and Excise; and a number of other changes, including a further increase to the VAT threshold to keep it to the maximum currently possible under European Community law.

10. I am making a number of changes to streamline the taxation of the corporate sector. These changes have been made possible by, and build upon, the 1984 corporation tax reform, which has proved an outstanding success. It is improving both the environment for business and the quality of business decisions, and at the same time increasing the yield of the tax.

11. At present companies pay corporation tax at different times depending on whether they were established before or after 1965. This difference of treatment no longer has any justification. It is also open to abuse: you may remember the Habitat case last year. I therefore propose that all companies (and building societies)

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET

SECRET

B.L.O.

SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

should be treated in the same way, so that all will be liable to pay corporation tax nine months after the end of the accounting period on which the tax is due. The change will be phased in. For the longer term I am taking steps now to introduce a more streamlined method of collecting corporation tax, called Pay and File.

12. I am also making changes to the taxation of companies' capital gains. In future these will be taxed at the same rate as company income - either 35 per cent or, for small companies, 27 per cent - not, as now, at 30 per cent. Companies will be allowed to offset payment of Advance Corporation Tax against their tax liability on gains, something which will be generally welcomed.

13. Peter Walker and I have been looking closely at the effect of the last year's oil price on North Sea producers and their suppliers. We have already legislated to bring forward to 1986-87 the repayment of over £300 million of Advance Petroleum Revenue Tax. As agreed last November, I propose to introduce two further reliefs designed to encourage research and development in the North Sea oil sector. These have been carefully aimed where they should do most good. They are to allow part of the expenditure on new fields to be set against PRT liabilities on other fields; and to allow special relief for R&D even though it is not related to any individual field.

14. As in all previous years, I propose that the scale charge for assessing the taxable benefit of company cars should be increased by 10 per cent. There will be no change in the car fuel benefit scales.

15. The Budget will also contain a number of measures designed to block up loopholes where substantial losses of tax are at stake. On one of these, VAT partial exemption, we have already exchanged minutes (my minute to you of 16 December and David Norgrove's reply of 18 December) and it is now clear that the scale of avoidance is larger than we at first supposed (£300 million in 1987-88 and £400 million in 1988-89). The business community accepts that we must act to stop this practice. As you know, I am also proposing action, in line with what the US are doing, on dual resident

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET

SECRET

B.L.O.

SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

companies, to stop them getting tax relief twice on the same interest payment. And I am bringing to an end the present over-generous treatment of tax credit relief for foreign withholding tax paid on interest on bank loans.

16. I have one further measure in this category. Lloyd's have now discovered a loophole in the law which prevents the Revenue from challenging for tax purposes syndicates' "Reinsurance to Close" - ie their provision for outstanding liabilities. I am proposing to put this right and to bring the arrangements for Lloyd's into line with the tax treatment of provisions for outstanding liabilities made by ordinary insurance companies. The Revenue will consult Lloyd's on the details immediately after the Budget.

17. I am convinced that, where we can, we must give a push to moves towards more flexibility on pay throughout the economy. I accordingly propose now to introduce a scheme of tax relief broadly on the lines floated in the Green Paper on Profit Related Pay which David Young, Paul Channon and I published last July. But it will be a little more generous: half, rather than a quarter, of profit-related pay will be relieved from income tax, subject to limits; even so, the very small cost of this relief will, I fear, lead to accusations that this is derisory. All the same, for someone on average earnings receiving 5 per cent of their pay in profit-related form, the tax relief will be equivalent to a penny off the basic rate of income tax. The administration will be kept simple.

Savings

18. I have agreed with Norman Fowler a major package of proposals on pensions which will complement the reforms in 1985 and 1986 Social Security Acts. Our aim is wider pension ownership, and to encourage people to provide for themselves in old age.

19. There are several strands to the proposals. First, I am introducing a system of tax relief for personal pensions on broadly the same lines as that now applying to retirement annuities. This will make it easier for employees to opt out of their employers' schemes and make their own arrangements; and it will also benefit

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET

SECRET

B.L.O.

SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

those whose employers do not offer an occupational pension scheme. Second, I propose changes which will make it simpler for employers to set up occupational schemes with the minimum of red tape and with less of an open-ended commitment on the size of final pensions. This should encourage wider pension coverage and be of particular benefit to the 10 million or so employees who are not covered by occupational schemes.

20. Third, I am introducing arrangements to allow members of occupational schemes to make additional voluntary contributions, with full tax relief, to a plan outside their employer's scheme. They will be able to top their pension right up to the present tax approval limits. This goes well beyond what we have already announced. It will be good for choice and individual responsibility.

21. The generous tax treatment of pensions can be justified only if it is not abused. I propose, therefore, to introduce some limited changes to the present rules to restrict the excessive relief which can be obtained in some circumstances by a few people, including an upper limit of £150,000 on the tax-free lump sum and more rigorous rules for calculating final salary.

22. Last year's Budget abolished the tax on lifetime gifts between individuals. This year I propose to extend the same exemption from tax to gifts involving settled property where there is an interest in possession. This will be welcomed by many of our own supporters.

23. I am also making a substantial increase in the threshold for inheritance tax, from £71,000 to £90,000 and reducing the number of tax rates from seven to four. This change will mean worthwhile reductions in tax liability at all levels, particularly for smaller estates, and take a third of the estates currently liable to inheritance tax out of the tax net altogether.

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET

SECRET

B.L.O.

SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

**BUDGET SECRET
BUDGET LIST ONLY**

NOT TO BE COPIED

24. Last year's Budget contained a substantive package of measures to help charities. The encouragement we give to charitable giving is now very generous; and the Payroll Giving Scheme which starts next month will give it a further boost. I therefore have no major new proposals in this field, though I propose to extend slightly the VAT reliefs for charities which I introduced last year. These extensions will meet points which have been put to me by the charities lobby.

... 25. I attach a table which summarises the revenue effects of these changes. I would be grateful to know if you are content with my proposals.

N.L.

N.L.

5 March 1987

**BUDGET SECRET
BUDGET LIST ONLY**

NOT TO BE COPIED

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET

SECRET

B.L.O.

SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

REVENUE EFFECTS OF BUDGET CHANGES

	£m (rounded to £5m)	
	1987-88 (cost (-)/yield (+))	1988-89
Income tax (including higher rates)	-2160	-2740
Excise duties	- 535	- 575
VAT - small business package	- 115	- 60
- change in partial exemption rules	+ 300	+ 400
Corporation tax - small companies rate	*	- 45
- capital gains	*	+ 60
- payment dates	*	+ 100
- dual residents	*	+ 125
- tax credit relief for banks	*	+ 20
Car and car fuel benefits	nil	+ 30
North Sea oil	- 5	- 15
Profit related pay	*	- 35
Pensions	*	- 65
Inheritance Tax	- 70	- 150
Other	- 30	+ 40
Total	-2595	-2900

Note: (All figures are net of the cost or yield of indexation or revalorisation, which is included in the base forecast)

(* means negligible)

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

BUDGET

SECRET

B.L.O.

SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

B/F B.S.87

OS



OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-270 5929

From the Minister for the Arts

C87/1135

The Rt Hon John MacGregor MP
Chief Secretary
H M Treasury
Treasury Chambers
LONDON SW1

CHIEF SECRETARY	
REC.	10 MAR 1987
ACTION	Mr S. Kelly #14
COPIES	TO Cx for Peter Middlets
	Mr Butler Mr Anson
	Mr Gilmore Mr Hartin
	Mr Scholas Mr Turnbull

Note
Mr Kelly will be putting
up advice concerning this letter
and Mr Kelly's letter of 14 Feb

MPF
"3 87
v g r y h
syk to Sun
Coombes
advised by
M.P.
MPF
12.3.87

10 March 1987

John John

Mr Burr Mr Greve Mr Instore
Mr Pratt Mr Hurst Mr Cropper
Mr Tyrie B/S/R.

ACCEPTANCE IN LIEU: CALL ON THE RESERVE 1987/88

... I have received the enclosed letter and supporting material from the Secretary of the Museums and Galleries Commission telling us of an exciting and important offer in lieu of capital tax. This is a major Constable painting "Stratford Mill" valued at £10 million which would give an acceptance price of some £5.5 million. It is one of the most important Constables in private ownership.

Messrs Christie's need to know quickly that we are prepared to accept the picture in lieu of tax, otherwise they will advise their clients to put the picture up for auction. Given its extremely high quality, and its centrality in the works of Constable, it would be eminently saleable and its price would most likely exceed £10 million. I do not need to stress that this would place us in an embarrassing position if the purchaser at auction should then apply for an export licence, and if it became known that we had refused the opportunity to accept the picture for the nation.

I very much hope that you and Nicholas Ridley, to whom a copy of this letter goes, will agree that we should accept this picture, paying for it from a call on the Reserve in 1987/88. I would be grateful for replies by Monday 16 March, because the executors would like an early commitment in principle to an acceptance in lieu of tax.

Ridley

RICHARD LUCE



MUSEUMS & GALLERIES COMMISSION

7 St. James's Square London SW1Y 4JU 01-839 9341

3299

The Rt Hon Richard Luce MP
Minister for the Arts
Government Offices
Great George Street
London SW1P 3AL

Miss Brown

3 March 1987

1535

Miss Morrison
13.3.87

~~Mr Stone~~

Richard Luce

Ms

ACCEPTANCE IN LIEU OF CAPITAL TRANSFER TAX

1. I am writing to ask you to agree to the acceptance of a major work by John Constable in lieu of Capital Transfer Tax arising in connection with the death on 12 February 1987 of Lady Catherine MacDonald-Buchanan.
2. The painting is entitled **Stratford Mill or The Young Waltonians** and has been valued at £10,000,000 by Messrs Christie's. I enclose a full description and a photocopy illustration of the painting.
3. It is the wish of the Executors of Lady MacDonald-Buchanan that, if accepted, the painting should be allocated to the National Gallery. We have been advised that, unless a firm commitment to accept the painting is given within the next fourteen days, it is likely the painting will be scheduled for inclusion in a sale of Important English Pictures at Messrs Christie's on 24 April 1987. **Stratford Mill** is one of the two most important works by John Constable which remain in private ownership, the other being **Salisbury Cathedral from the Meadows** which is on loan to the National Gallery from Lord Ashton of Hyde. It is anticipated that, **Stratford Mill** would fetch a world record price at auction and without doubt it would be bought by a purchaser from outside the UK.
4. As Expert Advisers we consulted, Neil MacGregor (Director, National Gallery) and Martin Butlin (Keeper, British Collection, Tate Gallery) and both responded very quickly to give their advice that the painting is pre-eminent. The Expert Advisers have expressed the view that the valuation of the painting at £10m is acceptable. I enclose copies of the Expert Advisers' reports.
5. The executors of Lady MacDonald-Buchanan are in the process of obtaining the Grant of Probate of the Will and, as the death occurred on 12 February 1987, payment of Capital Transfer Tax need not be made before 1 September 1987 when interest on any outstanding tax becomes payable. If a firm commitment to accept the picture in lieu can be given within the required time, the executors will not expect the credit against tax to be paid until the end of April or beginning of May 1987.
6. The cost of the Acceptance in Lieu will be about £5.5m. The basic provision on the joint votes of DOE and OAL is £2m for 1986-87. To date payments of £2,235,672 have been made against the 1986/87 vote. It has

been anticipated that the call on the Public Expenditure Reserve will be for £1,165,000 to enable payment to be made in respect of other offers which will be concluded within the current financial year. We recommend that payment for Stratford Mill be provided as a call in 1987-88 on the Public Expenditure Reserve and that the joint annual provision of £2m remain available for other smaller offers.

7. We recommend that the painting is pre-eminent and that the valuation at £10,000,000 is acceptable.

8. We believe that the acceptance of Stratford Mill, which can be described as a quintessentially English Heritage item, will be of enormous benefit in encouraging other owners and their advisers to offer important works in lieu of tax. Although we were not successful in our recent attempt to have the Van Gogh painting of Sunflowers accepted in lieu of tax, the acceptance of this major painting by Constable provides an ideal opportunity to demonstrate to owners, dealers and museums that the ALL system, including access to PER, is a workable, effective and financially viable option

9. If you will let me know that you accept our advice and approve the acceptance in lieu of Capital Transfer Tax, we will take the necessary steps to complete the transaction.

Yours sincerely,

Peter Longman

PETER LONGMAN
Secretary



JOHN CONSTABLE, R.A.

Stratford Mill on the Stour, near Bergholt, or 'The Young Waltonians': a bend of a river with four young anglers in the foreground, a barge with three men on the further bank, tall trees and farm buildings beyond
50½in. by 71in.

Painted in 1820 for Mr. Tinney and sold after his death

- Provenance: The Lewis Collection
C. F. Huth, 1895
Viscount Bolingbroke, sale Christie's,
December 10th, 1943, Lot 48
Lord Swaythling, 1946
Hutchinson, sale Christie's, July 20th,
1951, Lot 122, 42,000 guineas
- Exhibited: Royal Academy, 1820, no. 17
British Institution, 1825, no. 114
International Exhibition, 1874, no. 59 as
'The Young Waltonians'
Burlington House, 1886, no. 158
Burlington House, 1896, no. 126
Berlin, 1908, no. 73
Copenhagen, 1908, no. 2
Wembley, 1924, no. V15
British Art, Burlington House, 1934, no. 66
Derby House, London, 1949-51
Royal Academy, Winter Exhibition, The First
Hundred Years of the Royal Academy,
1951-52, no. 213
Royal Academy, Winter Exhibition, European
Masters of the 18th century, 1954-55,
no. 107
Royal Academy, Winter Exhibition, 1968-69
Christie's Bi-Centenary Exhibition, 1967
- Literature: C.R. Leslie, Memoirs of Constable, 1845,
pp.83, 84, 91
Sir Charles Holme, Constable, 1902, p. 85,
reproduced facing p. 92
The Hon. Andrew Shirley, John Constable, R.A.,
1948, pl.61; and The Rainbow, 1949, p. 112

Engraved by David Lucas, 1840 as 'The Young Waltonians'

Etched by Brunet Debaines, 1883



The Hon. Lady Macdonald-Buchanan

John Constable: Stratford Mill
oil on canvas - 50½in. by 71in.

This painting is without doubt one of Constable's greatest masterpieces, and is the most important painting of Constable's still in private hands.

This picture became known after Constable's death as 'The Young Waltonians' and it was the second of the artist's 6ft. canvases of scenes on the river Stour.

Constable rated the painting among his most substantial achievements, in his own words 'grander' than 'The Hay Wain'. After the 1820 Royal Academy exhibition The Examiner wrote that it 'has a more exact look of nature than any picture we have seen by an Englishman and has been equalled by very few of the boasted foreigners of former days, except in finishing'. Leslie, writing in 1843, remarked that it had more subject than 'The White Horse'.

On November 21st 1820 it is recorded that Constable was advised to 'complete for the Exhibition a subject more corresponding with his successful picture exhibited last May' (i.e. Stratford Mill). Before long he had commenced work on 'The Hay Wain' now in the National Gallery.

'Stratford Mill' was bought from Constable by John Fisher in 1821 as a present for his solicitor, John Penn Tinney who had been successful in a lawsuit on his behalf. Tinney was pleased with the painting and resisted most of Constable's attempts to get it back for further exhibitions. However, Constable did manage to work on the picture again in 1824 and to borrow it for a special exhibition at the British Institution in 1825.



10.1) Stratford, Vt., private collection, 127 x 162.9 cm.



LONDON WC2N 5DN

Ms Heather Wilson
Museums and Galleries Commission
7 St James's Square
London SW1Y 4JU.

2 March 1987

Dear Heather,

LADY CATHERINE MACDONALD-BUCHANAN: ACCEPTANCE IN LIEU

Thank you for your letter of 27th February requesting advice about Stratford Mill by John Constable.

I think there can be no doubt at all that Stratford Mill is a pre-eminent work: it has long been recognised as one of the major masterpieces of 19th century British painting. It is one of an important group of monumental paintings of the River Stour, a series which includes The Hay-Wain (1821) and The Leaping Horse (1824/5).

Stratford Mill has always been one of Constable's most popular works. Many of the favourable comments of 19th century writers have survived, but perhaps most importantly, Constable himself regarded the painting as one of his finest works. In his correspondence he was able to provide a detailed explanation of the 'natural history of the painting' and he felt it was 'grander' than The Hay-Wain. He attempted to borrow Stratford Mill back from its first owner for several exhibitions and it appears to have been especially important to Constable that he was represented by this work at the major exhibition 'Living Artists of the English School' organised by the British Institution in 1825.

Stratford Mill is undoubtedly the most important work by Constable still in private hands. Of the other six-foot Stour scenes, two are now in America (The White Horse, Frick Collection and View on the Stour near Dedham, Huntington Library and Art Gallery), while the less distinguished Boat passing a Lock is in a Private Collection and The Leaping Horse belongs to the Royal Academy of Arts in London. Only The Hay-Wain (National Gallery) is in a public collection in this country. It is clearly desirable that Stratford Mill should join The Hay-Wain as one of the small but select group of British pictures at the National Gallery which represent the best of British painting in a European context.

In my opinion, a valuation of £10 million does not seem unreasonable for the painting. The combination of recent American interest in British Art with last year's spectacular sales of 19th century painting would be certain to assure a very high price for Stratford Mill should it appear in the saleroom.

I hope this answers your query, but please do not hesitate to contact me should you require any further information.

Yours ever

Neil

Neil MacGregor
Director

IN CONFIDENCE



Miss Heather Wilson
Museums and Galleries Commission
7 St. James's Square
LONDON
SW1Y 4JU

27th February 1987

Dear Heather

LADY CATHERINE MACDONALD-BUCHANAN - ACCEPTANCE IN LIEU

Thank you for your letter of 27th February, which I have discussed with my Director and with my colleague Leslie Parris, who is as you know an accepted expert on Constable's works. We have no hesitation in saying that this picture is pre-eminent in every sense of the word. As a measure of its quality and importance I can summarise very briefly our discussion when considering the acquisition of Constable's 'Opening of Waterloo Bridge': there were only two other works by Constable of similar or even higher quality, 'Salisbury Cathedral from the Meadows (with a rainbow)', now on loan to the National Gallery, and 'Stratford Mill'. 'Stratford Mill' is more central to Constable's achievement than 'The Opening of Waterloo Bridge' and, for the best of reasons, the kind of Constable that is most popular with the general public and this, we think, justifies the price of £10,000,000 being asked. The price of £4,000,000 set on 'The Opening of Waterloo Bridge' recognizes the slightly off-beat character of the picture we are trying to buy, and was also set before the sale shortly before Christmas of a much smaller, though more attractive picture for about £2½ million.

One further argument in favour of the acceptance in lieu of this painting: Constable himself regarded it as among his most important achievements and incurred the wrath of its first owner on several occasions by asking to have it back to represent him in exhibitions.

John Constable's landscapes of East Anglian subjects are, of course, absolutely central to our heritage and for this and the other reasons I have given we consider this to be one of the most worthy candidates for acceptance in lieu of any individual painting that has been made available through these procedures since they were instituted.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Butlin'.

Martin Butlin
Keeper of the British Collection



FROM: CATHY RYDING

DATE: 10 March 1987

MRS LAWSON

cc Chancellor
Mr Allan
Mr Dyer
Mrs Lester
Mr T J Davies

SEATING ARRANGEMENTS FOR BUDGET DAY

As in the last couple of years there is a seat reserved for you in the Distinguished Strangers Gallery, and this year we have also reserved a seat for Tom.

2. I understand from Simon Woodall that Tom will be travelling with you and the Chancellor in the car over to the House. If you are content, we could use the same arrangements as for last year. Namely, Tony Davies, now in the Ministerial Correspondence Unit, picks up tickets for you and Tom from the policeman in the Central Lobby soon after 2.15 pm on Budget Day. He meets you and Tom in the Speakers Court when you arrive with the Chancellor and then escorts you to your seats.

3. Please let me know if you would prefer any other arrangements.

Handwritten signature 'CR' in black ink.

CATHY RYDING



FROM: A C S ALLAN
DATE: 10 March 1987

MR WOODALL

cc: Chancellor
Mrs Lawson
Mr P Lilley MP
Mr Culpin
Mr Porteous

BUDGET DAY: DEPARTURE FROM NO.11

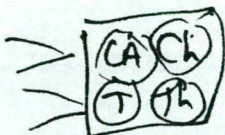
I found your minute of 5 March most helpful. I have prepared the ... attached diagram which will I hope make it absolutely clear to everyone exactly where they are supposed to be when!

ACSA

A C S ALLAN

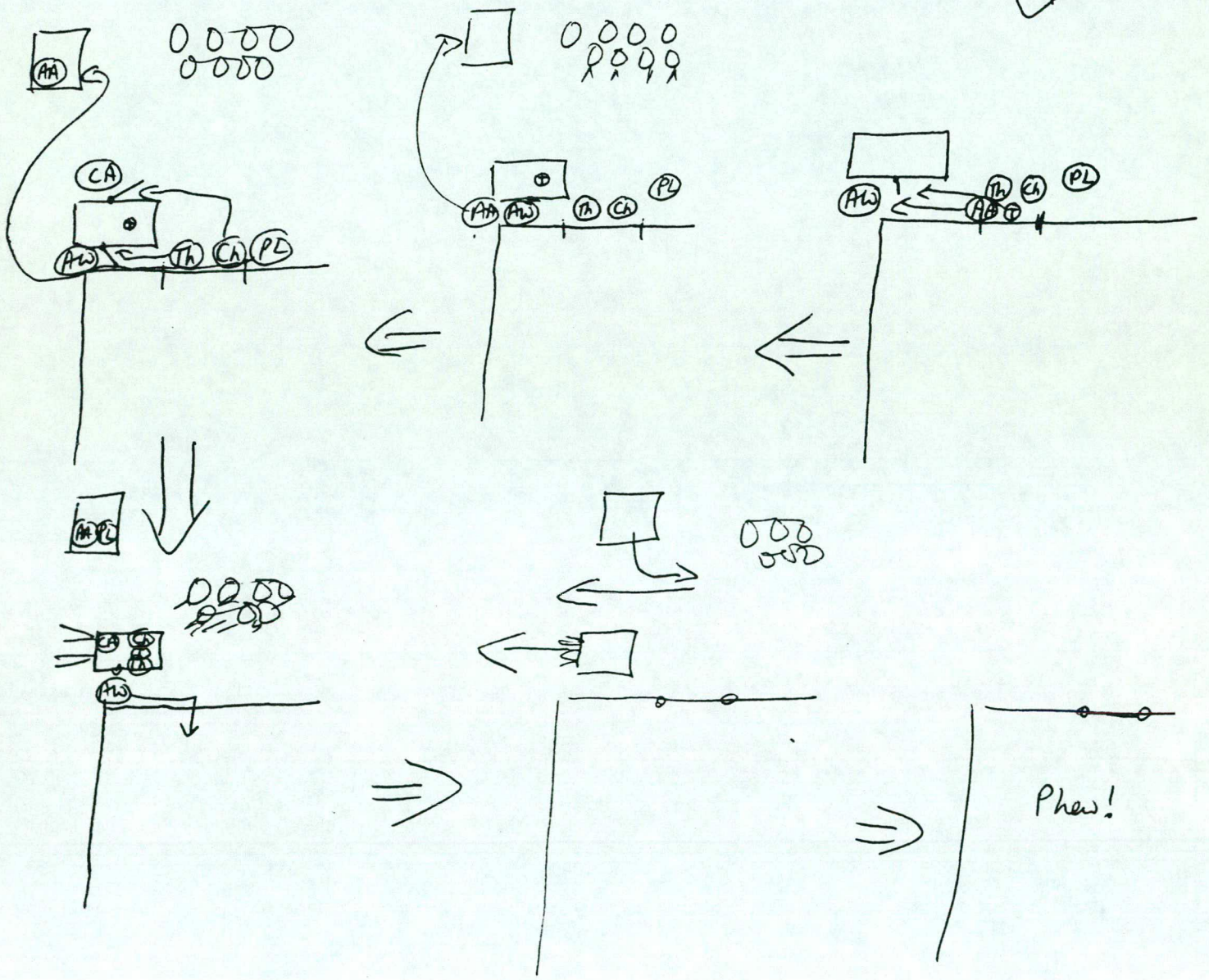
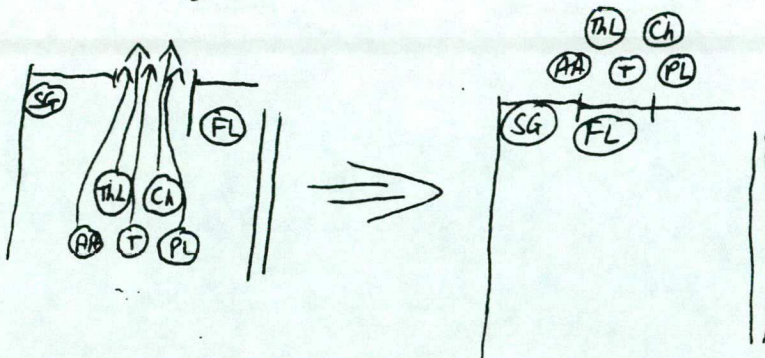
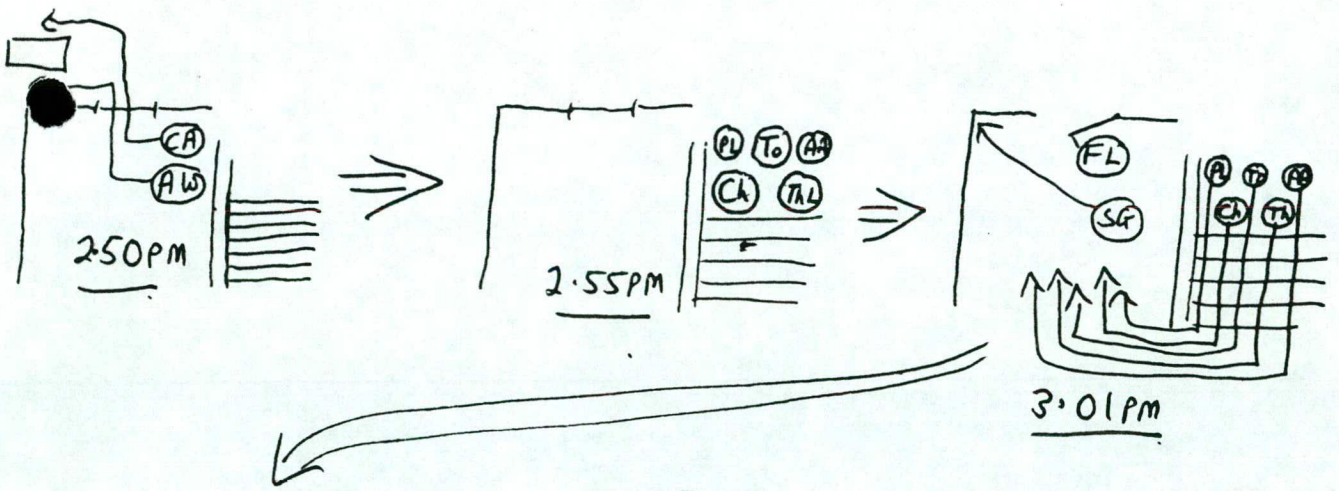
*Excellent!
As v. us. sig.
Just me
BOTH KPR dragon
845 or (for car State plan)*

*Ch
Noted. I will
make sure Tom gets
into correct seat.
AA*



*PS - Psa det men
have back.*

XL



UNCLASSIFIED

pur



FROM: A C S ALLAN
DATE: 10 March 1987

MR WOODALL

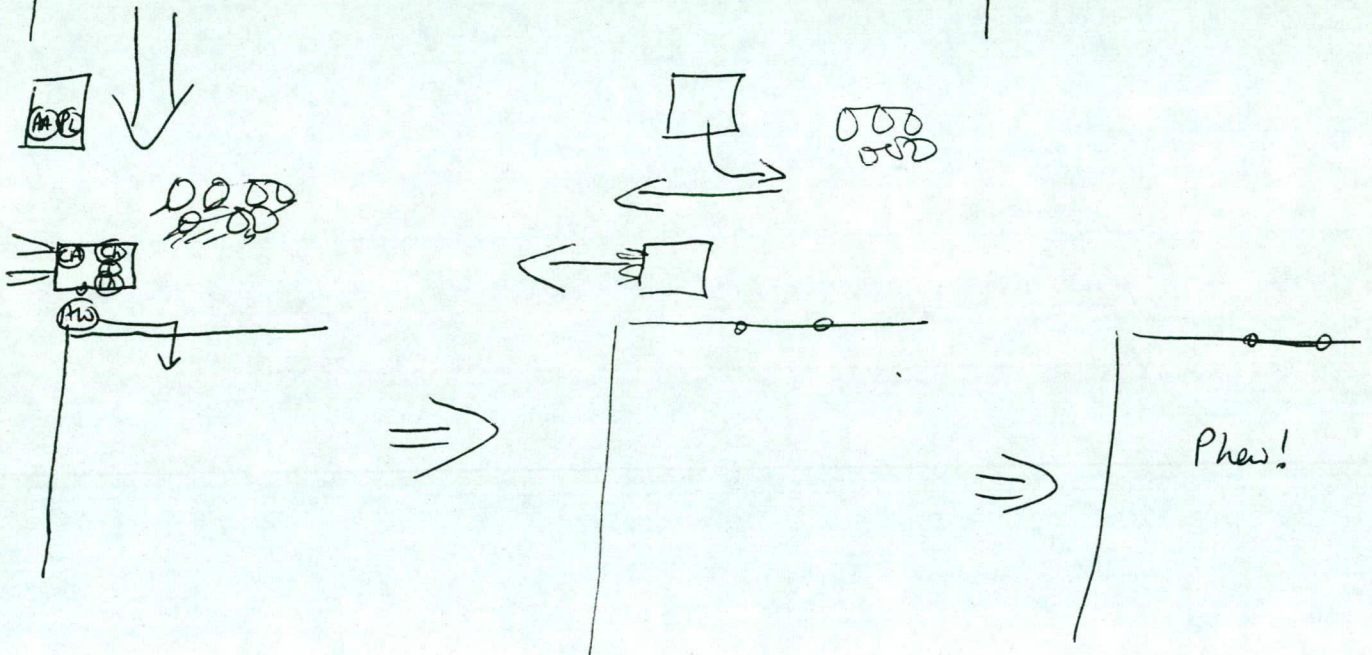
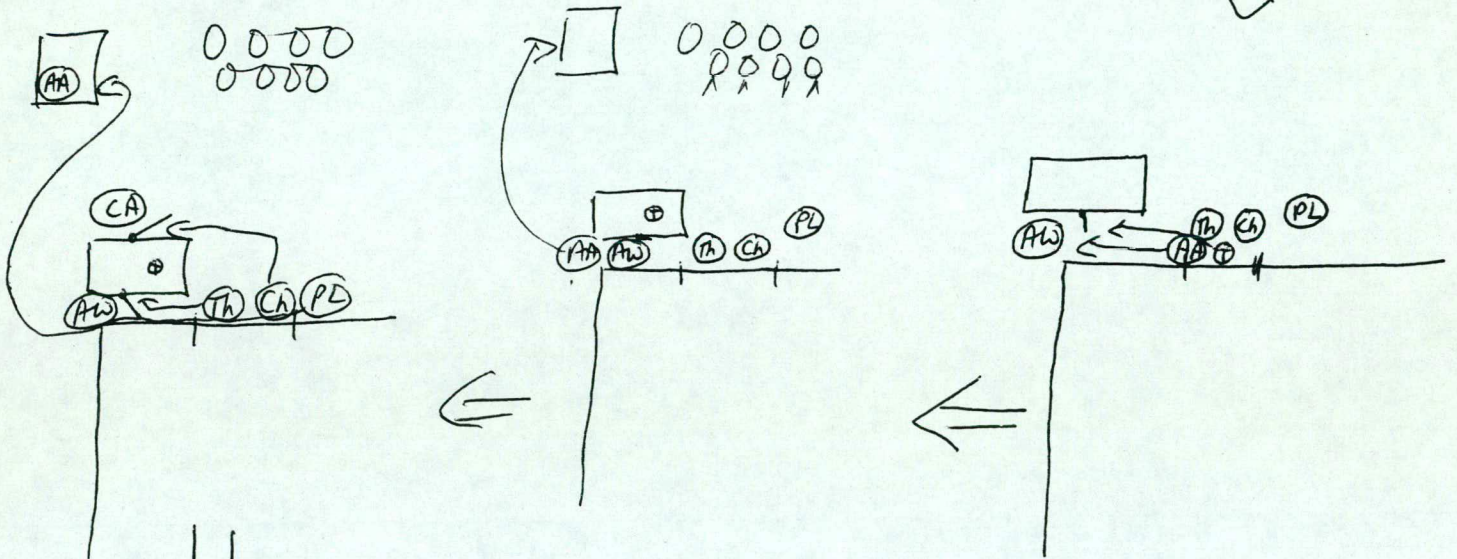
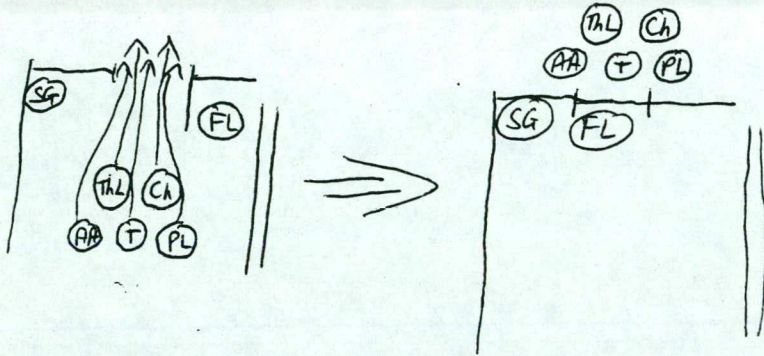
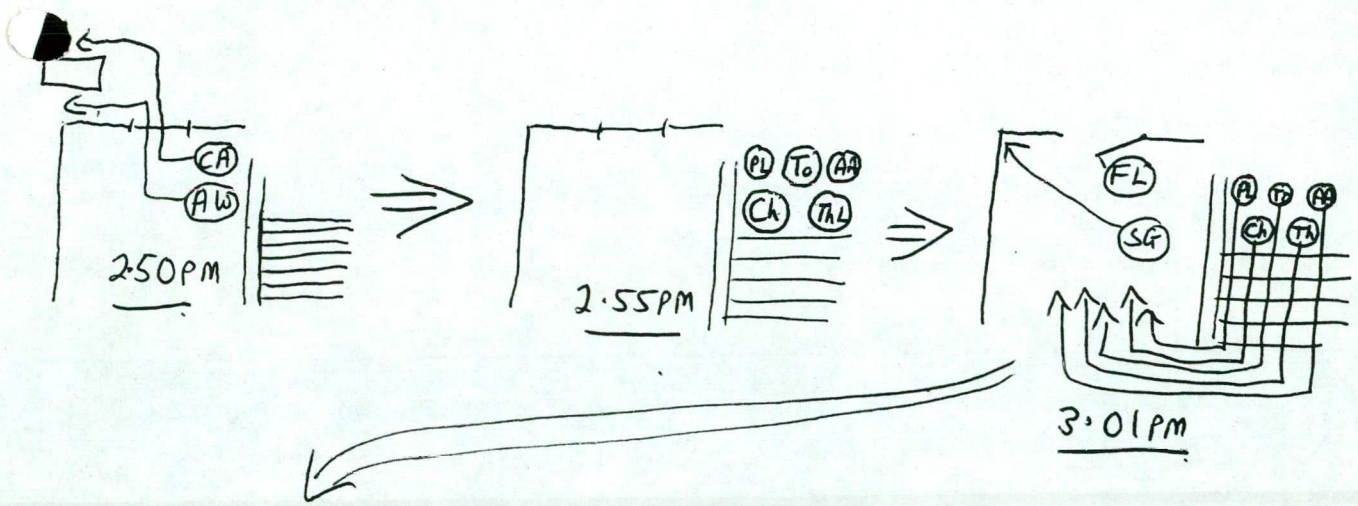
cc: Chancellor
Mrs Lawson
Mr P Lilley MP
Mr Culpin
Mr Porteous

BUDGET DAY: DEPARTURE FROM NO.11

I found your minute of 5 March most helpful. I have prepared the ... attached diagram which will I hope make it absolutely clear to everyone exactly where they are supposed to be when!

ACSA

A C S ALLAN



Rebbie - Bif 11/3
Personal folder



FROM: CATHY RYDING

DATE: 10 March 1987

MRS LAWSON

cc **Chancellor**
Mr Allan
Mr Dyer
Mrs Lester
Mr T J Davies

SEATING ARRANGEMENTS FOR BUDGET DAY

As in the last couple of years there is a seat reserved for you in the Distinguished Strangers Gallery, and this year we have also reserved a seat for Tom.

2. I understand from Simon Woodall that Tom will be travelling with you and the Chancellor in the car over to the House. If you are content, we could use the same arrangements as for last year. Namely, Tony Davies, now in the Ministerial Correspondence Unit, picks up tickets for you and Tom from the policeman in the Central Lobby soon after 2.15 pm on Budget Day. He meets you and Tom in the Speakers Court when you arrive with the Chancellor and then escorts you to your seats.

3. Please let me know if you would prefer any other arrangements.

CR

CATHY RYDING



C

The Chief Whip is holding a Whips' meeting this morning which is likely to last until lunchtime.

He can manage 300pm at No 11.

I attach a further revised diary card.

D.
11/3

RESTRICTED



FROM: B O DYER
DATE: 10 March 1987

*For fit up
w/pe wty wtd
Ch/ W/pe
this morning*

01-270 4520

CHANCELLOR

*Ch
May well be worth your
having a word with Chief
Whip: seems an undesirable
precedent to have Budget debate
running on after 7 PM. And diff
for lead duty with Ministers
broadcasting commitments*

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Culpin ← Mr. Scholar
Mrs D C Lester

BUDGET DAY : MINISTERIAL BENCH DUTY

*to say nothing of your party.
AA*

For the first time since 1969, there is no Opposed Private Business that can be put before the House at 7pm on Budget Day to fill the three hours until 10pm. I have asked if some opposed business can be initiated or engineered to fill the gap. Murdo MacLean is considering this possibility, but his office is not very optimistic.

2. Another possibility is to take an item of uncontroversial Government Business - eg Second Reading of the Parliamentary and Other Pensions Bill (a pension for the widow of a former Speaker, Lord Maybray - King). But it cannot guarantee to bridge the gap until 10pm. A single Member can move the closure and ask that the question be put forthwith; in which case, ~~any time remaining until 10pm would revert to debating the Budget.~~ *the House would either rise early or embark on a series of Adjournment debates.*

3. If Murdo Maclean is unsuccessful in finding some Business for the three hours (7-10pm) on 17 March, I am afraid a Treasury Minister will need to cover the bench until the closure. He will not of course need to participate in the debate. Traditionally, after the Leader of the Opposition's response, the first day is given over to backbenchers.

*Mr Byffen is charge of
this so may not be keen.
But it's a EC dinner's
word.*

B O DYER

UNCLASSIFIED

prop



FROM: A C S ALLAN
DATE: 10 March 1987

MR WOODALL

cc: **Chancellor**
Mrs Lawson
Mr P Lilley MP
Mr Culpin
Mr Porteous

BUDGET DAY: DEPARTURE FROM NO.11

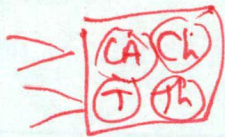
I found your minute of 5 March most helpful. I have prepared the ... attached diagram which will I hope make it absolutely clear to everyone exactly where they are supposed to be when!

ACSA

A C S ALLAN

*Excellent!
As v. useful.
Just me
B3/Hm KPR dragon
845 or (for Car Stated plan)*

*Ch
Noted. I will
make sure Tom gets
into correct seat.
✓ AA*



*PS - Per det men
have bath.*

XL

CONFIDENTIAL



FROM: B O DYER
 DATE: 11 March 1987

CHANCELLOR

cc Chief Secretary
 Financial Secretary
 Economic Secretary
 Minister of State
 Mr Culpin
 Mr Cropper

CABINET : THURSDAY 12 MARCH 1987
PARLIAMENTARY AFFAIRS

Following is the Business, currently, proposed for the Commons next week.

Monday 16 March

2.30pm: Transport Questions

3.30pm: Second Reading of the **Immigration (Carriers' Liability) Bill**

10pm: Following approval of the Supply Resolutions in respect of the recent Supplementary Estimates the **Financial Secretary will bring in** - ie 'Walk the Floor' with the **Consolidated Fund (No.2) Bill**

Tuesday 17 March

2.30pm: Education and Science Questions

3.15pm: PM's Questions

[3.30pm: **Ten Minute Rule Bill** : Mr Stern (Airport Charges) **To be Withdrawn**]

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

Wednesday 18 March

2.30pm: Foreign and Commonwealth Questions

3.30pm: Ten Minute Rule Bill: Mr Leigh - **Opposition Budgets Bill**

3.40 to 10pm: Resumption of **Budget Debates** (Opposition will open - probably Mr Hattersley - followed by the **Chief Secretary**. The **Financial Secretary** will wind up for the Government).

Thursday 19 March

2.30pm: Agriculture Questions

3.15pm: PM's Questions

3.30pm: Business Statement (LPS)

3.50 to 10pm: Continuation of **Budget Debates** (S of S for Trade and Industry/Paymaster General will open for the Government with the Economic Secretary/Minister of State winding up)

Friday 20 March

9.30am: **Private Members' Motions**

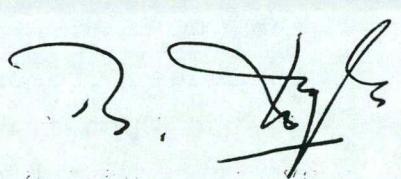
1. Mr Iain Mills: To be announced
2. Mr Michael Foot: Funding of Universities
3. Mr William Shelton: To be announced

Monday 23 March

2.30pm: Welsh Questions

3.30 to 10pm: **Budget Debates, concluding day** (The S of S for Trade and Industry/Paymaster General will open for the Government and the **Chancellor of the Exchequer** will wind up)

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



B O DYER



FROM: B O DYER
DATE: 11 March 1987

01-270 4520

MR ALLAN *Ch*

BUDGET DAY : BUSINESS ON THE FLOOR OF THE HOUSE

The Chancellor is seeing the Chief Whip this afternoon to discuss the practicalities of finding some business to take between 7 and 10pm on Budget Day.

2. In the absence of Opposed Private Business, I suspect the difficulty facing the Whips is not so much finding Government business to fill this slot (see outstanding business on attached Remaining Orders of the Day), but rather persuading the Opposition - through the usual channels - to concur.

3. For the record, Opposed Private Business interrupts proceedings at 7pm. The introduction of a further item of Government business at 7pm requires a motion to adjourn debate of the Budget to another named day - ie Wednesday 18 March.

B O DYER

PS

*a note of
Also attached is the provisional business for next week.*



DEPARTMENT OF TRADE AND INDUSTRY
 1-19 VICTORIA STREET
 LONDON SW1H 0ET
 Telephone (Direct dialling) 01-215 5422
 GTN 215
 (Switchboard) 01-215 7877

Secretary of State for Trade and Industry

CONFIDENTIAL

11 March 1987

Nigella
M. ...
...

The Rt Hon Nigel Lawson QC MP
 Chancellor of the Exchequer
 HM Treasury
 Parliament Street
 LONDON
 SW1P 3AG

Dear Nigel,

I have seen your letter of 3 March to David Young about the BES and other matters.

As you know, I too have been concerned about the availability of equity for small companies, particularly outside London and the South East. I therefore very much welcome your proposal that officials of our Departments should examine how the use of the BES for this purpose might be promoted.

I am copying this letter to David Young.

1/...
...
Paul

PAUL CHANNON

JF2AEN

CH/EXCHEQUER			
REC.	12 MAR 1987		
APPROVED	CST	FST	EST MST
TO	SIR P MIDDLETON		
	MR WILSON		
	MR MONCK		
	MR SCHOLAR		
	MISS SINCLAIR		
	MR WALTERS		
	MR MACAUSLAN		
	MR CROPPER		
	MR TYRIE		

✓ 12/3

MR ROSS GOOBET
PS/IR *MR WALKER-IR*

REMAINING ORDERS OF THE DAY AND NOTICES OF MOTIONS

THE FOLLOWING ORDERS AND NOTICES OF MOTIONS ALSO STAND UPON
THE PAPER FOR THIS DAY'S SITTING

*Those marked thus * are Government Orders of the Day*

6 SHORT SPEECHES

Mr John Biffen

That—

(1) Mr Speaker may announce at the commencement of public business that, because of the number of Members wishing to speak in a debate on one of the matters specified in paragraph (2) of this order, he will call Members either between six o'clock and ten minutes before eight o'clock or between seven o'clock and ten minutes before nine o'clock on Monday to Thursday sittings, and between half-past eleven o'clock and one o'clock on Friday sittings, to speak for not more than ten minutes; and whenever Mr Speaker has made such an announcement he may, between those hours, direct any Member who has spoken for ten minutes in such a debate to resume his seat forthwith.

(2) This Order shall apply to debates on:

- (a) the second reading of public bills,
- (b) matters selected under paragraph (2) of Standing Order No. 13 (Arrangement of public business) for consideration on allotted opposition days; and
- (c) motions in the name of a Minister of the Crown.

That this Order be a Standing Order of the House.

As Amendments to Mr John Biffen's proposed Motion (Short Speeches):

Mr Tony Banks

Line 4, leave out from 'Members' to 'direct' in line 8 and insert 'to speak for not more than ten minutes; and whenever Mr Speaker has made such an announcement he may'.

Mr David Alton

Mr John Cartwright

Line 4, leave out 'either between six o'clock and ten minutes before eight o'clock or'

Mr Dennis Canavan

Mr George Foulkes

Line 14, at end insert—

'(3) The Chairman of the Scottish Grand Committee may announce at the beginning of any meeting of that Committee that, because of the number of Members wishing to speak in a debate, he will call Members between 11.10 a.m. and 12.40 p.m. to speak for not more than ten minutes; and whenever the Chairman has made such an announcement he may, between those hours, direct any Member who has spoken for ten minutes in such a debate to resume his seat forthwith.'

Mr Ray Powell

Line 14, at end insert—

'(3) The Chairman of the Welsh Grand Committee may announce at the commencement of any meeting of the committee that, because of the number of Members wishing to speak in the debate, he will call Members between 11.30 a.m. and 12.30 p.m. to speak for not more than 10 minutes; and in the event of the committee having agreed to meet from 4 p.m. to 6 p.m. he will call Members between 11.30 a.m. to 1 p.m. and 4 p.m. to 5.30 p.m. to speak for not more than 10 minutes; and whenever the Chairman has made such an announcement he may, between those hours, direct any Member who has spoken for ten minutes in such a debate to resume his seat forthwith.'

ORDERS OF THE DAY AND NOTICES OF MOTIONS—*continued*

7 NORTHERN IRELAND

Mr Secretary King

That the draft Police (Northern Ireland) Order 1986, which was laid before this House on 16th December, be approved.

8 URBAN DEVELOPMENT

Mr Secretary Edwards

That the Cardiff Bay Development Corporation (Area and Constitution) Order 1987, dated 6th January 1987, a copy of which was laid before this House on 12th January, be approved.

The Instrument has not yet been considered by the Joint Committee on Statutory Instruments.

The Instrument has been referred to a Standing Committee on Statutory Instruments, &c.

9 NORTHERN IRELAND

Mr Secretary King

That the draft Industrial Relations (Northern Ireland) Order 1987, which was laid before this House on 22nd January, be approved.

*** 10 FAMILY LAW REFORM BILL [LORDS]: Second Reading.**

11 INDUSTRIAL TRAINING

Mr Kenneth Clarke

That the draft Industrial Training Levy (Engineering Board) Order 1987, which was laid before this House on 13th February, be approved.

As an Amendment to Mr Kenneth Clarke's proposed Motion (Industrial Training):

Mr John Prescott

Mr Giles Radice

Mr Barry Sheerman

Mr John Evans

Clare Short

Mr Andrew Bennett

Line 2, leave out 'approved' and add 'be not approved until the Government gives a clear lead and firm support to the Board in achieving significantly greater investment in training in companies within the scope of the Engineering Industry Training Board, particularly for adults and in new technology skills and until the Government develops a comprehensive approach to meeting engineering skill needs across the whole of industry and services.'

*** 12 CHEVENING ESTATE BILL [LORDS]: Second Reading. (To be reported upon by a Second Reading Committee.)**

Mr John Biffen

After Second Reading of the Chevening Estate Bill [Lords], to move, That the Bill be committed to a Select Committee of seven Members, four to be nominated by the House and three by the Committee of Selection.

That there shall stand referred to the Select Committee—

(a) any Petition against the Bill presented by being deposited in the Private Bill Office at any time not later than the seventh day after this day, and

(b) any Petition which has been presented by being deposited in the Private Bill Office and in which the Petitioners complain of any amendment as proposed in the filled-up Bill or of any matter which has arisen during the progress of the Bill before the said Committee,

ORDERS OF THE DAY AND NOTICES OF MOTIONS—continued

being a Petition in which the Petitioners pray to be heard by themselves, their Counsel or Agents.

That if no such Petition as is mentioned in sub-paragraph (a) above is presented, or if all such Petitions are withdrawn before the meeting of the Committee, the order for the committal of the Bill to a Select Committee shall be discharged and the Bill shall be committed to a Standing Committee.

That any Petitioner whose Petition stands referred to the Select Committee shall, subject to the Rules and Orders of the House and to the Prayer of his Petition, be entitled to be heard by himself, his Counsel or Agents upon his Petition provided that it is prepared and signed in conformity with the Rules and Orders of the House, and the Member in charge of the Bill shall be entitled to be heard by his Counsel or Agents in favour of the Bill against that Petition.

That the Committee have power to report from day to day the Minutes of the Evidence taken before it.

That three be the Quorum of the Committee.

13 CONSUMER SAFETY

Mr Secretary Channon

That the draft Plugs and Sockets etc. (Safety) Regulations 1987, which were laid before this House on 25th February, be approved.

The Instrument has been referred to a Standing Committee on Statutory Instruments &c.

*** 14 PARLIAMENTARY AND OTHER PENSIONS BILL: Second Reading.****15 PARLIAMENTARY AND OTHER PENSIONS BILL [MONEY]: Queen's Recommendation signified.**

For text, see p. 1818 of Remaining Orders, Friday 27th February

16 HOUSE OF COMMONS MEMBERS' FUND

Mr Alfred Morris

Sir Geoffrey Finsberg

Sir Anthony Kershaw

Mr Gordon Oakes

Sir Gerard Vaughan

Mr Richard Wainwright

That in pursuance of the provisions of section 3 of the House of Commons Members' Fund Act 1948 and of section 2 of the House of Commons Members' Fund and Parliamentary Pensions Act 1981 the maximum annual amounts of the periodical payments which may be made out of the House of Commons Members' Fund under the House of Commons Members' Fund Act 1939, as amended, and the annual rate of any payments made under section 1 of the said Act of 1981 shall be varied as from 1st April 1987 as follows:

(a) for paragraph 1 of Schedule 1 to the said Act of 1939, as amended, there shall be substituted the following paragraph:

' 1. The annual amount of any periodical payment made to any person by virtue of his past membership of the House of Commons shall not exceed £2,451 or such sum as, in the opinion of the Trustees, will bring his income up to £4,512 per annum, whichever is the less:

Provided that if, having regard to length of service and need, the Trustees think fit, they may make a larger payment not exceeding £4,728 or such sum as, in their opinion, will bring his income up to £6,789 per annum, whichever is the less:

ORDERS OF THE DAY AND NOTICES OF MOTIONS—continued

(b) for paragraph 2 of that Schedule there shall be substituted the following paragraph:

‘ 2. The annual amount of any periodical payment to any person by virtue of her being a widow of a past Member of the House of Commons shall not exceed £1,227 or such sum as, in the opinion of the Trustees, will bring her income up to £3,288 per annum, whichever is the less:

Provided that if, having regard to her husband’s length of service or to her need, the Trustees think fit, they may make a larger payment not exceeding £2,361 or such sum as, in the opinion of the Trustees, will bring her income up to £4,422 per annum, whichever is the less ’:

(c) in paragraph 2A of that Schedule for the words ‘ the annual amount of any periodical payment ’ to the end of the paragraph, there shall be substituted the words:

‘ the annual amount of any periodical payment made to any such widower shall not exceed £1,227 or such sum as, in the opinion of the Trustees, will bring his income up to £3,288 per annum, whichever is the less:

Provided that if, having regard to his wife’s length of service or to his needs the Trustees think fit, they may make a larger payment not exceeding £2,361 or such sum as, in the opinion of the Trustees, will bring his income up to £4,422 per annum, whichever is the less ’:

(d) in section 2(1) of the said Act of 1981, for the words from the beginning to the end of paragraph (b) there shall be substituted the words:

‘ the annual rate of any payments made under section 1 shall be:—

(a) £1,428 if the payments are made to a past Member ; and

(b) £714 if the payments are made to the widow or widower of a past Member ’.

* **17 BROADCASTING BILL [LORDS]:** As amended (*in the Standing Committee*), to be considered.

For Amendments, see pages 385 and 389 of Supplement to Votes.

* **18 NORTHERN IRELAND (EMERGENCY PROVISIONS) BILL:** As amended (*in the Standing Committee*), to be considered.

19 CIVIL DEFENCE

Mr Secretary Rifkind

That the draft Civil Defence (Grant) (Scotland) Amendment Regulations 1987, which were laid before this House on 4th March, be approved.

The Instrument has not yet been considered by the Joint Committee on Statutory Instruments.

20 CIVIL DEFENCE

Mr Secretary Hurd

That the draft Civil Defence (Grant) (Amendment) Regulations 1987, which were laid before this House on 4th March, be approved.

The Instrument has been referred to a Standing Committee on Statutory Instruments, &c.

21 MERCHANT SHIPPING

Mr Secretary Moore

That the draft Carriage of Passengers and their Luggage by Sea (Domestic Carriage) Order 1987, which was laid before this House on 4th March, be approved.

The Instrument has been referred to a Standing Committee on Statutory Instruments, &c.

ORDERS OF THE DAY AND NOTICES OF MOTIONS—continued

22 MERCHANT SHIPPING

Mr Secretary Moore

That the draft Merchant Shipping Act 1979 (Commencement No. 11) Order 1987, which was laid before this House on 4th March, be approved.

The Instrument has been referred to a Standing Committee on Statutory Instruments, &c.

*** 23 IMMIGRATION (CARRIERS' LIABILITY) BILL: Second Reading.**

24 LEGAL AID AND ADVICE (SCOTLAND)

Mr Secretary Rifkind

That the draft Advice and Assistance (Assistance by Way of Representation) (Scotland) Regulations 1987, which were laid before this House on 5th March, be approved.

25 ROAD HAULAGE

The Prime Minister
Secretary Sir Geoffrey Howe
Mr Chancellor of the Exchequer
Mr Secretary Hurd
Mr Secretary Walker
Mr Secretary Moore

That this House takes note of European Community Documents Nos. 11198/85 on the conditions under which non-resident carriers may operate national road haulage services within a member State, and 10522/1/86 on access to the market for the carriage of goods by road between member States and the Department of Transport's supplementary explanatory memoranda of 16th January and 27th February 1987; and supports the Government's intention to seek early liberalisation of road haulage services in conditions which minimise the burden on the road haulage industry and promote fair competition.

The Document has been referred to a Standing Committee on European Documents.

26 EUROPEAN COMMUNITY/UNITED STATES TRADE

The Prime Minister
Secretary Sir Geoffrey Howe
Mr Chancellor of the Exchequer
Mr Secretary Hurd
Mr Secretary Walker
Mr Secretary Channon

Thurs 12 March

That this House takes note of the unnumbered explanatory memorandum, dated 31st January 1987, submitted by the Department of Trade and Industry, describing a draft Decision concerning the Agreement between the European Community and the United States of America for the conclusion of negotiations under General Agreement on Tariffs and Trade (GATT) Article XXIV.6, and European Community Document No. 5062/87 and the Department's unnumbered explanatory memorandum, dated 23rd February 1987, on the implementation of the Agreement; and welcomes the Agreement as the means of averting an exchange of retaliatory and counter-retaliatory trade measures between the United States and the Community which would have very serious consequences for EC-US trade, for the multilateral trading systems and for progress in the new round of multilateral trade negotiations now beginning in GATT.

ORDERS OF THE DAY AND NOTICES OF MOTIONS, *continued***27 CONTROL OF EMISSIONS FROM DIESEL ENGINES**

The Prime Minister
 Secretary Sir Geoffrey Howe
 Mr Chancellor of the Exchequer
 Mr Secretary Hurd
 Mr Secretary Walker
 Mr Secretary Moore

That this House takes note of European Community Document No. 7969/86 on the control of emissions from certain categories of diesel-engined road vehicles; and supports the Government in its efforts to secure environmental benefits with technically and economically realistic limits.

28 MEDICAL AND HEALTH RESEARCH

The Prime Minister
 Secretary Sir Geoffrey Howe
 Mr Chancellor of the Exchequer
 Mr Secretary Hurd
 Mr Secretary Walker
 Mr Secretary Fowler

That this House takes note of European Community Document No. 10279/1/86 on a programme of action in the field of medical and health research (1987-1989); and welcomes the Government's intention to support the proposal, subject to agreement on an acceptable level of cost and the adoption of a Council Decision rather than a Regulation.

The Document has been referred to a Standing Committee on European Documents.

* **29 LANDLORD AND TENANT (NO. 2) BILL: Second Reading.**

* **30 PILOTAGE BILL [LORDS]: Second Reading.**

31 BROADCASTING

Mr Secretary Hurd

That the draft Broadcasting (Extension of Duration of IBA's Function) Order 1987, which was laid before this House on 9th March, be approved.

The Instrument has not yet been considered by the Joint Committee on Statutory Instruments.

* **32 FIRE SAFETY AND SAFETY OF PLACES OF SPORT BILL [LORDS]: Second Reading.**

33 AGRICULTURE

Mr Michael Jopling

That the draft Revised Code of Recommendations for the welfare of domestic fowls which was laid before this House on 9th March, be approved.

The Instrument has not yet been considered by the Joint Committee on Statutory Instruments.

34 AGRICULTURE

Mr Michael Jopling

That the draft Code of Recommendations for the welfare of ducks, which was laid before this House on 9th March, be approved.

The Instrument has not yet been considered by the Joint Committee on Statutory Instruments.

ORDERS OF THE DAY AND NOTICES OF MOTIONS—continued**35 AGRICULTURE**

Mr Michael Jopling

That the draft Code of Recommendations for the welfare of rabbits, which was laid before this House on 9th March, be approved.

The Instrument has not yet been considered by the Joint Committee on Statutory Instruments.

36 AGRICULTURE

Mr Michael Jopling

That the draft Revised Code of Recommendations for the welfare of turkeys, which was laid before this House on 9th March, be approved.

The Instrument has not yet been considered by the Joint Committee on Statutory Instruments.

37 ACCESS TO PERSONAL FILES BILL [MONEY]: Queen's Recommendation signified.

Mr Norman Lamont

That, for the purposes of any Act resulting from the Access to Personal Files Bill, it is expedient to authorise the payment out of money provided by Parliament of—

(a) any expenses incurred by a Minister of the Crown or a government department in consequence of the provisions of that Act, and

(b) any increase attributable to that Act in the sums payable out of money so provided under any other enactment.

38 GOVERNMENT POLICY TOWARDS THE ARTS

The Prime Minister

Secretary Sir Geoffrey Howe

Mr Chancellor of the Exchequer

Mr Secretary Hurd

Mr Secretary Walker

Mr Richard Luce

That this House congratulates the Government on the success of its arts policy which is resulting in an expansion of arts and crafts throughout the country and greater protection of our national heritage ; approves the Government's strategy of increasing the inflow of funds to the arts from a diversity of sources ; welcomes the tax changes including the new payroll giving scheme, which will stimulate giving to the arts by individuals and companies ; applauds the Government's continuing commitment to promoting sponsorship of the arts through the Business Sponsorship Incentive Scheme ; endorses the new arts marketing scheme, designed to encourage a keener awareness of the benefits to the arts of good marketing ; and acknowledges the political commitment shown by the Government in the form of record levels of public support for the arts.

*** 39 TERRITORIAL SEA BILL [LORDS]: Second Reading.**



Mr Allan

FROM: A C S ALLAN
DATE: 11 March 1987

Please see

my comments.

MR ODLING-SMEE

MCS 4/3

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Scholar 1st
Mr Sedgwick
Mr Riley

NOTE FOR THE PRIME MINISTER ON MTFS ETC.

The Chancellor needs to send a minute to the Prime Minister recording his proposals on the PSBR and on the MTFS. I attach a draft and would be grateful for any comments as soon as possible.

2. The drafting of the passages on the PSBR clearly has to await a final decision on the numbers.

ACSA

A C S ALLAN

4/12/87

DRAFT MINUTE FROM THE CHANCELLOR

PRIME MINISTER

1987 BUDGET: MTF5

In my minute of [] March, I set out my tax proposals and said I would let you have a further minute on the PSBR and monetary targets for 1987-88.

Public Sector Borrowing

The latest estimates of the February PSBR show that cumulative borrowing in the first eleven months of the year was only £0.1 billion. Borrowing in March will, as usual, be heavy, ^{although the} likely out-turn remains very uncertain, ~~though the~~ Local authorities always undertake substantial borrowing in March, and we shall be making a £680 million payment to Rover. But it ^{our best estimate is} seems likely that borrowing over the year as a whole will be no more than about [£4½] billion, ^{needed with} below ~~the £7 billion set in the~~ last year's Budget.

I believe it is right to set the PSBR for 1987-88 below that; it would give the wrong signal if we were to increase the PSBR at a time when growth was demonstrably strong. ~~Even with the~~ £2.6 billion tax package we have agreed, there should be no ^{therefore} difficulties over this. I propose to set the PSBR for 1987-88 at [£4] billion, or 1 per cent of GDP, ^{rather} and the arithmetic underpinning this is based on cautious estimates of revenue yields and on an assumption of a \$15 oil price. ~~This further~~

For the remaining years of the MTF5 period, I plan to show the PSBR remaining at 1 per cent of GDP. This was the level we used as our goal in the illustrative path for the PSBR in the Green Paper on long-term public expenditure, published in March 1984. It was then the assumption for 1993-94, and it is a remarkable achievement to be able to reach that goal so far in advance of our earlier planning.

This year we have the APRT repayments and the

order wrong makes it look as if the cuts driving every budget

and my Budget, as we have discussed, is framed accordingly.

(all over the) I am clear, too, that we must base our calculations on cautious estimates of revenue yields, and am accordingly, as last year, assuming an average oil price of \$15 a barrel. Taking account of all of this I have room for a reduction in the real tax burden of a little over £2½ billion.

Monetary Targets

For the monetary targets in 1987-88, I intend to stick to M0 but not to set a formal target for £M3, ~~for 1987-88~~. As you know, we have had increasing difficulties in interpreting changes in broad money, and £M3 has for several years showed a tendency to grow more rapidly than money GDP. This year, £M3 has grown consistently above its target range. I do not think that dropping the £M3 target will cause any surprise at all.

The velocity of M0 has been much more stable, and M0 has remained within its target range of 2 to 6 per cent. The illustrative range for M0 in 1987-88 which we set out in last year's FSBR was ^{also} 2 to 6 per cent, and I see no reason to change that now. I shall also be publishing the same illustrative ranges as in last year's FSBR for the future years of the MTFs.

The dropping of a broad money target does not mean that the whole weight of monetary policy is thrown on to M0, though that has a very important role to play. We shall continue to assess monetary conditions in the light of all the available indicators, including in particular the exchange rate. And we shall make it clear that, although we are not setting a formal target for £M3, we shall continue to take it into account in assessing monetary conditions.

This approach has been fully discussed with the Bank who support these recommendations.

These proposals will, I believe, give us a solid financial framework, ~~for the~~ with a safety margin built into it for the year ahead, and for the medium-term. I would be glad to know that you are content with them.

N.L.



S

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Cropper
Mr Tyrie
Mr Ross Goobey

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

13 March 1987

Ms Alison Smith
PS/Lord Privy Seal
Privy Council Office
Whitehall
LONDON SW1

Dear Alison,

The Chancellor has asked me to notify you of the arrangements that have been made for production and distribution of the Parliamentary Brief concerning the Budget.

The Brief will, of necessity, have been written within the Treasury. It will be duplicated here, with a standard Research Department title page stapled at the front.

The three special advisers and a Treasury official will carry some 300 copies of the Brief to the Government Whip's Office in the House of Commons at about 3 o'clock on Budget Day, in locked official briefcases. These briefcases will not be unlocked until after the Chancellor has finished his speech and the Treasury official will remain with them until that time. Central Office will collect copies of the Brief from the Government Whip's Office when the Chancellor has finished his speech.

Copies of the Brief will be included in packets of Budget information sent from the Treasury to individual Cabinet Ministers on Budget Day.

I am copying this letter to David Norgrove (No.10) and Trevor Woolley (Cabinet Office).

*Yours,
Cathy*

CATHY RYDING



PPS / Chancellor.

As agreed at Prayers
yesterday.

Are you happy with the
last paragraph - it
accords, I think, with
what we did last year?

A handwritten signature or set of initials, possibly 'PJ', written in black ink.

3219/28

letter to Allison Smith
PS/ Lord Privy Seal
Privy Council Office
Whitehall

DRAFT LETTER PJC TO JOHN BIFFEN

Dear Lord Privy Seal

The Chancellor has asked me to notify you of the arrangements ^{that} we have made for production and distribution of the Parliamentary Brief concerning the Budget.

The Brief will, of necessity, have been written within the Treasury. It will be duplicated here, with a standard Research Department title page stapled at the front.

The three special advisers ^{and a Treasury official} will carry some 300 copies of the Brief to the Government Whip's Office in the House of Commons at about 3 o'clock on Budget Day, in locked official brief cases. These brief cases will not be unlocked until after the Chancellor has finished his speech. Central Office will collect copies of the Brief from the Government Whip's Office at that time.

the Treasury official will remain with them until that time

Copies of the Brief will be included in packets of Budget information sent from the Treasury to individual Cabinet Ministers [at around lunch time] on Budget Day.

I am copying this letter to David Nargrove (No 10) and Trevor Woolley (Cabinet Office)
12/3/87

Cathy

- 1. PM
- Tebbut Speaker
- Chief Whip
- Whitehall
- Bi

2 things

① Isn't someone supposed to guard copies in Whip's Office (del, PS etc)? (X)

② Note Y. OK?

*N.
copy to all m's
+ special adv*

*Please refer to Style Guide
Smith when has 2 points
out (great time it was)
① is so*

TAX REVENUES BOOST U.K. BUDGET OPTIONS
BY STEN STOVALL, REUTERS

PPS Chancellor
12/2

NRJR

LONDON, MARCH 13 - A MIX OF ELECTORAL BOLDNESS AND FISCAL CAUTION IS EXPECTED FROM CHANCELLOR OF THE EXCHEQUER NIGEL LAWSON NEXT WEEK WHEN HE UNVEILS HIS BUDGET FOR FISCAL 1987/88. EXCEPTIONALLY ROBUST TAX REVENUES HAVE GIVEN LAWSON VERY FAVOURABLE BUDGET OPTIONS WITH WHICH TO PLEASE VOTERS, INDUSTRY AND FINANCIAL MARKETS ALIKE. THE BUDGET WILL BE LAWSON'S FOURTH, AND PROBABLY THE LAST FROM THE CONSERVATIVE GOVERNMENT BEFORE THE NEXT GENERAL ELECTION, POLITICAL ANALYSTS SAY.

13-MAR-1013 MON267 MONP

P

CONTINUED ON - NRJS

ALL SYS AAAA/DA/QA 0628

TAX REVENUES =2 LONDON

NRJS

ANALYSTS SAID THE MAJOR BUDGET QUESTION IS HOW LAWSON WILL BALANCE EXPECTED TAX CUTS WITH LOWER PUBLIC BORROWING, AND ALLOW FOR FRESH FALLS IN U.K. INTEREST RATES.

THEY SAID A BOOST GIVEN TO THE ECONOMY BY CONSUMER SPENDING HAS HELPED REDUCE THE PUBLIC SECTOR BORROWING REQUIREMENT (PSBR) FOR FINANCIAL 1986/87 FROM AN ORIGINALLY TARGETTED 7.1 BILLION STG, DESPITE BIG RISES IN GOVERNMENT SPENDING.

ECONOMISTS SAY LAWSON MAY HAVE UP TO FIVE BILLION STG TO SPLIT BETWEEN INCOME TAX CUTS AND OTHER ELECTORAL "SWEETENERS," HIGHER SPENDING AND A DROP IN BORROWING, WHILE STILL MEETING HIS EARLIER 1987/88 PSBR TARGET OF 7.0 BILLION STG.

13-MAR-1028 MON283 MONP

CONTINUED FROM - NRJR

P

CONTINUED ON - NRJT

ALL SYS AAAA/DA/QA 0628

TAX REVENUES =3 LONDON

NRJT

THE DECISION FACING LAWSON IS HOW BEST TO USE THAT SO-CALLED "FISCAL ADJUSTEMENT" TO MAXIMISE THE GOVERNMENT'S ALL-ROUND POPULARITY AHEAD OF THE NEXT GENERAL ELECTION.

ECONOMIST IAN HARWOOD OF WARBURG SECURITIES SAID LAWSON'S BUDGET MUST STRIKE A BALANCE BETWEEN TAX CUTS AIMED AT HOME CONSUMPTION AND LOWER PUBLIC BORROWING FOR ATTRACTING SUPPORT FROM OVERSEAS INVESTORS.

PETER FELLNER OF JAMES CAPEL AND CO SAID "A BUDGET WHICH CONCENTRATES ON TAX CUTS FOR THE CONSUMER WILL BE A BUDGET FOR AN EARLY ELECTION."

13-MAR-1036 MON297 MONP

CONTINUED FROM - NRJS

P

MORE

ALL SYS AAAA/DA/QA 0628

TAX REVENUES =4 LONDON

NRJU

PRIME MINISTER MARGARET THATCHER MUST CALL A POLL BEFORE JUNE, 1988. BUT ANTICIPATION OF A SUMMER OR AUTUMN 1987 BALLOT HAS RISEN AS THE OPPOSITION LABOUR PARTY HAS SLIPPED IN VOTER SURVEYS. FORECASTS THAT THE ECONOMY MAY DETERIORATE LATER THIS YEAR ADD TO ARGUMENTS FOR AN EARLY POLL, ANALYSTS SAY.

THE CONSERVATIVES HAVE PLEDGED TO CUT THE BASIC RATE OF TAXATION IN THE U.K. FROM THE CURRENT 29 PCT LEVEL TO 25 PCT.

WHILE CONFIRMING THAT AIM, PRIME MINISTER MARGARET THATCHER LAST MONTH SEEMED TO DASH SPECULATION THAT THAT WOULD HAPPEN IN THE NEAR FUTURE. SHE SAID IN A TELEVISION INTERVIEW THAT IT WOULD HAPPEN "EVENTUALLY. BUT I THINK IT WILL BE EVENTUALLY."

13-MAR-1041 MON307 MONP

CONTINUED FROM - NRJT

P

ALL SYS AAAA/DA/QA 0628



Inland Revenue

BUDGET SECRET

COPY OF 9

Policy Division
Somerset House

FROM: B A MACE

DATE: 12 MARCH 1987

CHANCELLOR OF THE EXCHEQUER

Ch
for answers to your other questions,
see my note of 9 March below
(which followed a tel. con. with
Brian Mace)

*12/3
Thanks
Contact with C.*

BUDGET 1987: MAIN INCOME TAX PRESS NOTICE

1. Mr Kuczys' note of 9 March gave your comments on the draft of this press notice circulated with my minute of 6 March. We shall make the necessary changes.
2. I undertook to consider whether there was any scope for reducing the repetition between paragraph 7 of the Notice and the Annex.
3. I attach a copy of the final version of the text of the Notice with three alternative versions of the Annex.
4. Version A is essentially the one you have already seen.
5. Since the main purpose of the Annex is to set out the result of statutory indexation one possibility would be to give only those figures, as in Version B. This reduces the overlap with paragraph 7 to a minimum but it makes a direct comparison between indexation and the Budget proposals less easy because the proposals will be on an earlier page.

cc Financial Secretary
Mr Scholar
Mr Culpin

Mr Isaac
Mr Lewis
Mr Eason
Mr Mace
PS/IR

BUDGET SECRET

6. A compromise would be Version C which drops the 1986-87 figures from Version A but retains the separate taxable income column showing the proposed 1987-88 rates and bands. This would avoid anyone who happened to glance quickly through the release assuming that the indexation figures were to be the actual figures for 1987-88.

7. Version C would be our preferred solution.

B A Mace

B A MACE



BUDGET SECRET

**INLAND
REVENUE****Press Release**

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB

PHONE: 01-438 6692 OR 6708

17 March 1987

[3x]

THE BUDGET 1987: INCOME TAX

1. In his Budget today, the Chancellor of the Exchequer announced a reduction in the basic rate of income tax from 29 per cent to 27 per cent and increases in the main personal allowances in line with the statutory indexation provisions. He also announced a new, higher level of age allowance for people aged 80 and over and a substantial increase in the blind allowance.
2. The changes will mean that most taxpayers will pay between 1½ and 2 per cent less of their income in tax. For example, a single person earning £140 per week will pay £2.37 per week less in tax; and a married man earning £200 per week will pay £3.32 per week less. The tax reductions, including any tax overpaid from 6 April, will be in pay packets on the first pay day after 17 May.
3. The increases in personal allowances are based on the increase in the Retail Price Index of 3.7 per cent in the year to December 1986, rounded in accordance with the statutory provisions. The married man's allowance is increased by £140 to £3,795 and the single person's allowance and wife's earned income allowance are increased by £90 to £2,425. The additional personal allowance (mainly for single parents) and the widow's bereavement allowance - which are automatically equal to the difference between the married and single allowances - increase by £50 to £1,370.
4. Age allowances are also increased; by £110 to £2,960 for the single and by £170 to £4,675 for married couples. The income limit for the age allowances rises to £9,800. The Chancellor also proposes to introduce a higher level of age allowance for single people aged 80 and over and for married couples where one or both partners are aged 80 and over. For single people this will be £3,070 and for married couples it will be £4,845. The Budget changes mean that a married couple aged 65-79 with income of £160 per week will pay £2.35 less tax and a couple aged 80 or over with the same income will pay £3.23 less.
5. The Chancellor proposes to increase the blind allowance by £180 to £540. Where a husband and wife are both blind, the allowance for the couple rises by £360 to £1,080.
6. The Chancellor also proposes to increase the thresholds for the 40 per cent and 45 per cent higher rates of tax. The upper limit of the basic rate band is to be increased by £700 to £17,900 in line with statutory indexation. The cut in the basic rate is therefore worth a maximum of £358 per year or £6.88 per week to any taxpayer. The threshold for the 45 per cent rate will go up by £200 to £20,400. The thresholds for the 50 per cent, 55 per cent, and 60 per cent rates will remain at their 1986-87 levels.

/7. The Chancellor's

BUDGET SECRET

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

(1) Personal Allowances

	1986-87	Proposed increase		1987-88 Proposed level
	£	£	per cent	£
Single person's allowance and wife's earned income allowance	2,335	90	3.9	2,425
Married man's allowance	3,655	140	3.8	3,795
Additional personal allowance and widow's bereavement allowance	1,320	50	3.8	1,370
Blind person's allowance	360	180	50.0	540
Single age allowance (age 65-79)	2,850	110	3.9	2,960
Married age allowance (age 65-79)	4,505	170	3.8	4,675
Single age allowance (age 80 and over)	2,850	220	7.7	3,070
Married age allowance (age 80 and over)	4,505	340	7.5	4,845
Age allowance income limit	9,400	400	4.3	9,800

(2) Rates and Rate bands

Rate of tax per cent	1986-87 taxable income	Proposed increase in starting point		1987-88 proposed taxable income
	£	£	per cent	£
27	-	-	-	0-17,900
29	0-17,200	-	-	-
40	17,201-20,200	700	4.1	17,901-20,400
45	20,201-25,400	200	1.0	20,401-25,400
50	25,401-33,300	-	-	25,401-33,300
55	33,301-41,200	-	-	33,301-41,200
60	Over 41,200	-	-	Over 41,200

/8. The total

BUDGET SECRET

8. The total direct revenue costs of these proposals will be about £2.7 billion in 1987-88, some £1.9 billion more than the cost of statutory indexation of allowances and thresholds. The details are in the following table.

<u>Costs (£million)</u>	1987-88		1988-89
	total costs	costs above indexation	costs above indexation
Personal allowances	705	10	10
Basic rate limit	60	-	-
Reduction of 2p in basic rate*	1,910	1,910	2,690
Increase in further higher rate thresholds	5	-40	-80
Totals	2,680	1,880	2,620

* Excluding costs of £290 million in 1987-88 and £110 million in 1988-89 for the consequential reduction in the rate of Advance Corporation Tax.

Illustrative changes

9. The effects of the changes on individual taxpayers at various levels of income are illustrated in the attached tables, which assume that the taxpayer has no reliefs other than his or her personal allowance. Tables 1 and 2 show the effects of the changes in income tax proposed in the Budget for 1987-88 for single and married taxpayers compared with 1986-87. Table 3 shows the effects of the proposals for 1987-88 compared with statutory indexation. Table 4A shows the effects compared with 1986-87 for people aged 65 to 79 and Table 4B for those aged 80 and over. Tables 5, 6A and 6B give information in weekly, instead of annual, terms for levels of income up to £600 a week.

10. Tables 7 and 8 show the effects on weekly net income of single and married taxpayers and families with two children, after taking account of national insurance contributions and child benefit.

11. The remaining tables illustrate the effect of the income tax and NIC changes after taking account of the effects of increases in earnings. For illustration, an increase in earnings of 6.5 per cent has been assumed. This is the rate of increase between 1986-87 and 1987-88 taken by the Government Actuary as a working assumption for his annual review of national insurance contributions (see paragraph 3.02 of the Autumn Statement 1986). Table 11 includes the effect of child benefit for a married couple with two children. Finally, Table 12 shows changes in the weekly income after tax of a married couple where both partners are working.

Note for Editors

The indexed figures for allowances and thresholds are set out in the Annex to this notice and also in an Order made today by the Treasury as required by Section 24(9) of the Finance Act 1980.

A

BUDGET SECRET

ANNEX

THE BUDGET 1987: INCOME TAX

MAIN ALLOWANCES & THRESHOLDS AS INDEXED* IN ACCORDANCE WITH SECTION 24, FINANCE ACT 1980

1. Allowances	1986-87	1987-88 indexed and proposed
	£	£
Single person's allowance and wife's earned income allowance	2,335	2,425
Married man's allowance	3,655	3,795
Age allowance (single)§	2,850	2,960
Age allowance (married)§	4,505	4,675
Age allowance income limit	9,400	9,800
Additional personal allowance and widow's bereavement allowance	1,320	1,370

§ A new higher level of age allowance is proposed for 1987-88 for those aged 80 and over. The allowance will be £3,070 for single people and £4,845 for married couples.

2. Higher rate thresholds and bands

Rate	Taxable income		
	1986-87	1987-88 indexed	1987-88 proposed
per cent	£	£	£
27	-	-	0-17,900
29	0-17,200	0-17,900	-
40	17,201-20,200	17,901-21,100	17,901-20,400
45	20,201-25,400	21,101-26,500	20,401-25,400
50	25,401-33,300	26,501-34,700	25,401-33,300
55	33,301-41,200	34,701-42,900	33,301-41,200
60	Over 41,200	Over 42,900	Over 41,200

* Section 24 requires 1986-87 allowances and rate bands to be increased by the same percentage (3.7 per cent) as the percentage increase in the general index of retail prices (RPI) between December 1985 and December 1986; and

- i. in the case of the rate bands and the age allowance income limit, the result to be rounded up to the nearest multiple of £100; and
- ii. otherwise, the increase to be rounded up to the nearest multiple of £10; although
- iii. additional personal allowance and widow's bereavement allowance are automatically equal to the difference between the married man's allowance and the single person's allowance.

B

BUDGET SECRET

ANNEX

THE BUDGET 1987: INCOME TAX

MAIN ALLOWANCES & THRESHOLDS AS INDEXED* IN ACCORDANCE WITH SECTION 24, FINANCE ACT 1980

1. Allowances	1987-88 indexed £
Single person's allowance and wife's earned income allowance	2,425
Married man's allowance	3,795
Age allowance (single)	2,960
Age allowance (married)	4,675
Age allowance income limit	9,800
Additional personal allowance and widow's bereavement allowance	1,370

2. Higher rate thresholds and bands

Rate	Taxable income 1987-88 Indexed
per cent	£
27	-
29	0-17,900
40	17,901-21,100
45	21,101-26,500
50	26,501-34,700
55	34,701-42,900
60	Over 42,900

* Section 24 requires 1986-87 allowances and rate bands to be increased by the same percentage (3.7 per cent) as the percentage increase in the general index of retail prices (RPI) between December 1985 and December 1986; and

- i. in the case of the rate bands and the age allowance income limit, the result to be rounded up to the nearest multiple of £100; and
- ii. otherwise, the increase to be rounded up to the nearest multiple of £10; although
- iii. additional personal allowance and widow's bereavement allowance are automatically equal to the difference between the married man's allowance and the single person's allowance.

BUDGET SECRET

ANNEX

THE BUDGET 1987: INCOME TAX

MAIN ALLOWANCES & THRESHOLDS AS INDEXED* IN ACCORDANCE WITH SECTION 24, FINANCE ACT 1980

1. Allowances	1987-88 indexed and proposed £
Single person's allowance and wife's earned income allowance	2,425
Married man's allowance	3,795
Age allowance (single)§	2,960
Age allowance (married)§	4,675
Age allowance income limit	9,800
Additional personal allowance and widow's bereavement allowance	1,370

§ A new higher level of age allowance is proposed for 1987-88 for those aged 80 and over. The allowance will be £3,070 for single people and £4,845 for married couples.

2. Higher rate thresholds and bands

Rate per cent	Taxable income	
	1987-88 indexed £	1987-88 proposed £
27	-	0-17,900
29	0-17,900	-
40	17,901-21,100	17,901-20,400
45	21,101-26,500	20,401-25,400
50	26,501-34,700	25,401-33,300
55	34,701-42,900	33,301-41,200
60	Over 42,900	Over 41,200

* Section 24 requires 1986-87 allowances and rate bands to be increased by the same percentage (3.7 per cent) as the percentage increase in the general index of retail prices (RPI) between December 1985 and December 1986; and

- i. in the case of the rate bands and the age allowance income limit, the result to be rounded up to the nearest multiple of £100; and
- ii. otherwise, the increase to be rounded up to the nearest multiple of £10; although
- iii. additional personal allowance and widow's bereavement allowance are automatically equal to the difference between the married man's allowance and the single person's allowance.



Policy Division
Somerset House

FROM: B A MACE

DATE: 12 MARCH 1987

CHANCELLOR OF THE EXCHEQUER

Ch
for answers to your other questions, see my note of 9 March below (which followed a tel. con. with Brian Mace)
12/3
Control C.

BUDGET 1987: MAIN INCOME TAX PRESS NOTICE

1. Mr Kuczys' note of 9 March gave your comments on the draft of this press notice circulated with my minute of 6 March. We shall make the necessary changes.
2. I undertook to consider whether there was any scope for reducing the repetition between paragraph 7 of the Notice and the Annex.
3. I attach a copy of the final version of the text of the Notice with three alternative versions of the Annex.
4. Version A is essentially the one you have already seen.
5. Since the main purpose of the Annex is to set out the result of statutory indexation one possibility would be to give only those figures, as in Version B. This reduces the overlap with paragraph 7 to a minimum but it makes a direct comparison between indexation and the Budget proposals less easy because the proposals will be on an earlier page.

cc Financial Secretary
Mr Scholar
Mr Culpin

Mr Isaac
Mr Lewis
Mr Eason
Mr Mace
PS/IR

BUDGET SECRET

6. A compromise would be Version C which drops the 1986-87 figures from Version A but retains the separate taxable income column showing the proposed 1987-88 rates and bands. This would avoid anyone who happened to glance quickly through the release assuming that the indexation figures were to be the actual figures for 1987-88.

7. Version C would be our preferred solution.

B A Mace

B A MACE



BUDGET SECRET

**INLAND
REVENUE**

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6892 OR 6708

17 March 1987

[3x]

THE BUDGET 1987: INCOME TAX

1. In his Budget today, the Chancellor of the Exchequer announced a reduction in the basic rate of income tax from 29 per cent to 27 per cent and increases in the main personal allowances in line with the statutory indexation provisions. He also announced a new, higher level of age allowance for people aged 80 and over and a substantial increase in the blind allowance.
2. The changes will mean that most taxpayers will pay between 1½ and 2 per cent less of their income in tax. For example, a single person earning £140 per week will pay £2.37 per week less in tax; and a married man earning £200 per week will pay £3.32 per week less. The tax reductions, including any tax overpaid from 6 April, will be in pay packets on the first pay day after 17 May.
3. The increases in personal allowances are based on the increase in the Retail Price Index of 3.7 per cent in the year to December 1986, rounded in accordance with the statutory provisions. The married man's allowance is increased by £140 to £3,795 and the single person's allowance and wife's earned income allowance are increased by £90 to £2,425. The additional personal allowance (mainly for single parents) and the widow's bereavement allowance - which are automatically equal to the difference between the married and single allowances - increase by £50 to £1,370.
4. Age allowances are also increased: by £110 to £2,960 for the single and by £170 to £4,675 for married couples. The income limit for the age allowances rises to £9,800. The Chancellor also proposes to introduce a higher level of age allowance for single people aged 80 and over and for married couples where one or both partners are aged 80 and over. For single people this will be £3,070 and for married couples it will be £4,845. The Budget changes mean that a married couple aged 65-79 with income of £160 per week will pay £2.35 less tax and a couple aged 80 or over with the same income will pay £3.23 less.
5. The Chancellor proposes to increase the blind allowance by £180 to £540. Where a husband and wife are both blind, the allowance for the couple rises by £360 to £1,080.
6. The Chancellor also proposes to increase the thresholds for the 40 per cent and 45 per cent higher rates of tax. The upper limit of the basic rate band is to be increased by £700 to £17,900 in line with statutory indexation. The cut in the basic rate is therefore worth a maximum of £358 per year or £6.88 per week to any taxpayer. The threshold for the 45 per cent rate will go up by £200 to £20,400. The thresholds for the 50 per cent, 55 per cent, and 60 per cent rates will remain at their 1986-87 levels.

/7. The Chancellor's

BUDGET SECRET

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

(1) Personal Allowances

	1986-87	Proposed increase		1987-88 Proposed level
	£	£	per cent	£
Single person's allowance and wife's earned income allowance	2,335	90	3.9	2,425
Married man's allowance	3,655	140	3.8	3,795
Additional personal allowance and widow's bereavement allowance	1,320	50	3.8	1,370
Blind person's allowance	360	180	50.0	540
Single age allowance (age 65-79)	2,850	110	3.9	2,960
Married age allowance (age 65-79)	4,505	170	3.8	4,675
Single age allowance (age 80 and over)	2,850	220	7.7	3,070
Married age allowance (age 80 and over)	4,505	340	7.5	4,845
Age allowance income limit	9,400	400	4.3	9,800

(2) Rates and Rate bands

Rate of tax per cent	1986-87 taxable income	Proposed increase in starting point		1987-88 proposed taxable income
	£	£	per cent	£
27	-	-	-	0-17,900
29	0-17,200	-	-	-
40	17,201-20,200	700	4.1	17,901-20,400
45	20,201-25,400	200	1.0	20,401-25,400
50	25,401-33,300	-	-	25,401-33,300
55	33,301-41,200	-	-	33,301-41,200
60	Over 41,200	-	-	Over 41,200

/8. The total

BUDGET SECRET

8. The total direct revenue costs of these proposals will be about £2.7 billion in 1987-88, some £1.9 billion more than the cost of statutory indexation of allowances and thresholds. The details are in the following table.

<u>Costs (£million)</u>	1987-88		1988-89
	total costs	costs above indexation	costs above indexation
Personal allowances	705	10	10
Basic rate limit	60	-	-
Reduction of 2p in basic rate*	1,910	1,910	2,690
Increase in further higher rate thresholds	5	-40	-80
Totals	2,680	1,880	2,620

* Excluding costs of £290 million in 1987-88 and £110 million in 1988-89 for the consequential reduction in the rate of Advance Corporation Tax.

Illustrative changes

9. The effects of the changes on individual taxpayers at various levels of income are illustrated in the attached tables, which assume that the taxpayer has no reliefs other than his or her personal allowance. Tables 1 and 2 show the effects of the changes in income tax proposed in the Budget for 1987-88 for single and married taxpayers compared with 1986-87. Table 3 shows the effects of the proposals for 1987-88 compared with statutory indexation. Table 4A shows the effects compared with 1986-87 for people aged 65 to 79 and Table 4B for those aged 80 and over. Tables 5, 6A and 6B give information in weekly, instead of annual, terms for levels of income up to £600 a week.

10. Tables 7 and 8 show the effects on weekly net income of single and married taxpayers and families with two children, after taking account of national insurance contributions and child benefit.

11. The remaining tables illustrate the effect of the income tax and NIC changes after taking account of the effects of increases in earnings. For illustration, an increase in earnings of 6.5 per cent has been assumed. This is the rate of increase between 1986-87 and 1987-88 taken by the Government Actuary as a working assumption for his annual review of national insurance contributions (see paragraph 3.02 of the Autumn Statement 1986). Table 11 includes the effect of child benefit for a married couple with two children. Finally, Table 12 shows changes in the weekly income after tax of a married couple where both partners are working.

Note for Editors

The indexed figures for allowances and thresholds are set out in the Annex to this notice and also in an Order made today by the Treasury as required by Section 24(9) of the Finance Act 1980.

BUDGET SECRET

ANNEX

THE BUDGET 1987: INCOME TAX

MAIN ALLOWANCES & THRESHOLDS AS INDEXED* IN ACCORDANCE WITH SECTION 24, FINANCE ACT 1980

1. Allowances	1986-87	1987-88 Indexed and proposed
	£	£
Single person's allowance and wife's earned income allowance	2,335	2,425
Married man's allowance	3,655	3,795
Age allowance (single)§	2,850	2,960
Age allowance (married)§	4,505	4,675
Age allowance income limit	9,400	9,800
Additional personal allowance and widow's bereavement allowance	1,320	1,370

§ A new higher level of age allowance is proposed for 1987-88 for those aged 80 and over. The allowance will be £3,070 for single people and £4,845 for married couples.

2. Higher rate thresholds and bands

Rate	Taxable income		
	1986-87	1987-88 indexed	1987-88 proposed
per cent	£	£	£
27	-	-	0-17,900
29	0-17,200	0-17,900	-
40	17,201-20,200	17,901-21,100	17,901-20,400
45	20,201-25,400	21,101-26,500	20,401-25,400
50	25,401-33,300	26,501-34,700	25,401-33,300
55	33,301-41,200	34,701-42,900	33,301-41,200
60	Over 41,200	Over 42,900	Over 41,200

* Section 24 requires 1986-87 allowances and rate bands to be increased by the same percentage (3.7 per cent) as the percentage increase in the general index of retail prices (RPI) between December 1985 and December 1986; and

- i. in the case of the rate bands and the age allowance income limit, the result to be rounded up to the nearest multiple of £100; and
- ii. otherwise, the increase to be rounded up to the nearest multiple of £10; although
- iii. additional personal allowance and widow's bereavement allowance are automatically equal to the difference between the married man's allowance and the single person's allowance.

BUDGET SECRET

ANNEX

THE BUDGET 1987: INCOME TAX

MAIN ALLOWANCES & THRESHOLDS AS INDEXED* IN ACCORDANCE WITH SECTION 24, FINANCE ACT 1980

1. Allowances

	1987-88 indexed £
Single person's allowance and wife's earned income allowance	2,425
Married man's allowance	3,795
Age allowance (single)	2,960
Age allowance (married)	4,675
Age allowance income limit	9,800
Additional personal allowance and widow's bereavement allowance	1,370

2. Higher rate thresholds and bands

Rate	Taxable income 1987-88 Indexed
per cent	£
27	-
29	0-17,900
40	17,901-21,100
45	21,101-26,500
50	26,501-34,700
55	34,701-42,900
60	Over 42,900

* Section 24 requires 1986-87 allowances and rate bands to be increased by the same percentage (3.7 per cent) as the percentage increase in the general index of retail prices (RPI) between December 1985 and December 1986; and

- i. in the case of the rate bands and the age allowance income limit, the result to be rounded up to the nearest multiple of £100; and
- ii. otherwise, the increase to be rounded up to the nearest multiple of £10; although
- iii. additional personal allowance and widow's bereavement allowance are automatically equal to the difference between the married man's allowance and the single person's allowance.

C

BUDGET SECRET

ANNEX

THE BUDGET 1987: INCOME TAX

MAIN ALLOWANCES & THRESHOLDS AS INDEXED* IN ACCORDANCE WITH SECTION 24, FINANCE ACT 1980

1. Allowances

	1987-88 indexed and proposed £
Single person's allowance and wife's earned income allowance	2,425
Married man's allowance	3,795
Age allowance (single)§	2,960
Age allowance (married)§	4,675
Age allowance income limit	9,800
Additional personal allowance and widow's bereavement allowance	1,370

§ A new higher level of age allowance is proposed for 1987-88 for those aged 80 and over. The allowance will be £3,070 for single people and £4,845 for married couples.

2. Higher rate thresholds and bands

Taxable income		
Rate	1987-88 indexed	1987-88 proposed
per cent	£	£
27	-	0-17,900
29	0-17,900	-
40	17,901-21,100	17,901-20,400
45	21,101-26,500	20,401-25,400
50	26,501-34,700	25,401-33,300
55	34,701-42,900	33,301-41,200
60	Over 42,900	Over 41,200

* Section 24 requires 1986-87 allowances and rate bands to be increased by the same percentage (3.7 per cent) as the percentage increase in the general index of retail prices (RPI) between December 1985 and December 1986; and

- i. in the case of the rate bands and the age allowance income limit, the result to be rounded up to the nearest multiple of £100; and
- ii. otherwise, the increase to be rounded up to the nearest multiple of £10; although
- iii. additional personal allowance and widow's bereavement allowance are automatically equal to the difference between the married man's allowance and the single person's allowance.

CONFIDENTIAL



FROM: A W KUCZYS
DATE: 12 March 1987

8

MR MACE

cc: PS/FST
Mr Scholar
Mr Culpin
PS/IR

BUDGET 1987: MAIN INCOME TAX PRESS NOTICE

The Chancellor was grateful for your further note of 12 March. As I told you, he is content with version C.

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

A W KUCZYS

BUDGET CONFIDENTIAL



FROM: S P Judge

DATE: 12 March 1987

MR CULPIN

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Sir Peter Middleton
Mr Monck
Mr Scholar
Miss O'Mara
Miss Sinclair
Miss Evans
Mr Cropper
Mr Ross Goobey
Mr Tyrie
Mr McManus - IR
Mr Bone - C&E

BUDGET EPR

The Minister had a few comments on your draft of 10 March:

- he thought the parenthesis in paragraph 17 was a useful "belt and braces";
- insert "last July" after "proposed" in paragraph 22;
- insert "registered for VAT" after "traders" in line 4 of paragraph 27;
- replace paragraph 28 with "There are also measures in the Budget to offer small companies the option of reducing the number of VAT returns which they have to make".

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

S P JUDGE
Private Secretary



FROM: P D P BARNES
DATE: 12 MARCH 1987

pur

NOTE OF A MEETING HELD IN ROOM 51/2, TREASURY CHAMBERS, HM PARLIAMENT STREET AT 2.45pm ON TUESDAY 10 MARCH 1987

Those present: Economic Secretary
Mr Cassell
Mrs Lomax
Miss Sinclair
Mr Ross Goobey

IMPACT OF THE BUDGET ON THE FINANCIAL SECTOR

The Economic Secretary thanked Mr Cassell for his submission of 6 March.

Offset of ACT against tax liability on companies' gains

2. Mr Ross Goobey said that this subject might be added to the changes with a favourable impact mentioned in paragraph 3 of Mr Cassell's submission.

Double taxation relief on foreign lending

3. Mr Cassell said that the current UK regime was more liberal than that of most other countries. The change, which would effectively remove a tax subsidy, might lead to loss of business being done through London. About two-thirds of the banks affected would be foreign-owned banks operating in London. Only about one third would be British banks. The main difficulty was likely to arise on existing loans where lenders might be reluctant to exercise their contractual rights to pass on higher costs to borrowers. As a result, Mr Cassell thought the Economic Secretary should keep an open mind about the length of the grace period for existing loans.

Lloyd's

4. The Economic Secretary said that he would prefer to take a tough line with Lloyd's at the outset since Lloyds were likely

o make a fuss whatever the Government did. But the Economic Secretary said that he did not envisage many political difficulties with the proposal, since Lloyd's had few friends in Parliament. On retrospection, the Economic Secretary said that he would argue that the legislation would only affect RIC provisions not yet made, and on which the tax would not be payable till January 1989. On leavers and joiners, the Economic Secretary said that Lloyd's would be unable to press this argument very far without emphasis being placed on the fact that their existing rules penalised leaving members of syndicates. Publicly, he would say that the Revenue intended to treat this question in a fashion comparable to Lloyd's own treatment. He asked Mrs Lomax to provide a note.

Corporation tax: change in taxation of capital gains

5. Miss Sinclair said that the impact on various parts of the corporate sector was difficult to estimate because it depended on whether and when companies realised capital gains.

6. On life companies, who certainly would pay more tax as a group, the Economic Secretary said that his line in response to criticism would be that attractive new pensions products for life companies would to some extent compensate them for higher tax bills.

Corporation tax: nine months' payment date

7. On the timing of CT payments, Mr Cassell said that three out of the four clearers would have to pay tax earlier under the proposal but the Revenue had refused to say which. Mr Cassell confirmed that the Building Societies Commission were content with the changes.

Dual resident companies (DRCs)

8. The Economic Secretary thought that that there would be little political difficulty with this proposal. Most companies saw the present situation as simply a tax dodge which they could legitimately exploit but scarcely defend on principle. The Revenue had refused to reveal which financial institutions would be affected, but Mr Cassell had gathered that these were not likely to be banks.

VAT

9. The Economic Secretary said that he was to discuss this at a separate future meeting.

Personal pensions

10. The Economic Secretary said that these were mainly the Financial Secretary's concern.

h3

P D P BARNES
Private Secretary

cc PS/Chancellor	Mr Haigh
PS/CST	Mr Cropper
PS/FST	Mr Ross Goobey
PS/MST	Mr Tyrie
Sir P Middleton	Mr Painter - IR
Sir G Littler	Mr Johns - IR
Sir T Burns	PS/IR
Mr Cassell	Mr Jefferson-Smith - C&E
Mrs Lomax	
Mr Peretz	
Mr Scholar	
Mr Hall	
Mr Ilett	
Miss Sinclair	



FROM: CATHY RYDING
DATE: 12 March 1987

MR HUTSON - PARLIAMENTARY

cc Sir P Middleton
Sir T Burns
Mr Battishill
Mr F E R Butler
Mr Cassell
Mr Scholar
Mr Allan
Mr Hudson
Sir Angus Fraser - C&E
Mr Norgrove - No.10

BUDGET DAY: OFFICIAL BOX

Could you please let the House Authorities know that the following people will be occupying the official box for the Chancellor's Budget speech on 17 March.

1. Sir P Middleton
2. Sir T Burns
3. Mr Battishill
4. Sir Angus Fraser
5. Mr F E R Butler
6. Mr Cassell
7. Mr Scholar
8. Mr Allan
9. Mr Hudson
10. Mr Norgrove - No.10

I will shortly let you have a list of people who will be covering the box for the rest of Budget day and on 18, 19 and 23 March.

CR

CATHY RYDING

pup

Copy No. 6 of 14

FROM: MISS M O'MARA

DATE: 12 MARCH 1987

SIR PETER MIDDLETON

cc Sir T Burns
Mr Odling-Smee
Mr Scholar
Mr Sedgwick
Mr Allan (personal)
Mr Culpin
Mr Mowl
Mr Riley
Mr Pickering
Ms Turk
A/55

FISCAL ADJUSTMENT FOR 1987-88

You asked if I could let you know the presentational problem we have on the fiscal adjustment.

2. In Table 2.5 of the 1986 FSR, we published a fiscal adjustment for 1987-88 of £2 billion. The actual figure was (slightly below) £2.5* billion but Table 2.5 was rounded to the nearest £1 billion.

3. For our simplified presentation "How the sums add up", we would round to the nearest £½ billion, enabling us to show the Budget package as worth £2½ billion. Thus, strictly, we should show a table of the form set out at Annex A.

*MP tell us that the figure of £2.3 billion in the draft Budget brief is a computing error.

4. You suggested it would be better to adopt the format we used last year. I did have a shot at this earlier and produced the table at Annex B. I showed this to a number of people but we are all agreed that such a presentation would be confusing this year when the situation we have to explain is a rather different one. In particular, the £2 billion "PSBR reduction" relates to nothing anyone will actually say publicly: it is effectively a residual.

5. In either case, the presentation would be consistent with that in the current draft of Table 2A.3 in the 1987 FSBR but has two difficulties

(i) those who take an interest in such matters assume the 1986 fiscal adjustment is £2 billion, not £2½ billion, and might find the change in the number suspicious, whatever footnotes we deploy in the briefing;

(ii) the figures for the change in GGE and receipts pre-Budget have been adjusted from the -£4 billion and +£7 billion which can be derived from scrutinising successive Red Books to accommodate a classification change (see Annex D). However, it seems sensible to show the underlying change.

6. I understand that the Chancellor's preference, like your own, is to show a £2 billion fiscal adjustment, if we can, and he has asked to see the figures on an unrounded basis. The result is at Annex C.

7. The points at issue are therefore

(i) whether we attempt to round GGE down to £3 billion or pre-Budget receipts up to £7 billion;

(ii) which form of table we adopt.

8. If we make any adjustments, the necessary alteration to receipts would be slightly smaller than that to expenditure. It would produce the following table:

Current Budget Brief presentation: rounded to nearest $\frac{1}{2}$ billion

	1987-88 £ billion
Fiscal adjustment in 1986 MTFS	2
Increase in general government expenditure	-3½
Increase in receipts <u>before</u> Budget package	+7
Fiscal adjustment available pre-Budget	5½
Budget package	-2½
Budget reduction in PSBR	3

9. I am not sure what other repercussions that would have. MP and PSF will certainly have views.

MOM

MISS M O'MARA

Current Budget Brief presentation: rounded to nearest £½ billion

	1987-88 £ billion
Fiscal adjustment in 1986 MTFS	2½
Increase in general government expenditure	-3½
Increase in receipts <u>before</u>	
Budget package	+6½

Fiscal adjustment available pre-Budget	+5½
Budget package	-2½

Budget reduction in PSBR	3

ANNEX B

1986 presentation: rounded to nearest £½ billion

	£ billion
<u>Effect on PSBR</u>	
Increase in GGE	+3½
Increase in receipts pre-Budget	-6½

Net effect on PSBR pre-Budget	-3
Budget package	+2½
PSBR reduction	-2

Equals fiscal adjustment in 1986 MTFS	-2½

ANNEX C

Current Budget Brief presentation: unrounded

	1987-88 £ billion
Fiscal adjustment in 1986 MTFs	2.5
Increase in general government expenditure	-3.4
Increase in receipts <u>before</u> Budget package	6.7
Fiscal adjustment available pre-Budget	5.8
Budget package	-2.6
Budget reduction in PSBR	3.2

CLASSIFICATION CHANGES

There are two main changes

(a) treatment of central government VAT refunds

This relates to VAT paid by CG on purchases of inputs which is subsequently refunded. Since the 1986 FSBR, the figure has been added to both receipts and expenditure in order to align with the treatment of VAT paid by local authorities. This increases taxes on expenditure on the National Accounts definition (which records VAT on an accruals basis); however, the series for VAT receipts, which is net of all refunds, is not affected.

(b) treatment of local authorities subsidiaries

Where eg Housing Revenue Accounts have been in deficit in the past and required subsidy from their local authority, the deficit has scored as a negative receipt and been netted off. Since the 1986 FSBR, if an HRA is in deficit, the deficit scores as a zero receipt (ie total receipts are higher) and the local authority subsidy scores as higher expenditure.

The combined effect of these changes is to add £0.6 billion to both expenditure and receipts in 1987-88.



Inland Revenue

BUDGET CONFIDENTIAL

Policy Division
Somerset House

PS

FROM: N C MUNRO
13 March 1987

✓

Financial Secretary

BUDGET DEBATE : WINDING-UP SPEECH

1. You asked (Mr Heywood's minute of 12 March to Mr Beighton) for a passage on the pensions reform package.
2. I attach a draft, which takes account of comments from Mr Ross Goobey. It covers the aspects you specifically mentioned, and also the anti-abuse provisions (in square brackets at the end).

Nem.

N C MUNRO

cc Chancellor of the Exchequer
Chief Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Monck
Mrs Lomax
Mr Moore
Mr Scholar
Miss Noble
Miss O'Mara
Mr Culpin
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Isaac
Mr Beighton
Mr Corlett
Mr Lusk
Mr Munro
Mr Hinton
PS/IR

PENSIONS

The Budget contains important and far-reaching changes for private pensions. These proposals are the outcome of a major strategy which has two main objectives.

Our first priority is to widen the coverage of private pension provision. Only in this way can we ensure that ordinary working people will enjoy an adequate income in retirement.

Much has already been done. Many employers have established occupational pension schemes for their staff, with the help of generous tax reliefs. My rt hon friend [the Chancellor] has repeatedly made it clear that he proposes no fundamental changes in the present system.

As a result, some 11 million people are members of occupational schemes. And the benefits promised by these schemes are good enough to enable all but about a million of these people to be contracted-out of the State Earnings Related Scheme (SERPS).

An increasing number of people - currently 5 million - are receiving pensions from occupational schemes. Under this Government, there has been a steady improvement in the real income of pensioner households.

But more can be done. There are still some 10 million employees who are not in an occupational scheme and who make no private provision for retirement. A central feature of our strategy is to bring private pensions within the reach of these people, and so to reduce still further the total reliance on the State, a problem which - I might add - many of our competitor nations will be faced with in the next century.

We shall do this through the new personal pensions developed by my rt hon friend, the Secretary of State for Social Services. These will be available to all employees who are not in an occupational scheme, and to the self-employed. Employees will be able to contract-out of SERPS with a personal pension.

As promised, these personal pensions will enjoy the same tax reliefs as the present private pension arrangements. But we also promised some improvements in the existing tax rules. For instance, higher and better contribution limits for older people.

We now propose further improvements in the rules, in order to make personal pensions more attractive. In particular, we shall allow people to have more than one personal pension plan - subject only to the overall limit on contributions. This will enable risks to be spread, and choice to be greater.

A further major reform - which will also help to widen the pensions coverage - is the new simplified occupational pension scheme. These will help the many small employers who would like to provide for their staff, but who have been put off by the administrative complexity and the open-ended cost of an occupational scheme.

The new simplified schemes, as their name suggests, will provide basic benefits. This makes for simple documents and quick and easy tax approval of the scheme. To make things even easier, we propose to offer standard 'off the peg' schemes to any employer who wants one.

There will be two types of scheme. One type will be a final benefits scheme, but without the frills associated with occupational schemes at present.

The other is a radical new concept. Unlike existing occupational schemes, it will have no limits on benefits, which will be 'money purchase'. But total contributions (by employer and employee) may not exceed 17.5 per cent of pay. Employers will also be able, under new social security rules, to contract-out of SERPS with one of these money purchase schemes.

Both these reforms will improve the pensions choice for the millions of unpensioned employees. But we also propose a further change, to extend the same freedom of choice to members of occupational schemes.

If the scheme rules permit, such people can already top up their pensions by paying additional voluntary contributions (AVCs). And, subject to the tax approval rules, these contributions benefit from the usual tax reliefs. But, up to now, such topping up has had to be paid to the employer's AVC scheme.

In future, people will be able instead to pay AVCs to any scheme of their choice. And tax relief will be given - again, subject only to the tax approval limits.

Taken together, these changes will dramatically increase the freedom of all people to choose how to provide for their retirement.

A further purpose of our reforms is to remove - as far as possible - the pension obstacles to job mobility. The House will be well aware of the 'early leaver' problem: the person who changes jobs in mid-career and whose pension expectations are in consequence much reduced.

There is no quick and easy solution to this problem. But the changes we propose in the pensions field will greatly reduce its worst impact. Personal pensions and 'freestanding AVC' schemes will mean that, when someone

changes his job, he will be able to take some or all of his pension with him.

One further reform will improve the picture still further. We intend to remove the present restrictions in existing law on transfers of pension rights from one type of scheme to another. In future, such transfers will be freely available, subject only to minimum constraints to prevent obvious cases of abuse.

The changes we have proposed do not increase the already generous tax regime for retirement provision, but simply extend it potentially to every employee. I am confident that these reforms will greatly improve the pension position and the freedom of choice of all employed and self-employed people in this country.

[These improvements can only be justified if the tax reliefs for pensions are not abused. In general, of course, they are not: the vast majority of pension schemes and arrangements are concerned only with genuine provision for retirement. But we have felt it necessary to impose some limited restrictions, to guard against misuse of the tax reliefs - particularly by a small number of very high earners. The tax rules for pensions were never intended simply as a tax-sheltered medium for investment generally - with scope for the postponement (and for lump sums, complete elimination) of a tax liability.]

These restrictions will have no impact whatever on the vast majority of pension scheme members: for ordinary working people the scope for abuse has never been available. But for a few highly paid people, the new rules will ensure that the tax reliefs are used only for their originally intended purpose.]

PH



Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

FROM: P JEFFERSON SMITH
13 March 1987

PS/MINISTER OF STATE

✓

cc **Principal Private Secretary**
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Scholar
Miss Sinclair
Mr Cropper

MINISTER OF STATE'S SPEECH IN THE BUDGET DEBATE

Your note of 12 March asked for contributions to the speech. I attach some defensive speaking notes.

PH ✓

P JEFFERSON SMITH

Internal distribution: CPS
Mr Knox
Mr E Taylor
Mr Michie
Ms Barrett
Mr Bone

Background

- . Where a business makes both taxable and exempt supplies, the basic principle enshrined in the EC Sixth Directive and in UK law is that it should recover input tax only to the extent that it relates to its taxable supplies.
- . This principle has become increasingly undermined through the exploitation of the input tax and partial exemption rules.
- . Many large and very large businesses are currently recovering substantial amounts of input tax to which they are not in principle entitled.
- . Despite the fact that many large businesses have been escaping input tax restriction, many smaller businesses have not had the same ability to do so by manipulating their affairs.
- . Numbers of businesses affected
 - About 10,000 firms at present have to do partial exemption calculations
 - of these, over 7,000 are on "special methods" agreed with Customs and will make no change
 - 2,000 will cease to be treated as partly exempt
 - only the residue will have to change to the new method of calculation
 - about 6,000 firms now deducting all their input tax will become partly exempt

WARNING: Customs have no firm statistics: these are rough estimates, and if quoted should be qualified as such.

Why changes cannot be delayed until after 01.04.87

- ° Significant Revenue: to delay would be costly; approximately £100m for each 3 month delay.
- ° Extensive consultation has focused attention on weaknesses of existing legislation.
- ° Partial exemption changes are more easily accommodated at the beginning of the tax year.
- ° Many businesses are fully prepared for the new changes: to delay now would simply cause confusion.
- ° Customs have reached agreement with a number of trade associations on partial exemption special methods to be used from 1 April.

Insufficient time will be available between the laying of the necessary regulations and the date on which they must come into effect (ie 1 April)

- ° 21 day period between laying and implementation is a convention and not mandatory.
- ° Draft regulations were issued to all interested parties on 4 February.
- ° proposed effect of the regulations has been known since December 1986.

Administrative burdens on business

- ° Customs will not ask businesses to make significant changes to accounting or computer systems to cope with partial exemption.
- ° Customs will be flexible in agreeing special methods to suit individual business' needs.
- ° Customs will agree provisional mehtods for those who are unable to meet 1 April start date.

The changes will be a burden on small businesses

- ° Around 2,000 of the smallest partly exempt traders will cease being treated as partly exempt.
- ° Relief provisions will make it easy for small businesses to determine that they are not partly exempt.
- ° The most common types of exempt supply made by small businesses such as interest and nominal rents receivable can be ignored.
- ° The tightening of the rules has been specifically targeted at large businesses: the reliefs deliberately designed to be generous to small businesses.

Why the arrangements agreed are perfectly fair to the brewers

- ° The arrangements agreed with the Brewers' Society reflect the unique features of the brewers tied-house rental system.
- ° Smallest brewers will be relieved from having to apply any partial exemption restrictions.
- ° Administratively simple: no need for detailed records to be kept.
- ° Scheme ensures that VAT incurred in relation to rentals is not deductible but brewers ordinary business is not prejudiced.
- ° Customs have indicated that they are willing to enter into trade agreements with other representative bodies so as to minimise administrative burdens.

The measures will drive those wishing to raise capital into doing so
abroad

- ° the exemption of underwriting services will minimise the possibility of any movement of the capital market off-shore.
- ° the situation will be closely monitored.

E C Vires of Changes:

- ° Legal advisers have closely scrutinised the proposed legislative changes and are fully satisfied that the new rules much more closely reflect the intent and rationale of the Directive.

Estimate of the revenue involved not well founded

- ° Many exempt and partly exempt companies are hidden in VAT groups and are difficult to identify.
- ° Customs have estimated from computer and other records the number of large businesses which will have to restrict their input tax recovery from the first time (6,000 large and very large traders to become partly exempt for the first time).
- ° Customs have identified individual cases in which the additional tax involved will range between a few thousand pounds to £10m +.



FROM: N WILLIAMS
DATE: 13 March 1987

MR MUNRO IR

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Miss Noble
Miss O'Mara
Mr Cropper
Mr Ross Goobey
Mr Tyrie
PS/IR

PENSIONS REFORM PACKAGE

1. The Financial Secretary was most grateful for your further note of 11 March.

2. This is to confirm that the Financial Secretary was content with the revised version of the Press Release, taking into account as it did the various amendments that were suggested in the light of the careful examination of it at the Presentation meeting on Tuesday afternoon.

3. Your note also referred further to the matter concerning the anti-exploitation package covered in your minute of 9 March (Pensions: Exploitation of Tax Reliefs (Starter 135B)).

This had also been discussed on Tuesday and the Financial Secretary was content with the revised approach suggested in your note of 11 March.

4. I have minuted separately on the issue of the announcement of the start dates for AVCs and Personal Pensions and the Chancellor has subsequently agreed with the advice that he should announce both start dates in the Budget Speech (Mr Kuczys' minute

of 11 March (Pensions: Meeting with Secretary of State for Social Services). This is now reflected in the revised version of the Press Release.

5. On the more general issue of presentation the amended and expanded Press Release reflects the main thrust of what was discussed at the meeting. It was also agreed that it would be desirable to expand the section in the Budget Brief covering the Pensions Package and Mr Ross Goobey said that he would look again at the Presentational note that he had prepared, to see if it could be strengthened in any way.



NIGEL WILLIAMS
(Assistant Private Secretary)



Inland Revenue

Policy Division
Somerset House

copy no 2 of 16

FROM: B T HOUGHTON
13 MARCH 1987

PS/FINANCIAL SECRETARYBUDGET DEBATE: FINANCIAL SECRETARY'S WIND UP SPEECH

1. Herewith a contribution on the inheritance tax measures. The first two sets of square brackets suggest material which could be dropped if the Financial Secretary needs to shorten his speech.
2. The material on the heritage is drawn from the draft prepared, but not being used, for the Budget Speech. The "news" item would of course be the reference to the Constable. Mr Gilmore knows that it is hoped to include a reference to it in the Financial Secretary's speech and is, I understand, working to that end, but you will need to check with him the state of play and what can be said, by Wednesday.

B T HOUGHTON

cc PPS/Financial Secretary
 PS/Chief Secretary
 PS/Economic Secretary
 PS/Minister of State
 Sir P Middleton
 Mr Cassell
 Mr Scholar
 Mr Culpin
 Mr Cropper

Mr Isaac
 Mr Beighton
 Mr Houghton
 Mr Battersby
 Mr Thompson
 PS/IR

FINANCIAL SECRETARY'S BUDGET DEBATE SPEECHINHERITANCE TAXThreshold and Rate Bands

In recent years much has been done to remove some of the worst features of what is now inheritance tax. The changes made last year, including the exemption of lifetime gifts between individuals, marked another significant stage in this process. But nonetheless, the yield of the tax continues to rise in real terms and many small estates, where the main asset is the family home, have been pulled into the tax. To help in these cases, the threshold is to be increased from £71,000 to £90,000 from Budget Day. This will give the greatest proportionate benefit to those estates which are least likely to have benefited from the reliefs introduced in recent years. It will reduce the number of estates that would have paid the tax by a third. It is also proposed to simplify the rate structure by reducing the rate bands from seven to four. This also provides a worthwhile reduction in tax for estates of all sizes.

Business Relief

A number of changes are proposed in inheritance tax business relief. From Budget Day the relief for minority holdings of more than 25% in unquoted companies will be increased from 30% to 50%. At the same time, shares in Unlisted Securities Market companies will be treated for all inheritance tax purposes in the same way as shares in companies which are fully listed. The effect of these changes will be to improve the relief where it is really needed - where the shares on which the liability arises - being unquoted - are not easily marketable. The relief helps in these circumstances to maintain confidence and continuity in the business. Thanks to the development of the USM market, the same difficulties do not arise with shares which are dealt in there.

Interest in Possession Trusts

Last year, my Right Hon Friend abolished the charge on outright gifts between individuals so as to encourage lifetime giving. This year, he proposes to take the reform a stage further by exempting gifts by individuals into interest in possession settlements and terminations of interests in possession in favour of individuals. This should be of much help to small family businesses and farms, many of which are held in that kind of trust. We are however still concerned, as we were when the possibility of this extension was discussed in Committee upstairs last year, that the new exemption should not be abused; and the legislation will include safeguards against that. [These will take the form of a protective rate of charge to be imposed if property is passed to a discretionary trust through a temporary interest in possession while the creation of that interest remains potentially exempt.] This new relief will not apply to discretionary trusts and the charges on them will remain as protection for the death charge itself.

Omit to
shorten if
necessary

The Heritage

Thanks to the efforts of this Government, the tax regime for the nation's heritage has been much improved. I have two further changes to announce. First, my Rt Hon Friend proposes to exempt from inheritance tax settled property that is put into a heritage maintenance fund within two years after the death of a life tenant - or within three years if a Court Order is needed. [At present, that is only possible if the necessary arrangements are made while the life tenant is alive - which can be a time-consuming and expensive process. In future, it will be possible to make the arrangements after the death. This should encourage the creation of maintenance funds and reduce the risk of expensive calls on the National Heritage Fund.]

Omit to
shorten if
necessary

Second, my Right Hon Friend proposes to improve the arrangements for acceptance in lieu of tax. These arrangements are a most valuable form of protection for the heritage. In future owners will have the choice of either the present system or an arrangement under which no interest would be charged between the dates of the offer and the acceptance, but the tax satisfied would be based on the market value at the date of the offer and not, as now, at the date of acceptance.

Confirm
with
Mr Gilmore
(HE Division)

[In this connection the House will be glad to learn that an offer in lieu has been received of one of Constable's greatest paintings - 'Stratford Mill'. The new interest option will be available for this offer, as for others, accepted after Budget Day.]

CONFIDENTIAL



Prop
✓

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 March 1987

Den Alex,

oops, sorry

1987 BUDGET- MTF5

The Prime Minister has seen the Chancellor's minute (undated) which set out his proposals for the PSBR and monetary targets for 1987/88 and the MTF5, and is content.

12 March.

Jans,

David

(David Norgrove)

Alex Allan, Esq.,
HM Treasury.

CONFIDENTIAL

CH/EXCHEQU	
REC.	13 MAR 1987 ✓/3/3
ACTION	SIR P MIDDLETON SIR T BURNS
COPIES TO	MR CASSELL
	MR COLLING-BMEE
	MR SCHOLAR
	MR P SEDGWICK
	MR RILEY



1. Andrew

2. Ch

We spoke.

See R. Luce
letter.

See correspondence below.

I understand officials' advice to CST will be (broadly) to agree to this.

John Isaac wonders if you might like to announce this in the heritage section of the Budget Speech?

(I think there is a precedent - Calke Abbey)

AWK
12/3

Yes, but there was a massive press campaign on Calke.



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

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Odling-Smee
Mr Scholar
Mr Sedgwick
Mr Riley

PRIME MINISTER

1987 BUDGET: MTF5

In my minute of 5 March, I set out my tax proposals and said I would let you have a further note on the PSBR and monetary targets for 1987-88.

Public Sector Borrowing

The latest estimates of the February PSBR show that cumulative borrowing in the first eleven months of the year was only £0.1 billion. Borrowing in March is always large, and there will be some special factors pushing it up further this year; these include the £680 million payment to Rover. The forecast I propose to publish for the out-turn for 1986-87 is £4 billion, though considerable uncertainties remain, particularly over likely borrowing by local authorities and public corporations.

That means the PSBR has now reached what I judge to be the appropriate level for the medium term: 1 per cent of GDP. I therefore propose to set the PSBR for 1987-88 at that level. Thanks to the strength of tax revenues, I can do that at the same time as implementing the £2.6 billion tax package we have agreed. Indeed, the resulting published PSBR of £3.9 billion will be underpinned by deliberately cautious estimates of revenue, including an assumption of a \$15 oil price.

For the remaining years of the MTF5 period, I plan to show the PSBR remaining at 1 per cent of GDP. It is a major achievement to have reached this level well before we had earlier thought possible - a level recorded on only two previous occasions since the War.

Alex

Too late now, but Sir TB says
this cannot be substituted
& may not be true



Monetary Targets

As I mentioned when we spoke yesterday, for 1987-88 I intend to set a target for M0 but not for £M3. As you know, we have had increasing difficulties in interpreting changes in broad money; £M3 has for several years been erratic and shown a tendency to grow more rapidly than money GDP. This year, it has once again grown well above its target range. I do not think that dropping the £M3 target will cause any surprise at all: indeed, the markets would be surprised if it were not dropped. And as the Governor's Loughborough Lecture indicated, there is no point in switching to any other broad money target: all broad aggregates are in much the same boat.

The velocity of M0 has been much more stable, and M0 has remained within its target range of 2 to 6 per cent during 1986-87. For 1987-88, the illustrative range we set in last year's FSBR was also 2 to 6 per cent, and I see no reason to change that now. For the future years of the MTFS I shall also be publishing the same illustrative ranges as in last year's FSBR.

The dropping of a broad money target does not mean that the whole weight of monetary policy is thrown on to M0, though that has a very important role to play. I shall continue to assess monetary conditions in the light of all the available indicators, including in particular the exchange rate. And I will make it clear that, although I am not setting a formal target for £M3, I shall continue to take broad money into account in assessing monetary conditions.

This approach has been fully discussed with the Bank who support these recommendations.

These proposals will give us a solid financial framework for the medium term. I would be glad to know if you are content with them.

N.L.

12 March 1987

A handwritten signature in dark ink, appearing to be 'N.L.', located at the bottom right of the page.



Ch

Draft minute
to PM below —

PSBR section may
need bringing into line
with your final
Budget speech presentation

OK ⁱⁿ → AA

DRAFT MINUTE FROM THE CHANCELLOR

PRIME MINISTER

1987 BUDGET: MTFS

In my minute of 5 March, I set out my tax proposals and said I would let you have a further note on the PSBR and monetary targets for 1987-88.

Public Sector Borrowing

The latest estimates of the February PSBR show that cumulative borrowing in the first eleven months of the year was only £0.1 billion. Borrowing in March is always large, and there will be some special factors pushing it up further this year; these include the £680 million payment to Rover and repayments of advance petroleum revenue tax. The ~~forecast~~ ^{1 propose 5 predict} for the out-turn for 1986-87 is £4 billion, though considerable uncertainties remain, particularly over likely borrowing by local authorities and public corporations.

That means the PSBR ~~will have~~ ^{has now} reached what I judge to be the appropriate level for the medium term: 1 per cent of GDP. I therefore propose to set the PSBR for 1987-88 at that level. Thanks to the ~~buoyancy~~ ^{strength} of tax revenues, I can do that at the same time as implementing the £2.6 billion tax package we have agreed. Indeed, the resulting ~~PSBR~~ ^{published} of £3.9 billion will be underpinned by ~~cautious estimates of revenue yields, including an assumption of a \$15 oil price.~~ ^{optimistic}

For the remaining years of the MTFS period, I plan to show the PSBR ~~path~~ remaining at 1 per cent of GDP. It is a major achievement to have reached this level well before we had earlier thought possible - ~~and it is a level achieved only twice before in the last thirty five years.~~ ^{remains} ~~only twice before in the last thirty five years.~~ ^{on only two previous occasions since the war.}

As I mentioned when we spoke yesterday, for

Monetary Targets

For 1987-88, I intend to set a target for M0 but not for £M3. As you know, we have had increasing difficulties in interpreting changes in broad money; £M3 has for several years been erratic and shown a tendency to grow more rapidly than money GDP. This year, it has grown ~~consistently~~ ^{on it again} above its target range. I do not think that dropping the £M3 target will cause any surprise at all. ^{And as the Governor's long-term target is not a target, there is no point in setting a target for an other broad money target: all ~~aggregates~~ broad aggregates are on} The velocity of M0 has been much more stable, and M0 has remained within its target range of 2 to 6 per cent during 1986-87. For 1987-88, the illustrative range we set in last year's FSBR was also 2 to 6 per cent, and I see no reason to change that now. For the future years of the MTFS I shall also be publishing the same illustrative ranges as in last year's FSBR.

Index, no market's and so surprise it when we have much the same goal.

The dropping of a broad money target does not mean that the whole weight of monetary policy is thrown on to M0, though that has a very important role to play. ^(we) We shall continue to assess monetary conditions in the light of all the available indicators, including in particular the exchange rate. And ^(we) we shall make it clear that, although ^(I am) we are not setting a formal target for £M3, we shall continue to take broad money into account in assessing monetary conditions.

This approach has been fully discussed with the Bank who support these recommendations.

These proposals will give us a solid financial framework for the medium term. I would be glad to know if you are content with them.

N.L.

From: J ODLING-SMEE

11th March 1987

PRINCIPAL PRIVATE SECRETARY

cc Sir Peter Middleton
Sir Terence Burns
Mr Cassell
Mr Scholar
Mr Sedgwick
Mr Riley

NOTE FOR THE PRIME MINISTER ON MTFS ETC

I would recommend against using the Green Paper as a justification for a PSBR of 1%, either here or in our general line on the MTFS. A number of things have changed since the Green Paper, such as an upward revision in our view about output growth and an increase in privatisation proceeds. We would be letting ourselves in for unnecessary difficulties if we had to explain why these things did not matter.

2. The defence of 1% should be based on sustainability and prudence. I suggest that the last two sentences of the paragraph at the end of the first page should be replaced by:

"This level is likely to be sustainable in the long term and it represents a very prudent fiscal policy. The PSBR has been below 1% of GDP only twice in the last 35 years."

3. A few points on monetary targets:

a. The first sentence could be simplified a little:

"For 1987-88, I intend to set a target for M0 but not for £M3."

b. Insert "been erratic and shown" in place of "showed" in the second sentence. We mention the erratic behaviour of £M3 in the MTFS as well as its rapid growth, and it is useful to do so here.

c. There should be some reference to G6, and I suggest inserting the following at the end of the second sentence of the third paragraph on monetary targets:

"... the exchange rate, which has been given a new prominence by Plaza II."

d. Change "it" to "broad money" in the final sentence of the same paragraph, to bring it into line with the MTFS text.

4. As you say, we shall need to look again at the paragraphs on the PSBR in 1986-87 and 1987-88 when the figures have been agreed.

John O'S

J ODLING-SMEE

BUDGET SECRET



FROM: P D P BARNES

DATE: 13 MARCH 1987

PS/CHANCELLOR

cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Minister of State
 Mr Scholar
 Miss O'Mara
 Mr Cropper
 Mr Ross Goobey
 Mr Tyrie

BACKBENCH BRIEF

The Economic Secretary had the following comments on Mr Cropper's minute of 12 March:-

Summary of the Budget

2. The Economic Secretary thought it would be helpful to have a few words somewhere to expand on the £4½ billion increase in priority public spending - Autumn Statement priorities, NHS, Education etc.

3. On inheritance tax, the Economic Secretary would prefer "many (a third?) estates taken out of tax".

Economic Background

4. The Economic Secretary thought that the forecasts figures on inflation and balance of payments would need to be revised.

5. The Economic Secretary would prefer the first two advantages of a low borrowing requirement to be expressed more obliquely, for example to say, "low PSBR part of sound Government finances, which are essential for reducing inflation and making lower interest rates possible."

BUDGET SECRET

Record and Policy

6. The Economic Secretary thinks that the second sentence might begin "responsible monetary and physical policy....".

How the borrowing requirement is being brought down

7. The Economic Secretary wondered whether the bracket in the first paragraph should not read "(down £7 billion, £1.3 billion more than expected)."

Income Tax

8. On paragraph 8, the Economic Secretary thought you might put in after "9 per cent", "[23 million] out of [24 million] taxpayers".

Business taxation

9. Paragraph 4 might begin "all companies and building societies".

10. Paragraph 5 should refer to Corporation Tax, and say that Pay and File will not be introduced until the 1990s.

11. Paragraph 7 might end "....cannot obtain tax relief twice over."

12. On paragraph 8 the Economic Secretary was not sure that £20 million was correct. He thinks that this paragraph might mention that the position on tax credit relief will be in line with other countries.

Small business

13. On paragraph 4(i), the Economic Secretary thinks it would be worth pointing out that companies with an annual turnover of less than £250,000 account for more than half of the total number of companies.

Ownership and incentives

14. The Economic Secretary thinks it would be worth adding a new sub-heading on friendly societies, and saying that reform of tax-exempt limits, which will now apply to annual premiums instead of sums assured, will greatly increase the scope for traditional friendly societies to provide life assurance for their members.

Pensions and the Elderly

15. The Economic Secretary would prefer to delete "and the elderly" from the title, and to describe the package as being for "pensions" rather than for "pensioners".

Taxes on spending

16. In paragraph 2, the Economic Secretary questioned the sentence "this year there is a pause in that trend."

Jobs

17. The Economic Secretary thinks it would be useful to recaptulate briefly in this passage the measures in train (cf Budget statement).

Party lines on tax

18. The Economic Secretary thinks the third line might read, "the Liberal and SDP do not know what they want to do".

fb

P D P BARNES
Private Secretary



BUDGET SECRET

**INLAND
REVENUE**

Press Release

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

17 March 1987

[3x]

THE BUDGET 1987: INCOME TAX

1. In his Budget today, the Chancellor announced a reduction in the basic rate of income tax from 29 per cent to 27 per cent and increases in the main personal allowances in line with the statutory indexation provisions. He also announced a new higher age allowance for people aged 80 and over and a substantial increase in the blind allowance.
2. The changes will mean that most taxpayers will pay between 1½ and 2 per cent less of their income in tax. For example, a single person earning £140 per week will pay £2.37 per week less in tax; and a married man earning £200 per week will pay £3.32 per week less. The tax reductions, including any tax overpaid from 6 April, will be in pay packets on the first pay day after 17 May.
3. The increases in personal allowances are based on the increase in the Retail Price Index of 3.7 per cent in the year to December 1986, rounded in accordance with the statutory provisions. The married man's allowance is increased by £140 to £3,795 and the single person's allowance and wife's earned income allowance are increased by £90 to £2,425. The additional personal allowance (mainly for single parents) and the widow's bereavement allowance - which are automatically equal to the difference between the married and single allowances - increase by £50 to £1,370.
4. Age allowances are also increased: by £110 to £2,960 for the single and by £170 to £4,675 for married couples. The income limit for the age allowances rises to £9,800. The Chancellor also proposes to introduce a higher level of age allowance for single people aged 80 and over and for married couples where one or both partners are aged 80 and over. For single people this will be £3,070 and for married couples it will be £4,845. The Budget changes mean that a married couple aged over 65 but under 80 with income of £160 per week will pay £2.35 less tax and couple with the same income qualifying for the higher age allowance will pay £3.23 less tax.
5. The Chancellor proposes to increase the blind allowance by £180 to £540. Where a husband and wife are both blind, the allowance for the couple rises by £360 to £1080.
6. The Chancellor also proposes to increase the thresholds for the 40 per cent and 45 per cent higher rates of tax. The upper limit of the basic rate band is to be increased by £700 to £17,900 in line with statutory indexation. The cut in the basic rate is therefore worth a maximum of £358 per year or £6.88 per week to any taxpayer. The threshold for the 45 per cent rate will go up by £200 to £20,400. The thresholds for the 50 per cent, 55 per cent, and 60 per cent rates will remain at their 1986-87 levels.

/7. The Chancellor's

BUDGET SECRET

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

(1) Personal Allowances

	1986-87	Proposed increase		1987-88 Proposed level
	£	£	per cent	£
Single person's allowance and wife's earned income allowance	2,335	90	3.9	2,425
Married man's allowance	3,655	140	3.8	3,795
Additional personal allowance and widow's bereavement allowance	1,320	50	3.8	1,370
Blind person's allowance	360	140	50.0	540
Single age allowance (under 80)	2,850	110	3.9	2,960
Married age allowance (under 80)	4,505	170	3.8	4,675
Single age allowance (80 and over)	2,850	220	7.7	3,070
Married age allowance (80 and over)	4,505	340	7.5	4,845
Age allowance income limit	9,400	400	4.3	9,800

(2) Rates and Rate-bands

Rate of tax	1986-87 taxable in- come	Proposed increase in starting point		1987-88 taxable in- come proposed
per cent	£	£	%	£
27	-	-	-	0-17,900
29	0-17,200	-	-	
40	17,201-20,200	700	4.1	17,901-20,400
45	20,201-25,400	200	1.0	20,401-25,400
50	25,401-33,300	-	-	25,401-33,300
55	33,301-41,200	-	-	33,301-41,200
60	Over 41,200	-	-	Over 41,200

/8. The total

BUDGET SECRET

8. The total direct revenue costs of these proposals will be about £2.7 billion in 1987-88, some £1.9 billion more than the cost of statutory indexation of allowances and thresholds. The details are in the following table.

<u>Costs (£million)</u>	1987-88		1988-89
	total costs	costs above in- dexation	total costs *
Personal allowances	705	10	890
Basic rate limit	60	-	110
Reduction of 2p in basic rate*	1,910	1,910	2,690
Increase in further higher rate thresholds	5	- 40	10
Totals	2,680	1,880	3,700

* Excluding costs of £290 million in 1987-88 and £110 million in 1988-89 for the consequential reduction in the rate of Advance Corporation Tax.

Illustrative changes

9. The effects of the changes on individual taxpayers at various levels of income are illustrated in the attached tables, which assume that the taxpayer has no reliefs other than his or her personal allowance. Tables 1 and 2 show the effects of the changes in income tax proposed in the Budget for 1987-88 for single and married taxpayers compared with 1986-87. Table 3 shows the effect of the proposals for 1987-88 compared with statutory indexation. Table 4A shows the effects compared with 1986-87 for people aged 65 to 79 and Table 4B for those aged 80 and over. Tables 5, 6A and 6B give information in weekly, instead of annual, terms for levels of income up to £600 a week.

10. Tables 7A, 7B, 8A and 8B show the effect on weekly net income of single and married taxpayers and families with two children, after taking account of national insurance contributions and child benefit. Tables 7A and 8A are for those paying national insurance contributions at the contracted-in rate. Tables 7B and 8B for those paying at the contracted-out rate.

11. The remaining tables illustrate the effect of the income tax and NIC changes after taking account of the effects of increases in earnings. For illustration, an increase in earnings of 6.5 per cent has been assumed. This is the rate of increase between 1986-87 and 1987-88 taken by the Government Actuary as a working assumption for his annual review of national insurance contributions (see paragraph 3.02 of the Autumn Statement 1986). Tables 11A and 11B include the effect of child benefit for a married couple with two children. Finally, Table 12 shows changes in the weekly income after tax of a married couple where both partners are working.

Note for Editors

The indexed figures for allowances and thresholds are set out in the Annex to this notice and also in an Order made today by the Treasury as required by Section 24(9) of the Finance Act 1980.

NB [*Final figures will be the same as those given in the FSBR for 1988-89.]

BUDGET SECRET

ANNEX

THE BUDGET 1987: INCOME TAX

MAIN ALLOWANCES & THRESHOLDS AS INDEXED¹ IN ACCORDANCE WITH SECTION 24, FINANCE ACT 1980

1. Allowances	1986-87 £	1987-88 indexed and proposed £
Single person's allowance and wife's earned income allowance	2,335	2,425
Married man's allowance	3,655	3,795
Age allowance (single) ²	2,850	2,960
Age allowance (married) ²	4,505	4,675
Age allowance income limit	9,400	9,800
Additional personal allowance and widow's bereavement allowance	1,320	1,370

2. Higher rate thresholds and bands

Rate per cent	1986-87 £	Taxable income	
		1987-88 indexed £	1987-88 proposed £
27	0-17,200	-	0-17,900
29	0-17,900	-	
40	17,201-20,200	17,901-21,100	17,901-20,400
45	20,201-25,400	21,101-26,500	20,401-25,400
50	25,401-33,300	26,501-34,700	25,401-33,300
55	33,301-41,200	34,701-42,900	33,301-41,200
60	Over 41,200	Over 42,900	Over 41,200

Notes ¹ Section 24 requires 1986-87 allowances and rate bands to be increased by the same percentage (3.7 per cent) as the percentage increase in the general index of retail prices (RPI) between December 1985 and December 1986; and

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

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

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

² A new higher level of age allowance is proposed for 1987-88 for those aged 80 and over. The allowance will be £3070 for single people and £4845 for married couples.

*15-12
very
of having
this
up to
about?*

BUDGET - SECRET

TABLE 1

SINGLE PERSONS - ANNUAL FIGURES

Income	Charge for 1986-87		Proposed charge for 1987-88		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
3,000	193	6.4	155	5.2	38	1.3
4,000	483	12.1	425	10.6	58	1.4
5,000	773	15.5	695	13.9	78	1.6
6,000	1,063	17.7	965	16.1	98	1.6
7,000	1,353	19.3	1,235	17.6	118	1.7
8,000	1,643	20.5	1,505	18.8	138	1.7
9,000	1,933	21.5	1,775	19.7	158	1.8
10,000	2,223	22.2	2,045	20.4	178	1.8
12,000	2,803	23.4	2,585	21.5	218	1.8
14,000	3,383	24.2	3,125	22.3	258	1.8
16,000	3,963	24.8	3,665	22.9	298	1.9
18,000	4,543	25.2	4,205	23.4	338	1.9
20,000	5,174	25.9	4,745	23.7	429	2.1
25,000	7,298	29.2	6,812	27.2	486	1.9
30,000	9,660	32.2	9,170	30.6	490	1.6
40,000	14,878	37.2	14,384	36.0	494	1.2
50,000	20,702	41.4	20,203	40.4	499	1.0
60,000	26,702	44.5	26,203	43.7	499	0.8
70,000	32,702	46.7	32,203	46.0	499	0.7

573

BUDGET - SECRET

TABLE 2

MARRIED COUPLES - ANNUAL FIGURES

Income	Charge for 1986-87		Proposed charge for 1987-88		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
4,000	100	2.5	55	1.4	45	1.1
5,000	390	7.8	325	6.5	65	1.3
6,000	680	11.3	595	9.9	85	1.4
7,000	970	13.9	865	12.4	105	1.5
8,000	1,260	15.8	1,135	14.2	125	1.6
9,000	1,550	17.2	1,405	15.6	145	1.6
10,000	1,840	18.4	1,675	16.8	165	1.6
12,000	2,420	20.2	2,215	18.5	205	1.7
14,000	3,000	21.4	2,755	19.7	245	1.8
16,000	3,580	22.4	3,295	20.6	285	1.8
18,000	4,160	23.1	3,835	21.3	325	1.8
20,000	4,740	23.7	4,375	21.9	365	1.8
25,000	6,703	26.8	6,195	24.8	508	2.0
30,000	9,001	30.0	8,486	28.3	515	1.7
40,000	14,153	35.4	13,631	34.1	522	1.3
50,000	19,910	39.8	19,381	38.8	529	1.1
60,000	25,910	43.2	25,381	42.3	529	0.9
70,000	31,910	45.6	31,381	44.8	529	0.8

Calculations assume that only the husband has earned income.

TABLE 3

**SINGLE AND MARRIED COUPLES - ANNUAL FIGURES
COMPARISON BETWEEN INDEXATION FOR 1987-88 AND
PROPOSED CHARGE FOR 1987-88**

Income	Charge under Indexation ¹		Proposed charge for 1987-88		Reduction in tax over Indexation	
	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
3,000	167	5.6	155	5.2	12	0.4
4,000	457	11.4	425	10.6	32	0.8
6,000	1,037	17.3	965	16.1	72	1.2
8,000	1,617	20.2	1,505	18.8	112	1.4
10,000	2,197	22.0	2,045	20.4	152	1.5
12,000	2,777	23.1	2,585	21.5	192	1.6
15,000	3,647	24.3	3,395	22.6	252	1.7
20,000	5,097	25.5	4,745	23.7	352	1.8
25,000	7,135	28.5	6,812	27.2	323	1.3
30,000	9,438	31.5	9,170	30.6	268	0.9
40,000	14,582	36.5	14,384	36.0	198	0.5
50,000	20,316	40.6	20,203	40.4	113	0.2
60,000	26,316	43.9	26,203	43.7	113	0.2
70,000	32,316	46.2	32,203	46.0	113	0.2
MARRIED COUPLES²						
4,000	59	1.5	55	1.4	4	0.0
6,000	639	10.6	595	9.9	44	0.7
8,000	1,219	15.2	1,135	14.2	84	1.0
10,000	1,799	18.0	1,675	16.8	124	1.2
12,000	2,379	19.8	2,215	18.5	164	1.4
15,000	3,249	21.7	3,025	20.2	224	1.5
20,000	4,699	23.5	4,375	21.9	324	1.6
25,000	6,518	26.1	6,195	24.8	323	1.3
30,000	8,769	29.2	8,486	28.3	283	0.9
40,000	13,829	34.6	13,631	34.1	198	0.5
50,000	19,494	39.0	19,381	38.8	113	0.2
60,000	25,494	42.5	25,381	42.3	113	0.2
70,000	31,494	45.0	31,381	44.8	113	0.2

¹ Assuming allowances and thresholds are indexed in accordance with Section 24, Finance Act 1980.

² Assuming that only the husband has earned income.

BUDGET - SECRET

TABLE 4 A.

ELDERLY SINGLE AND MARRIED COUPLES - ANNUAL FIGURES

Income	Charge for 1986-87		Proposed charge for 1987-88		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
3,000	44	1.5	11	0.4	33	1.1
4,000	334	8.4	281	7.0	53	1.3
5,000	624	12.5	551	11.0	73	1.5
6,000	914	15.2	821	13.7	93	1.6
7,000	1,204	17.2	1,091	15.6	113	1.6
8,000	1,494	18.7	1,361	17.0	133	1.7
9,000	1,784	19.8	1,631	18.1	153	1.7
10,000	2,190	21.9	1,937	19.4	253	2.5
11,000	2,513	22.8	2,315	21.0	198	1.8
12,000	2,803	23.4	2,585	21.5	218	1.8
MARRIED COUPLES¹						
5,000	144	2.9	88	1.8	56	1.1
6,000	434	7.2	358	6.0	76	1.3
7,000	724	10.3	628	9.0	96	1.4
8,000	1,014	12.7	898	11.2	116	1.4
9,000	1,304	14.5	1,168	13.0	136	1.5
10,000	1,710	17.1	1,474	14.7	236	2.4
11,000	2,130	19.4	1,924	17.5	206	1.9
12,000	2,420	20.2	2,215	18.5	205	1.7

¹ Calculations assume that only the husband has earned income.

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

BUDGET - SECRET

TABLE 4B

TAXPAYERS AGED 80 AND OVER - ANNUAL FIGURES

Income £	Charge for 1986-87		Proposed charge for 1987-88		Reduction in tax after proposed change	
	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
3,000	44	1.5	0	0.0	44	1.5
4,000	333	8.3	251	6.3	82	2.0
5,000	623	12.5	521	10.4	102	2.0
6,000	913	15.2	791	13.2	122	2.0
7,000	1,203	17.2	1,061	15.2	142	2.0
8,000	1,493	18.7	1,331	16.6	162	2.0
9,000	1,783	19.8	1,601	17.8	182	2.0
10,000	2,189	21.9	1,907	19.1	282	2.8
11,000	2,513	22.8	2,315	21.0	198	1.8
12,000	2,803	23.4	2,585	21.5	218	1.8
MARRIED COUPLES¹						
5,000	144	2.9	42	0.8	102	2.0
6,000	434	7.2	312	5.2	122	2.0
7,000	724	10.3	582	8.3	142	2.0
8,000	1,014	12.7	852	10.6	162	2.0
9,000	1,304	14.5	1,122	12.5	182	2.0
10,000	1,710	17.1	1,428	14.3	282	2.8
11,000	2,130	19.4	1,878	17.1	252	2.3
12,000	2,420	20.2	2,215	18.5	205	1.7

¹ Calculations assume that only the husband has earned income.

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

BUDGET - SECRET

TABLE 5

SINGLE AND MARRIED COUPLES - WEEKLY FIGURES

Charge for 1986-87			Proposed charge for 1987-88		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
50.00	1.48	3.0	0.91	1.8	0.57	1.1
60.00	4.38	7.3	3.61	6.0	0.77	1.3
65.00	5.83	9.0	4.96	7.6	0.87	1.3
70.00	7.28	10.4	6.31	9.0	0.97	1.4
80.00	10.18	12.7	9.01	11.3	1.17	1.5
90.00	13.08	14.5	11.71	13.0	1.37	1.5
95.00	14.53	15.3	13.06	13.7	1.47	1.5
100.00	15.98	16.0	14.41	14.4	1.57	1.6
120.00	21.78	18.2	19.81	16.5	1.97	1.6
140.00	27.58	19.7	25.21	18.0	2.37	1.7
160.00	33.38	20.9	30.61	19.1	2.77	1.7
180.00	39.18	21.8	36.01	20.0	3.17	1.8
200.00	44.98	22.5	41.41	20.7	3.57	1.8
250.00	59.48	23.8	54.91	22.0	4.57	1.8
295.00	72.53	24.6	67.06	22.7	5.47	1.9
300.00	73.98	24.7	68.41	22.8	5.57	1.9
350.00	88.48	25.3	81.91	23.4	6.57	1.9
400.00	105.66	26.4	96.60	24.2	9.06	2.3
500.00	148.99	29.8	139.65	27.9	9.34	1.9
MARRIED COUPLES¹						
75.00	1.37	1.8	0.55	0.7	0.82	1.1
80.00	2.82	3.5	1.90	2.4	0.92	1.2
90.00	5.72	6.4	4.60	5.1	1.12	1.2
95.00	7.17	7.5	5.95	6.3	1.22	1.3
100.00	8.62	8.6	7.30	7.3	1.32	1.3
120.00	14.42	12.0	12.70	10.6	1.72	1.4
140.00	20.22	14.4	18.10	12.9	2.12	1.5
160.00	26.02	16.3	23.50	14.7	2.52	1.6
180.00	31.82	17.7	28.90	16.1	2.92	1.6
200.00	37.62	18.8	34.30	17.2	3.32	1.7
250.00	52.12	20.8	47.80	19.1	4.32	1.7
295.00	65.17	22.1	59.95	20.3	5.22	1.8
300.00	66.62	22.2	61.30	20.4	5.32	1.8
350.00	81.12	23.2	74.80	21.4	6.32	1.8
400.00	95.62	23.9	88.30	22.1	7.32	1.8
500.00	137.56	27.5	127.79	25.6	9.77	2.0

Instead of
 going for £7500 a
 week, that
 she
~~that go~~
~~up to~~
~~£6000~~
 £6000 a
 week, take?
 as well as
 £5000
 and that
 that is
 20 for
 married
 couples
 doesn't
 go on
 with
 through
 No scale.

¹ Calculations assume that only the husband has earned income.

BUDGET - SECRET

TABLE 6 A

ELDERLY SINGLE AND MARRIED COUPLES - WEEKLY FIGURES

Charge for 1986-87			Proposed charge for 1987-88		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
55.00	0.06	0.1	0.00	0.0	0.06	0.1
60.00	1.51	2.5	0.83	1.4	0.68	1.1
80.00	7.31	9.1	6.23	7.8	1.08	1.4
100.00	13.11	13.1	11.63	11.6	1.48	1.5
120.00	18.91	15.8	17.03	14.2	1.88	1.6
140.00	24.71	17.6	22.43	16.0	2.28	1.6
160.00	30.51	19.1	27.83	17.4	2.68	1.7
180.00	36.31	20.2	33.23	18.5	3.08	1.7
200.00	44.98	22.5	40.71	20.4	4.27	2.1
220.00	50.78	23.1	46.81	21.3	3.97	1.8
MARRIED COUPLES¹						
90.00	0.98	1.1	0.03	0.0	0.95	1.1
100.00	3.88	3.9	2.73	2.7	1.15	1.2
120.00	9.68	8.1	8.13	6.8	1.55	1.3
140.00	15.48	11.1	13.53	9.7	1.95	1.4
160.00	21.28	13.3	18.93	11.8	2.35	1.5
180.00	27.08	15.0	24.33	13.5	2.75	1.5
200.00	36.59	18.3	31.80	15.9	4.79	2.4
220.00	43.42	19.7	39.70	18.0	3.72	1.7

¹ Calculations assume that only the husband has earned income.

For incomes above these levels, the figures are the same as those in Table 5.

BUDGET - SECRET

TABLE 6 B

TAXPAYERS AGED 80 AND OVER - WEEKLY FIGURES

Income £	Charge for 1986-87		Proposed charge for 1987-88		Reduction in tax after proposed change	
	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
55.00	0.06	0.1	0.00	0.0	0.06	0.1
60.00	1.51	2.5	0.26	0.4	1.25	2.1
80.00	7.31	9.1	5.66	7.1	1.65	2.1
100.00	13.11	13.1	11.06	11.1	2.05	2.0
120.00	18.91	15.8	16.46	13.7	2.45	2.0
140.00	24.71	17.6	21.86	15.6	2.85	2.0
160.00	30.51	19.1	27.26	17.0	3.25	2.0
180.00	36.31	20.2	32.66	18.1	3.65	2.0
200.00	44.98	22.5	40.14	20.1	4.84	2.4
220.00	50.78	23.1	46.81	21.3	3.97	1.8
MARRIED COUPLES¹						
90.00	0.98	1.1	0.00	0.0	0.98	1.1
100.00	3.87	3.9	1.84	1.8	2.03	2.0
120.00	9.67	8.1	7.24	6.0	2.43	2.0
140.00	15.47	11.0	12.64	9.0	2.83	2.0
160.00	21.27	13.3	18.04	11.3	3.23	2.0
180.00	27.07	15.0	23.44	13.0	3.63	2.0
200.00	36.59	18.3	30.92	15.5	5.67	2.8
220.00	43.42	19.7	39.70	18.0	3.72	1.7

¹ Calculations assume that only the husband has earned income.

For incomes above these levels, the figures are the same as those in Table 5.

BUDGET - SECRET

TABLE 7A

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

Charge for 1986-87				Proposed charge for 1987-88			Reduction in tax and NIC after proposed change	
Income	Income tax	NIC	Net income after tax and NIC	Income tax	NIC	Net income after tax and NIC	Income tax and NIC	As percentage of total income per cent
£	£	£	£	£	£	£	£	
SINGLE PERSONS								
50.00	1.48	2.50	46.02	0.91	2.50	46.59	0.57	1.1
60.00	4.38	4.20	51.42	3.61	3.00	53.39	1.97	3.3
65.00	5.83	4.55	54.62	4.96	4.55	55.49	0.87	1.3
70.00	7.28	4.90	57.82	6.31	4.90	58.79	0.97	1.4
80.00	10.18	5.60	64.22	9.01	5.60	65.39	1.17	1.5
90.00	13.08	6.30	70.62	11.71	6.30	71.99	1.37	1.5
95.00	14.53	8.55	71.92	13.06	6.65	75.29	3.37	3.5
100.00	15.98	9.00	75.02	14.41	9.00	76.59	1.57	1.6
120.00	21.78	10.80	87.42	19.81	10.80	89.39	1.97	1.6
140.00	27.58	12.60	99.82	25.21	12.60	102.19	2.37	1.7
160.00	33.38	14.40	112.22	30.61	14.40	114.99	2.77	1.7
180.00	39.18	16.20	124.62	36.01	16.20	127.79	3.17	1.8
200.00	44.98	18.00	137.02	41.41	18.00	140.59	3.57	1.8
250.00	59.48	22.50	168.02	54.91	22.50	172.59	4.57	1.8
295.00	72.53	25.65	196.82	67.06	26.55	201.39	4.57	1.5
300.00	73.98	25.65	200.37	68.41	26.55	205.04	4.67	1.6
350.00	88.48	25.65	235.87	81.91	26.55	241.54	5.67	1.6
400.00	105.66	25.65	268.69	96.60	26.55	276.85	8.16	2.0
500.00	148.99	25.65	325.36	139.65	26.55	333.80	8.44	1.7
600.00	197.31	25.65	377.04	187.89	26.55	385.56	8.52	1.4
MARRIED COUPLES ²								
75.00	1.37	5.25	68.38	0.55	5.25	69.20	0.82	1.1
80.00	2.82	5.60	71.58	1.90	5.60	72.50	0.92	1.2
90.00	5.72	6.30	77.98	4.60	6.30	79.10	1.12	1.2
95.00	7.17	8.55	79.28	5.95	6.65	82.40	3.12	3.3
100.00	8.62	9.00	82.38	7.30	9.00	83.70	1.32	1.3
120.00	14.42	10.80	94.78	12.70	10.80	96.50	1.72	1.4
140.00	20.22	12.60	107.18	18.10	12.60	109.30	2.12	1.5
160.00	26.02	14.40	119.58	23.50	14.40	122.10	2.52	1.6
180.00	31.82	16.20	131.98	28.90	16.20	134.90	2.92	1.6
200.00	37.62	18.00	144.38	34.30	18.00	147.70	3.32	1.7
250.00	52.12	22.50	175.38	47.80	22.50	179.70	4.32	1.7
295.00	65.17	25.65	204.18	59.95	26.55	208.50	4.32	1.5
300.00	66.62	25.65	207.73	61.30	26.55	212.15	4.42	1.5
350.00	81.12	25.65	243.23	74.80	26.55	248.65	5.42	1.5
400.00	95.62	25.65	278.73	88.30	26.55	285.15	6.42	1.6
500.00	137.56	25.65	336.79	127.79	26.55	345.66	8.87	1.8
600.00	184.62	25.65	389.73	174.72	26.55	398.73	9.00	1.5

² Calculations assume that only the husband has earned income.

Employees' National Insurance Contributions are at the standard Class 1 rate for employment contracted in to the State additional (earnings related) pension scheme.

BUDGET - SECRET

TABLE 7B

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

Charge for 1986-87				Proposed charge for 1987-88			Reduction in tax and NIC after proposed change	
Income	Income tax	NIC	Net income after tax and NIC	Income tax	NIC	Net income after tax and NIC	Income tax and NIC	As percentage of total income per cent
£	£	£	£	£	£	£	£	
SINGLE PERSONS								
50.00	1.48	2.24	46.28	0.91	2.26	46.83	0.55	1.1
60.00	4.38	3.72	51.90	3.61	2.54	53.85	1.95	3.2
65.00	5.83	3.96	55.21	4.96	3.99	56.05	0.84	1.3
70.00	7.28	4.21	58.51	6.31	4.23	59.46	0.95	1.4
80.00	10.18	4.69	65.13	9.01	4.71	66.28	1.15	1.4
90.00	13.08	5.18	71.74	11.71	5.20	73.09	1.35	1.5
95.00	14.53	7.32	73.15	13.06	5.44	76.50	3.35	3.5
100.00	15.98	7.66	76.36	14.41	7.68	77.91	1.55	1.6
120.00	21.78	9.03	89.19	19.81	9.05	91.14	1.95	1.6
140.00	27.58	10.40	102.02	25.21	10.42	104.37	2.35	1.7
160.00	33.38	11.77	114.85	30.61	11.79	117.60	2.75	1.7
180.00	39.18	13.14	127.68	36.01	13.16	130.83	3.15	1.8
200.00	44.98	14.51	140.51	41.41	14.53	144.06	3.55	1.8
250.00	59.48	17.94	172.58	54.91	17.96	177.13	4.55	1.8
295.00	72.53	20.33	202.14	67.06	21.04	206.90	4.76	1.6
300.00	73.98	20.33	205.69	68.41	21.04	210.55	4.86	1.6
350.00	88.48	20.33	241.19	81.91	21.04	247.05	5.86	1.7
400.00	105.66	20.33	274.01	96.60	21.04	282.36	8.35	2.1
500.00	148.99	20.33	330.68	139.65	21.04	339.31	8.63	1.7
600.00	197.31	20.33	382.36	187.89	21.04	391.07	8.71	1.5
MARRIED COUPLES ²								
75.00	1.37	4.45	69.18	0.55	4.47	69.98	0.80	1.1
80.00	2.82	4.69	72.49	1.90	4.71	73.39	0.90	1.1
90.00	5.72	5.18	79.10	4.60	5.20	80.20	1.10	1.2
95.00	7.17	7.32	80.51	5.95	5.44	83.61	3.10	3.3
100.00	8.62	7.66	83.72	7.30	7.68	85.02	1.30	1.3
120.00	14.42	9.03	96.55	12.70	9.05	98.25	1.70	1.4
140.00	20.22	10.40	109.38	18.10	10.42	111.48	2.10	1.5
160.00	26.02	11.77	122.21	23.50	11.79	124.71	2.50	1.6
180.00	31.82	13.14	135.04	28.90	13.16	137.94	2.90	1.6
200.00	37.62	14.51	147.87	34.30	14.53	151.17	3.30	1.6
250.00	52.12	17.94	179.94	47.80	17.96	184.24	4.30	1.7
295.00	65.17	20.33	209.50	59.95	21.04	214.01	4.51	1.5
300.00	66.62	20.33	213.05	61.30	21.04	217.66	4.61	1.5
350.00	81.12	20.33	248.55	74.80	21.04	254.16	5.61	1.6
400.00	95.62	20.33	284.05	88.30	21.04	290.66	6.61	1.7
500.00	137.56	20.33	342.11	127.79	21.04	351.17	9.06	1.8
600.00	184.62	20.33	395.05	174.72	21.04	404.24	9.19	1.5

² Calculations assume that only the husband has earned income.

Employees' National Insurance Contributions are at the standard Class 1 rate for employment contracted out of the State additional (earnings related) pension scheme.

BUDGET - SECRET

Why this
 kink?
 New NIC
 threshold

TABLE 8A

**FAMILIES WITH CHILDREN
 MARRIED COUPLE WITH TWO CHILDREN - NET WEEKLY INCOME
 NIC - CONTRACTED IN**

Weekly income in 1986-7					Weekly income in 1987-88				Increase in income after tax, NIC and child benefit	
Income	Child benefit ¹	Income tax	NIC	Net income	Child benefit	Income tax	NIC	Net income	Increase in income	As percentage of total income per cent
£	£	£	£	£	£	£	£	£	£	
75.00	14.20	1.37	5.25	68.38	14.50	0.55	5.25	69.20	1.12	1.5
80.00	14.20	2.82	5.60	71.58	14.50	1.90	5.60	72.50	1.22	1.5
85.00	14.20	4.27	5.95	74.78	14.50	3.25	5.95	75.80	1.32	1.6
90.00	14.20	5.72	6.30	77.98	14.50	4.60	6.30	79.10	1.42	1.6
95.00	14.20	7.17	8.55	79.28	14.50	5.95	6.65	82.40	3.42	3.6
100.00	14.20	8.62	9.00	82.38	14.50	7.30	9.00	83.70	1.62	1.6
120.00	14.20	14.42	10.80	94.78	14.50	12.70	10.80	96.50	2.02	1.7
140.00	14.20	20.22	12.60	107.18	14.50	18.10	12.60	109.30	2.42	1.7
160.00	14.20	26.02	14.40	119.58	14.50	23.50	14.40	122.10	2.82	1.8
180.00	14.20	31.82	16.20	131.98	14.50	28.90	16.20	134.90	3.22	1.8
200.00	14.20	37.62	18.00	144.38	14.50	34.30	18.00	147.70	3.62	1.8
250.00	14.20	52.12	22.50	175.38	14.50	47.80	22.50	179.70	4.62	1.8
295.00	14.20	65.17	25.65	204.18	14.50	59.95	26.55	208.50	4.62	1.6
300.00	14.20	66.62	25.65	207.73	14.50	61.30	26.55	212.15	4.72	1.6
350.00	14.20	81.12	25.65	243.23	14.50	74.80	26.55	248.65	5.72	1.6
400.00	14.20	95.62	25.65	278.73	14.50	88.30	26.55	285.15	6.72	1.7
500.00	14.20	137.56	25.65	336.79	14.50	127.79	26.55	345.66	9.17	1.8
600.00	14.20	184.62	25.65	389.73	14.50	174.72	26.55	398.73	9.30	1.6

¹ Post July 1986.

Net income is earnings, less tax and national insurance contributions, plus child benefit. It does not include any means tested benefit. It is assumed that only the husband is earning.

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

BUDGET - SECRET

TABLE 8B

**FAMILIES WITH CHILDREN
MARRIED COUPLE WITH TWO CHILDREN - NET WEEKLY INCOME
NIC - CONTRACTED OUT**

Weekly income in 1986-7					Weekly income in 1987-88				Increase in income after tax, NIC and child benefit	
Income	Child benefit ¹	Income tax	NIC	Net income	Child benefit	Income tax	NIC	Net income	Increase in income	As percentage of total income per cent
£	£	£	£	£	£	£	£	£	£	
75.00	14.20	1.37	4.45	69.18	14.50	0.55	4.47	69.98	1.10	1.5
80.00	14.20	2.82	4.69	72.49	14.50	1.90	4.71	73.39	1.20	1.5
85.00	14.20	4.27	4.93	75.80	14.50	3.25	4.96	76.79	1.29	1.5
90.00	14.20	5.72	5.18	79.10	14.50	4.60	5.20	80.20	1.40	1.6
95.00	14.20	7.17	7.32	80.51	14.50	5.95	5.44	83.61	3.40	3.6
100.00	14.20	8.62	7.66	83.72	14.50	7.30	7.68	85.02	1.60	1.6
120.00	14.20	14.42	9.03	96.55	14.50	12.70	9.05	98.25	2.00	1.7
140.00	14.20	20.22	10.40	109.38	14.50	18.10	10.42	111.48	2.40	1.7
160.00	14.20	26.02	11.77	122.21	14.50	23.50	11.79	124.71	2.80	1.8
180.00	14.20	31.82	13.14	135.04	14.50	28.90	13.16	137.94	3.20	1.8
200.00	14.20	37.62	14.51	147.87	14.50	34.30	14.53	151.17	3.60	1.8
250.00	14.20	52.12	17.94	179.94	14.50	47.80	17.96	184.24	4.60	1.8
295.00	14.20	65.17	20.33	209.50	14.50	59.95	21.04	214.01	4.81	1.6
300.00	14.20	66.62	20.33	213.05	14.50	61.30	21.04	217.66	4.91	1.6
350.00	14.20	81.12	20.33	248.55	14.50	74.80	21.04	254.16	5.91	1.7
400.00	14.20	95.62	20.33	284.05	14.50	88.30	21.04	290.66	6.91	1.7
500.00	14.20	137.56	20.33	342.11	14.50	127.79	21.04	351.17	9.36	1.9
600.00	14.20	184.62	20.33	395.05	14.50	174.72	21.04	404.24	9.49	1.6

¹ Post July 1986.

Net income is earnings, less tax and national insurance contributions, plus child benefit. It does not include any means tested benefit. It is assumed that only the husband is earning.

National Insurance Contributions are at the standard Class 1 rate for employment contracted out of the State additional (earnings related) pension scheme.

BUDGET - SECRET

TABLE 9

SINGLE AND MARRIED COUPLES - COMPARISON WITH 1986-87 WHERE EARNINGS INCREASE BY 6½ PER CENT BETWEEN 1986-87 AND 1987-88

Charge for 1986-87			Proposed charge for 1987-88			
Income	Income tax	Percentage of total income taken in tax	Adjusted income ¹	Income tax	Percentage of total income taken in tax	Percentage change in net income
£	£	per cent	£	£	per cent	per cent
SINGLE PERSONS						
3,000	193	6.4	3,195	208	6.5	6.4
4,000	483	12.1	4,260	495	11.6	7.1
6,000	1,063	17.7	6,390	1,071	16.8	7.7
8,000	1,643	20.5	8,520	1,646	19.3	8.1
10,000	2,223	22.2	10,650	2,221	20.9	8.4
12,000	2,803	23.4	12,780	2,796	21.9	8.6
15,000	3,673	24.5	15,975	3,658	22.9	8.7
20,000	5,174	25.9	21,300	5,223	24.5	8.4
25,000	7,298	29.2	26,625	7,543	28.3	7.8
30,000	9,660	32.2	31,950	10,146	31.8	7.2
40,000	14,878	37.2	42,600	15,814	37.1	6.6
50,000	20,702	41.4	53,250	22,153	41.6	6.1
60,000	26,702	44.5	63,900	28,543	44.7	6.2
70,000	32,702	46.7	74,550	34,933	46.9	6.2
MARRIED COUPLES ²						
4,000	100	2.5	4,260	126	3.0	6.0
6,000	680	11.3	6,390	701	11.0	6.9
8,000	1,260	15.8	8,520	1,276	15.0	7.5
10,000	1,840	18.4	10,650	1,851	17.4	7.8
12,000	2,420	20.2	12,780	2,426	19.0	8.1
15,000	3,290	21.9	15,975	3,289	20.6	8.3
20,000	4,740	23.7	21,300	4,726	22.2	8.6
25,000	6,703	26.8	26,625	6,926	26.0	7.7
30,000	9,001	30.0	31,950	9,460	29.6	7.1
40,000	14,153	35.4	42,600	15,061	35.4	6.5
50,000	19,910	39.8	53,250	21,331	40.1	6.1
60,000	25,910	43.2	63,900	27,721	43.4	6.1
70,000	31,910	45.6	74,550	34,111	45.8	6.2

¹ The adjusted incomes shown for 1987-88 are for illustration. They have been obtained by increasing the corresponding incomes in 1986-87 by 6½ per cent.

² Assuming that only the husband has earned income.

TABLE 10A

SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES

COMPARISON WITH 1986-87 WHERE EARNINGS INCREASE BY 6½ PER CENT BETWEEN 1986-87 AND 1987-88
INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS (CONTRACTED IN)

Charge for 1986-87				Proposed charge for 1987-88				
Income	Income tax	NIC ¹	Percentage of total income taken in tax and NIC per cent	Adjusted income ²	Income tax	NIC ¹	Percentage of total income taken in tax and NIC per cent	Percentage change in income after tax and NIC per cent
£	£	£		£	£	£		
SINGLE PERSONS								
50.00	1.48	2.50	8.0	53.25	1.79	2.66	8.4	6.0
60.00	4.38	4.20	14.3	63.90	4.66	3.19	12.3	9.0
70.00	7.28	4.90	17.4	74.55	7.54	5.21	17.1	6.9
80.00	10.18	5.60	19.7	85.20	10.41	5.96	19.2	7.2
90.00	13.08	6.30	21.5	95.85	13.29	6.70	20.9	7.4
100.00	15.98	9.00	25.0	106.50	16.16	9.58	24.2	7.7
120.00	21.78	10.80	27.2	127.80	21.91	11.50	26.1	8.0
140.00	27.58	12.60	28.7	149.10	27.67	13.41	27.6	8.2
160.00	33.38	14.40	29.9	170.40	33.42	15.33	28.6	8.4
180.00	39.18	16.20	30.8	191.70	39.17	17.25	29.4	8.6
200.00	44.98	18.00	31.5	213.00	44.92	19.17	30.1	8.7
250.00	59.48	22.50	32.8	266.25	59.30	23.96	31.3	8.9
300.00	73.98	25.65	33.2	319.50	73.67	26.55	31.4	9.4
400.00	105.66	25.65	32.8	426.00	107.00	26.55	31.3	8.8
500.00	148.99	25.65	34.9	532.50	154.27	26.55	34.0	8.1
600.00	197.31	25.65	37.2	639.00	207.39	26.55	36.6	7.4
MARRIED COUPLES ³								
70.00	0.00	4.90	7.0	74.55	0.42	5.21	7.6	5.9
80.00	2.82	5.60	10.5	85.20	3.30	5.96	10.9	6.1
90.00	5.72	6.30	13.4	95.85	6.17	6.70	13.4	6.4
100.00	8.62	9.00	17.6	106.50	9.05	9.58	17.5	6.7
120.00	14.42	10.80	21.0	127.80	14.80	11.50	20.6	7.1
140.00	20.22	12.60	23.4	149.10	20.55	13.41	22.8	7.4
160.00	26.02	14.40	25.3	170.40	26.30	15.33	24.4	7.7
180.00	31.82	16.20	26.7	191.70	32.05	17.25	25.7	7.9
200.00	37.62	18.00	27.8	213.00	37.81	19.17	26.8	8.1
250.00	52.12	22.50	29.8	266.25	52.18	23.96	28.6	8.4
300.00	66.62	25.65	30.8	319.50	66.56	26.55	29.1	9.0
400.00	95.62	25.65	30.3	426.00	96.46	26.55	28.9	8.7
500.00	137.56	25.65	32.6	532.50	142.42	26.55	31.7	7.9
600.00	184.62	25.65	35.0	639.00	194.22	26.55	34.5	7.3

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

² The adjusted incomes shown for 1987-88 are for illustration. They have been obtained by increasing the corresponding incomes in 1986-87 by 6½ per cent.

³ Assuming that only the husband has earned income.

BUDGET - SECRET

TABLE 10B

SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES

COMPARISON WITH 1986-87 WHERE EARNINGS INCREASE BY 6½ PER CENT BETWEEN 1986-87 AND 1987-88
INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS (CONTRACTED OUT)

Charge for 1986-87				Proposed charge for 1987-88				
Income	Income tax	NIC ¹	Percentage of total income taken in tax and NIC per cent	Adjusted income ²	Income tax	NIC ¹	Percentage of total income taken in tax and NIC per cent	Percentage change in income after tax and NIC per cent
£	£	£		£	£	£		
SINGLE PERSONS								
50.00	1.48	2.24	7.4	53.25	1.79	2.35	7.8	6.1
60.00	4.38	3.72	13.5	63.90	4.66	2.65	11.4	9.0
70.00	7.28	4.21	16.4	74.55	7.54	4.45	16.1	6.9
80.00	10.18	4.69	18.6	85.20	10.41	4.97	18.1	7.2
90.00	13.08	5.18	20.3	95.85	13.29	5.48	19.6	7.4
100.00	15.98	7.66	23.6	106.50	16.16	8.13	22.8	7.7
120.00	21.78	9.03	25.7	127.80	21.91	9.59	24.6	8.0
140.00	27.58	10.40	27.1	149.10	27.67	11.05	26.0	8.2
160.00	33.38	11.77	28.2	170.40	33.42	12.51	27.0	8.4
180.00	39.18	13.14	29.1	191.70	39.17	13.96	27.7	8.5
200.00	44.98	14.51	29.7	213.00	44.92	15.42	28.3	8.6
250.00	59.48	17.94	31.0	266.25	59.30	19.07	29.4	8.9
300.00	73.98	20.33	31.4	319.50	73.67	21.04	29.6	9.3
400.00	105.66	20.33	31.5	426.00	107.00	21.04	30.1	8.7
500.00	148.99	20.33	33.9	532.50	154.27	21.04	32.9	8.0
600.00	197.31	20.33	36.3	639.00	207.39	21.04	35.7	7.4
MARRIED COUPLES³								
70.00	0.00	4.21	6.0	74.55	0.42	4.45	6.5	5.9
80.00	2.82	4.69	9.4	85.20	3.30	4.97	9.7	6.1
90.00	5.72	5.18	12.1	95.85	6.17	5.48	12.2	6.4
100.00	8.62	7.66	16.3	106.50	9.05	8.13	16.1	6.7
120.00	14.42	9.03	19.5	127.80	14.80	9.59	19.1	7.1
140.00	20.22	10.40	21.9	149.10	20.55	11.05	21.2	7.4
160.00	26.02	11.77	23.6	170.40	26.30	12.51	22.8	7.7
180.00	31.82	13.14	25.0	191.70	32.05	13.96	24.0	7.9
200.00	37.62	14.51	26.1	213.00	37.81	15.42	25.0	8.0
250.00	52.12	17.94	28.0	266.25	52.18	19.07	26.8	8.4
300.00	66.62	20.33	29.0	319.50	66.56	21.04	27.4	8.8
400.00	95.62	20.33	29.0	426.00	96.46	21.04	27.6	8.6
500.00	137.56	20.33	31.6	532.50	142.42	21.04	30.7	7.9
600.00	184.62	20.33	34.2	639.00	194.22	21.04	33.7	7.3

¹ National Insurance Contributions are at the standard Class 1 rate for employment contracted out of the State additional (earnings related) pension scheme.

² The adjusted incomes shown for 1987-88 are for illustration. They have been obtained by increasing the corresponding incomes in 1986-87 by 6½ per cent.

³ Assuming that only the husband has earned income.

BUDGET - SECRET

MARRIED AN LOW GO
UP 5 7600 A Wks
1.2hr 10 mins

TABLE 11A

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

COMPARISON WITH 1986-87 WHERE EARNINGS INCREASE BY 6½ PER CENT
BETWEEN 1986-87 AND 1987-88

INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS (CONTRACTED IN)

Income	1986-87					1987-88				
	Income tax	NIC	Child Benefit ¹	Net income	Adjusted income ²	Income tax	NIC	Child benefit	Net income	Percentage change in net income per cent
£	£	£	£	£	£	£	£	£	£	
70.00	1.07	4.90	14.20	78.23	74.55	1.24	5.21	14.50	82.60	5.6
80.00	4.07	5.60	14.20	84.53	85.20	4.32	5.96	14.50	89.42	5.8
90.00	7.07	6.30	14.20	90.83	95.85	7.41	6.70	14.50	96.24	6.0
100.00	10.07	9.00	14.20	95.13	106.50	10.50	9.58	14.50	100.92	6.1
120.00	16.07	10.80	14.20	107.33	127.80	16.68	11.50	14.50	114.12	6.3
140.00	22.07	12.60	14.20	119.53	149.10	22.86	13.41	14.50	127.33	6.5
160.00	28.07	14.40	14.20	131.73	170.40	29.03	15.33	14.50	140.54	6.7
180.00	34.07	16.20	14.20	143.93	191.70	35.21	17.25	14.50	153.74	6.8
200.00	40.07	18.00	14.20	156.13	213.00	41.39	19.17	14.50	166.94	6.9
250.00	55.07	22.50	14.20	186.63	266.25	56.83	23.96	14.50	199.96	7.1
300.00	70.07	25.65	14.20	218.48	319.50	72.27	26.55	14.50	235.18	7.6
350.00	85.07	25.65	14.20	253.48	372.75	87.71	26.55	14.50	272.99	7.7
400.00	102.27	25.65	14.20	286.28	426.00	105.90	26.55	14.50	308.05	7.6
500.00	145.48	25.65	14.20	343.07	532.50	152.19	26.55	14.50	368.26	7.3

¹ Post July 1986.

² The adjusted incomes shown for 1987-88 are for illustration. They have been obtained by increasing the corresponding incomes in 1986-87 by 6½ per cent.

Employees' National Insurance Contributions are at the standard Class 1 rate for employment contracted in to the State additional (earnings related) pension scheme.

Calculations assume that only the husband has earned income.

BUDGET - SECRET

TABLE 11B

MARRIED COUPLE WITH TWO CHILDREN - INCOME ALL EARNED - WEEKLY FIGURES
COMPARISON WITH 1986-87 WHERE EARNINGS INCREASE BY 6½ PER CENT
BETWEEN 1986-87 AND 1987-88
INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS (CONTRACTED OUT)

1986-87					1987-88					Percentage change in net income per cent
Income	Income tax	NIC	Child Benefit ¹	Net income	Adjusted income ²	Income tax	NIC	Child benefit	Net income	
£	£	£	£	£	£	£	£	£	£	
70.00	0.00	4.21	14.20	79.99	74.55	0.42	4.45	14.50	84.18	5.2
80.00	2.82	4.69	14.20	86.69	85.20	3.30	4.97	14.50	91.43	5.5
90.00	5.72	5.18	14.20	93.30	95.85	6.17	5.48	14.50	98.70	5.8
100.00	8.62	7.66	14.20	97.92	106.50	9.05	8.13	14.50	103.82	6.0
120.00	14.42	9.03	14.20	110.75	127.80	14.80	9.59	14.50	117.91	6.5
140.00	20.22	10.40	14.20	123.58	149.10	20.55	11.05	14.50	132.00	6.8
160.00	26.02	11.77	14.20	136.41	170.40	26.30	12.51	14.50	146.09	7.1
180.00	31.82	13.14	14.20	149.24	191.70	32.05	13.96	14.50	160.19	7.3
200.00	37.62	14.51	14.20	162.07	213.00	37.81	15.42	14.50	174.27	7.5
250.00	52.12	17.94	14.20	194.14	266.25	52.18	19.07	14.50	209.50	7.9
300.00	66.62	20.33	14.20	227.25	319.50	66.56	21.04	14.50	246.40	8.4
350.00	81.12	20.33	14.20	262.75	372.75	80.94	21.04	14.50	285.27	8.6
400.00	95.62	20.33	14.20	298.25	426.00	96.46	21.04	14.50	323.00	8.3
500.00	137.56	20.33	14.20	356.31	532.50	142.42	21.04	14.50	383.54	7.6

¹ Post July 1986.

² The adjusted incomes shown for 1987-88 are for illustration. They have been obtained by increasing the corresponding incomes in 1986-87 by 6½ per cent.

Employees' National Insurance Contributions are at the standard Class 1 rate for employment contracted out of the State additional (earnings related) pension scheme.

Calculations assume that only the husband has earned income.

BUDGET - SECRET

TABLE 12

MARRIED COUPLES - HUSBAND AND WIFE BOTH WORKING

COMPARISON OF INCOME AFTER TAX IN 1986-87 AND 1987-88
WHERE EARNINGS INCREASE BY 6½ PER CENT

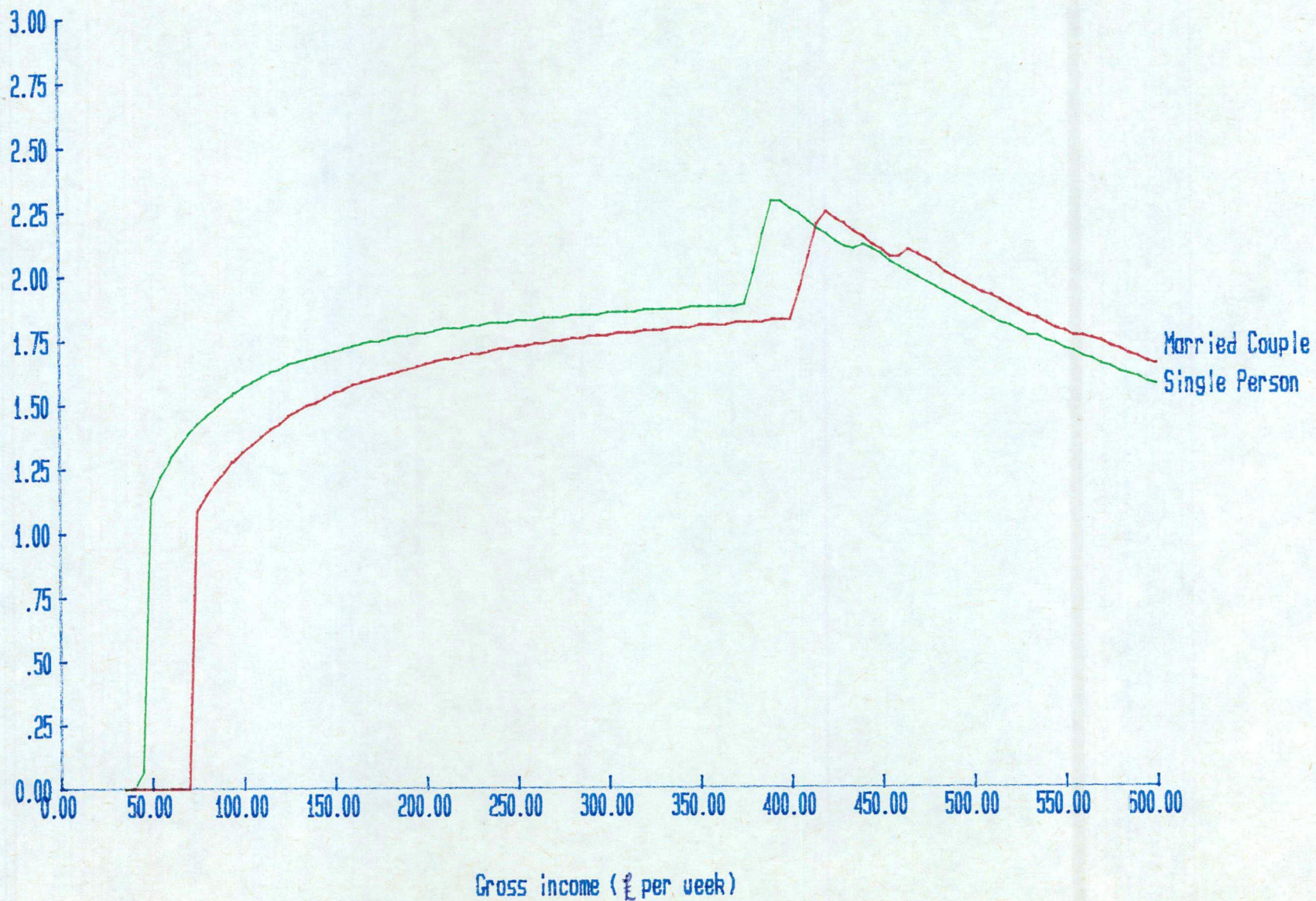
Weekly income in 1986-87		Charge in 1986-87			Adjusted weekly income in 1987-88 ¹		Proposed charge in 1987-88			
Husband	Wife	Joint	Income tax	Percentage of income taken in tax per cent	Husband	Wife	Joint	Income tax	Percentage of income taken in tax per cent	Percentage change in income after tax per cent
£	£	£	£		£	£	£	£		
100.00	50.00	150.00	10.09	10.1	106.50	53.25	159.75	10.84	10.2	6.4
	100.00	200.00	24.59	24.6		106.50	213.00	25.21	23.7	7.1
	150.00	250.00	39.09	39.1		159.75	266.25	39.59	37.2	7.5
	200.00	300.00	53.59	53.6		213.00	319.50	53.97	50.7	7.8
	300.00	400.00	82.59	82.6		319.50	426.00	82.72	77.7	8.2
150.00	50.00	200.00	24.59	16.4	159.75	53.25	213.00	25.21	15.8	7.1
	100.00	250.00	39.09	26.1		106.50	266.25	39.59	24.8	7.5
	150.00	300.00	53.59	35.7		159.75	319.50	53.97	33.8	7.8
	200.00	350.00	68.09	45.4		213.00	372.75	68.35	42.8	8.0
	300.00	450.00	97.53	65.0		319.50	479.25	99.10	62.0	7.9
200.00	50.00	250.00	39.09	19.5	213.00	53.25	266.25	39.59	18.6	7.5
	100.00	300.00	53.59	26.8		106.50	319.50	53.97	25.3	7.8
	150.00	350.00	68.09	34.0		159.75	372.75	68.35	32.1	8.0
	200.00	400.00	82.59	41.3		213.00	426.00	82.72	38.8	8.2
	300.00	500.00	117.53	58.8		319.50	532.50	118.59 ²	55.7	8.2
300.00	50.00	350.00	68.09	22.7	319.50	53.25	372.75	68.35	21.4	8.0
	100.00	400.00	82.59	27.5		106.50	426.00	82.72	25.9	8.2
	150.00	450.00	97.53	32.5		159.75	479.25	99.10	31.0	7.9
	200.00	500.00	117.53	39.2		213.00	532.50	118.59 ²	37.1	8.2
	300.00	600.00	147.96 ²	49.3		319.50	639.00	147.35 ²	46.1	8.8
400.00	50.00	450.00	97.53	24.4	426.00	53.25	479.25	99.10	23.3	7.9
	100.00	500.00	117.53	29.4		106.50	532.50	121.43	28.5	7.5
	150.00	550.00	136.13 ²	34.0		159.75	585.75	137.54 ²	32.3	8.3
	200.00	600.00	150.63 ²	37.7		213.00	639.00	151.91 ²	35.7	8.4
	300.00	700.00	179.63 ²	44.9		319.50	745.50	180.67 ²	42.4	8.5

¹ The adjusted incomes shown for 1987-88 are for illustration. They have been obtained by increasing the corresponding incomes in 1986-87 by 6½ per cent.

² Denotes wife's earnings election beneficial.

Change in income tax as a percentage of total income

Percent

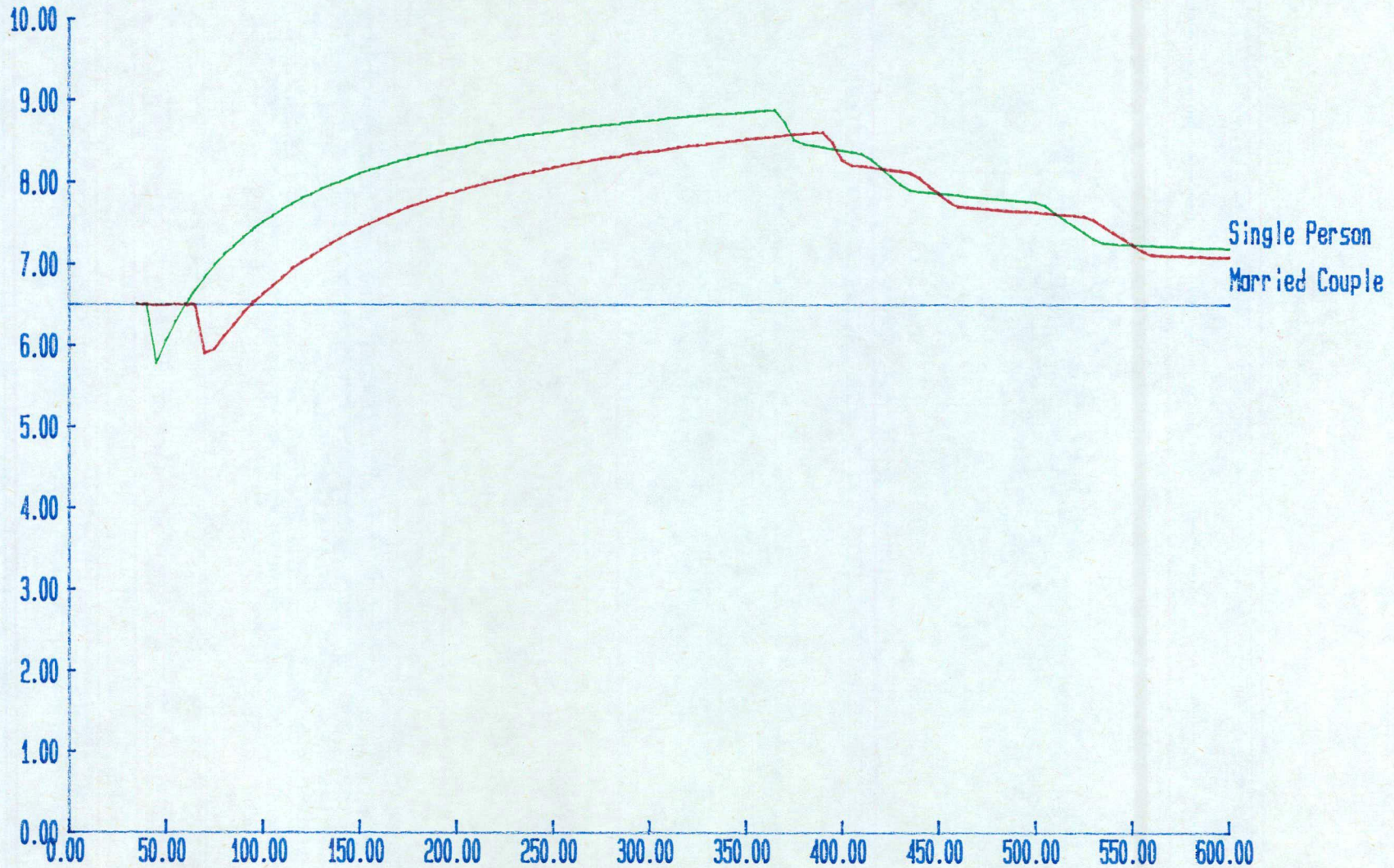


BUDGET - SECRET

Percentage change in income after tax

where earnings increase by 6.5 % between 1986-87 and 1987-88

Percent



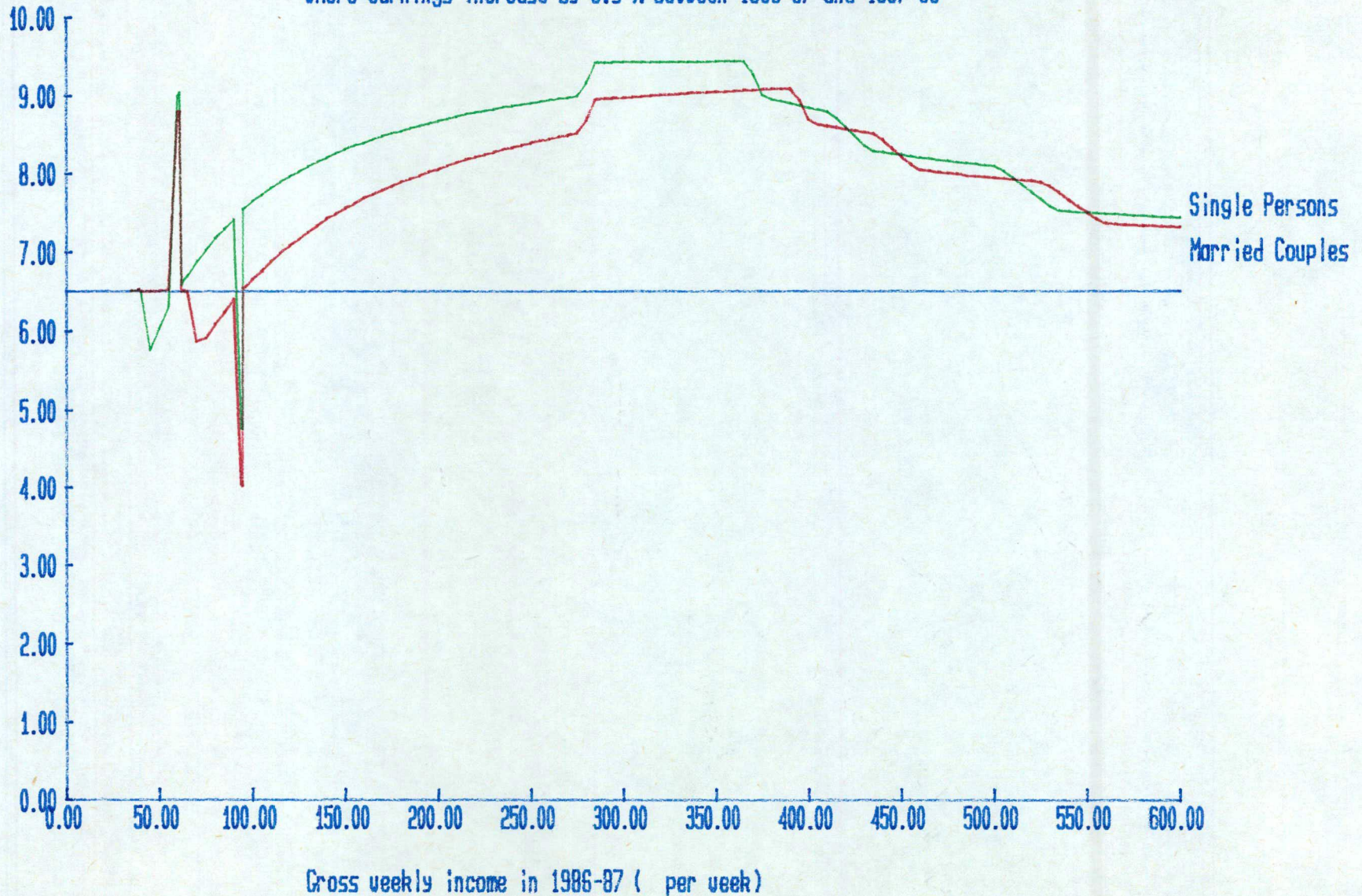
Gross income in 1986-87 (£ per week)

BUDGET - SECRET

Percentage change in income after tax and National Insurance Contributions

where earnings increase by 6.5 % between 1986-87 and 1987-88

Percent



BUDGET - SECRET



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460/6439
Switchboard 01-213 3000 GTN Code 213
Facsimile 01-213 5465 Telex 915564

Where are we on this? I await advice from Mr. SLS. Can't.

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1

CH/EXCHEQUE	
REC.	1-APR 1987
ACTION	CST, FST, EST, MST 314
COPIES TO	SIR P. MIDDLETON
	MR WILSON
	MR MONCK
	MR SCHOLAR
	MR WALKER IR
	PSIR PSICBE

31 March 1987

Nigel

1987 BUDGET

I was very pleased to see the VAT changes in the Budget which will be of considerable assistance to small businesses. The BES changes may also help and my officials will be in touch with yours about the promotion of BES for local investment following your letter of 3 March.

I was disappointed that a number of the major points in my Budget submission to you could not be included this year. I feel strongly that we need to do much more on stimulating both loan and equity investment in small companies, on tax incentives for training and on share ownership by employees. It would be helpful if my officials could discuss each of these areas with officials from Treasury and Inland Revenue to see how these proposals can be developed further. I would like to have a word with you in advance to help set the framework.

All three are areas on which we both place great importance and I am sure a joint effort would be productive.

Lawson

cliff-edge effect on crossing the £120 per week level. For 1986/87 single people with gross incomes in the range £120 - £150 per week and married men in the range £120-£140 per week would have lower net incomes than those earning just under £120 per week. This would be a major distortion biting into just about the thickest part of the income distribution: 16 per cent of full time males and 22 per cent of full time females have earnings in the range £120-£150 per week.

Tax credits instead of personal allowances

4. We assume that you have in mind non-refundable tax credits rather than negative income tax, tax/benefit integration and the other ideas discussed in Chapter 6 of the Green Paper on Personal Taxation.

5. Non-refundable tax credits have been advocated by the IFS and the SDP. The aim is to make personal allowances count only against liability for basic rate tax. In other words, the benefit of these allowances to higher rate taxpayers would be reduced. The Labour Party have also advocated giving allowances only against the basic rate, though it is not clear that they envisage a scheme of non-refundable tax credits.

6. Everyone would be given a tax credit equal to their personal allowance multiplied by the basic rate. The credit could as now have different levels for married and single people. Unless specifically relieved, every pound of income would be taxed according to the tax rate schedule, and the tax credit would be an offset to the resulting tax bill. If the income tax due was less than the tax credit there would be no payment from the Revenue to the individual. A number of countries including Austria, Denmark, Italy and Spain give the benefit of their basic personal allowances in this way.

7. If the present married and single allowances were turned into tax credits the only effect on net income would be for those at the top of the basic rate band and higher rate taxpayers. Most basic rate taxpayers would be left in exactly the same position as at present because the tax credit would be exactly equal in value to the current personal allowances.


CONFIDENTIAL

8. But since a tax credit would count only at the basic rate, the gross income at which higher rate tax would start to be payable would fall. Unless action were taken to offset this all the higher rate thresholds would, in effect, be reduced by an amount equal to the personal allowance. The attached specimen examples using 1987-88 personal allowances and higher rate thresholds illustrate the result. On this basis some people would see their marginal rates increase and this would be bad for incentives, although to offset this, a move to non-refundable tax credits could be combined with an increase in higher rate thresholds and/or cuts in higher rates.

9. Tax credits would require an increase in Inland Revenue manpower because procedures for dealing with higher rate taxpayers would generally become more complex and because there could be more higher rate taxpayers in total. There is also the question of how the new credits should be handled for PAYE. This raises a number of issues; it could require a significant change to the present PAYE procedures for employers.

ch/ Not clear why X is so.
And the answer to Y is
to raise the first higher
rate threshold to compensate

AWK
1/4



CAROLYN SINCLAIR

Department of Employment Paper

1. The paper looks at the effect on the unemployment trap of three pre-Budget options for tax cuts. The options are:

- a 1p cut in the basic rate to 28p;
- a 6 per cent increase in personal allowances;
- a lower rate band on £500 of income, with a tax rate of 20p.

2. DE have not actually calculated any replacement ratios. They have restricted their analysis to one-earner tax units and then looked at average changes in net income by range of income and family type. From there they simply make assertions (probably justifiable) about which possibility is better for the unemployment trap.

3. The results are familiar (eg from the Chevening paper). Basic rate cuts are worth less than allowance increases for single people with earnings below about £125 a week and for married men with earnings below £195 a week. The lower rate band is worth more than a basic rate cut for singles earning below about £130 a week and married men below £160 a week. Allowance increases are better than a reduced rate band for almost everybody.

4. It is therefore a reasonable a priori conclusion that an allowance increase is better for the unemployment trap than a basic rate cut. It gives a larger proportionate increase in net income in work to those on low incomes - those most likely to be in the unemployment trap.

5. This is confirmed by the analysis of a 2p basic rate cut compared with an equivalent cost increase in allowances which we did for Chevening and included in the brief for the Economic Cabinet. There are about 570,000 heads of families working as employees with replacement ratios over 80 per cent. The basic rate cut would reduce that number by 50,000 while the increase in allowances would reduce their number by 90,000. An equivalent cost reduced rate band would fall somewhere in between.

CONFIDENTIAL

6. All of DE's analysis of incentives is couched in terms of replacement ratios - the 'why work' question. It does not mention marginal tax rates which affect incentives eg to work harder, train for a higher paid job, or take more risks. Raising allowances does nothing for marginal rates for the great majority of taxpayers. The relatively few heads of working families taken out of tax will have reduced marginal rates, as will some higher rate taxpayers (if allowance increases are not offset by reductions in higher rate thresholds). On the other hand, cutting the basic rate improves work incentives for all basic rate taxpayers.

7. DE also mention:

(a) **A graduated rate structure.** They give no detailed proposals but presumably have in mind several tax bands below the basic rate stretching above average earnings and then an increased basic rate above that. They conclude that this will not do as much as allowance increases for replacement ratios of those with low earnings but assert that it could be better than allowance increases for those around average earnings. But a graduated rate structure would mean a very high 'basic' rate (perhaps 60%) above average earnings. DE do not pursue this possibility any further.

(b) **A tax exempt band.** This would work rather like the NIC LEL. If earnings were between the personal allowance and a tax exempt limit, which DE set at £120 a week for a cost of £4bn, then no tax would be paid. But if earnings exceeded £120 a week then tax would be paid on everything above the personal allowance - an instantly vanishing exemption. This would substantially increase net earnings for any taxpayers earning below £120 a week as they would be removed from tax. Their replacement ratio would be reduced and their marginal rate would fall to zero - so it would be good for their incentives. For those above £150 a week, present incentives would be unaffected.

CONFIDENTIAL

8. The problem with (b) is that it would introduce a huge cliff-edge at £120 a week. An extra £1 of earnings would give rise to a tax bill of almost £13 for a married man and £20 for a single person with a 27 per cent basic rate. Net income for single people earning between £120 and £150 would be lower than if they earned below £120 a week. For married men the same would be true up to £140 a week. The DE paper recognises this weakness.

9. This would have a detrimental effect on incentives. There would be no incentive to increase earnings above £120 a week unless they increased by more than £30 (for a single person). There would be no reward for the first £30 worth of extra effort. Anyone earning between £120 a week and £150 would be encouraged to work less in order to increase their net income.

10. It does not look sensible to encourage the unemployed to take jobs up to £120 a week, whilst at the same time removing the incentive to hold a job earning more than £120 a week, but less than £150 a week. There would be an increase in demand for jobs below £120 a week, but a distortion would be introduced in the labour market above that level. About 16 per cent of full-time males and 22 per cent of full-time females currently earn between £120 a week and £150 a week.

**SPECIMEN EXAMPLE OF REFUNDABLE TAX CREDIT
POST 1987 BUDGET**

Married man earning	£12000	£20000	£30000	£50000
<u>Present system</u>				
Income	12000	20000	30000	50000
Less MMA	<u>3795</u>	<u>3795</u>	<u>3795</u>	<u>3795</u>
Taxable income	8205	16205	26205	46205
Tax at: basic rate	2215	4375	4833	4833
40%	-	-	1000	1000
45%	-	-	2250	2250
50%	-	-	402	3590
55%	-	-	-	4345
60%	-	-	-	<u>3003</u>
Total tax	<u>2215</u>	<u>4375</u>	<u>8485</u>	<u>19021</u>
<u>Tax credit system</u>				
Taxable income	12000	20000	30000	50000
Tax at: basic rate	3240	4833	4833	4833
40%	-	840	1000	1000
45%	-	-	2250	2250
50%	-	-	2300	3950
55%	-	-	-	4345
60%	-	-	-	<u>5280</u>
Total tax	<u>3240</u>	<u>5673</u>	<u>10383</u>	<u>21658</u>
Less tax credit	<u>1025</u>	<u>1025</u>	<u>1025</u>	<u>1025</u>
Tax payable	2215	4648	9358	20633
Extra tax with tax credits	0	273	873	1612

CONFIDENTIAL



Handwritten initials 'JP'

FROM: N G FRAY

DATE: 14 April 1987

MISS SINCLAIR

re Mr Scholar
re Mr Scotter

- cc: Mr Byatt
- Mr Scholar
- Mr G P Smith
- Mr Scotter
- Mr Haigh
- Miss Evans
- Mr Cropper
- PS/IR
- Mr Isaac - IR
- Mr Mace - IR
- Mr R Martin - IR
- Mr R Weedon - IR

APS/Chancellor

IR are keen to respond to this, &
as they have the information, I have
agreed.

REUS
15/4

1987 BUDGET: LORD YOUNG

The Chancellor was grateful for your minute of 31 March.

2. He has commented that the advantage of the tax credit idea, as he sees it, is that initially it would be accompanied by an exactly offsetting rise in higher rate thresholds (which would presumably mean no increase in the number of higher rate thresholds and no increase in complexity for the Inland Revenue) but that subsequently the tax credits could be increased at a lower cost for a given percentage increase, than the cost of raising the existing thresholds.

Nigel Fray
N G FRAY

12/6

From: N MONCK

Date: 16 April 1987

Please attach
our copy of
letter - X

PS/CHANCELLOR

*1 agree with this advice*cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Burgner
Mrs Lomax o/r
Mr Scholar
Mr P GrayMiss Sinclair
Mr Ross Goobey
PS/IR
Mr P Lewis
Mr McGivern

LORD YOUNG'S LETTER ON "1987 BUDGET"

x/ In his letter of 31 March (attached) Lord Young said he was disappointed that several major points in his Budget submission "could not be included this year". He proposed official discussions between DE, the Treasury and Inland Revenue on stimulating investment in small companies, tax incentives for training, and on employee share ownership. He also said his officials would be in touch with the Chancellor's about promoting BES for local investment.

2. Lord Young's officials have more or less volunteered the suggestion to us that we should do nothing about this letter. They regard it as taking out a position on the next Budget which can be left till later.

3. I think the Chancellor felt he had already done enough for employee share ownership and that Lord Young's ideas on finance for small companies and tax incentives for training were either unworked out or not convincing. Tax incentives for training going beyond the sensible small measure in this Budget and the extra statutory concessions (legislation to come) look like a slippery slope, analogous to tax incentives for R & D expenditure. Our efforts in 1985 to find an initiative to stimulate investment in small companies on top of the BES and loan guarantee schemes, which are now permanent, produced the Small Business Investment Companies, but they were thought to be too interventionist and of doubtful cost-effectiveness.

4. Given all this background, I think it would make sense, subject to the Chancellor's views, not to answer Lord Young. After all his letter suggests that the first step would be a talk with the Chancellor which he has not yet arranged.

5. We would however go ahead with the work on the promotion of BES for local investment in smaller companies. Mr Burgner is organising this work with the Revenue, DE and DTI in consultation with FP.

NM

N MONCK

35/70



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460/6439
Switchboard 01-213 3000 GTN Code 213
Facsimile 01-213 5465 Telex 915564

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1

*cc Mr. Long
we had better
look at the
SBIC papers
for 1985 for X*

31 March 1987 *ML*
3/4

Nigel

1987 BUDGET

1-10-1987

CST, FST, EST, MST

SIR P. MIDDLETON

MR WILSON	MISS SINCLAIR
MR MONCK	MR WALTERS
MR SCHOLAR	MR MACAUSLAN
MR WALKER IR	MR CROPPER MR BURGNER
PSIR, PSICBE	MR TYRRE
	MR ROSS-GOOBEY

I was very pleased to see the VAT changes in the Budget which will be of considerable assistance to small businesses. The BES changes may also help and my officials will be in touch with yours about the promotion of BES for local investment following your letter of 3 March.

I was disappointed that a number of the major points in my Budget submission to you could not be included this year. I feel strongly that we need to do much more on stimulating both loan and equity investment in small companies, on tax incentives for training and on share ownership by employees. It would be helpful if my officials could discuss each of these areas with officials from Treasury and Inland Revenue to see how these proposals can be developed further. I would like to have a word with you in advance to help set the framework.

All three are areas on which we both place great importance and I am sure a joint effort would be productive.

Lawson



Inland Revenue

Policy Division
Somerset House

FROM: B A MACE

DATE: 23 APRIL 1987

CHANCELLOR OF THE EXCHEQUER

1987 BUDGET: LORD YOUNG: TAX CREDITS

Thanks.

Nigel

1. In the light of Mr Fray's minute of 14 April you may find it helpful if I comment on the cost of the tax credit idea discussed in Miss Sinclair's note of 31 March, and explain in a bit more detail the point she made about administrative complexity.

Cost

2. Although the revenue cost of increasing tax credits given at the basic rate only would be less than the cost of raising the existing allowances (which are available at the taxpayer's marginal rate) the saving would be quite small. With the present structure the cost (for example) of a 5% increase in the main personal allowances (£130 on the basic single allowance, £190 on the basic married allowance) is about £1130 million. With allowances/tax credits given at the basic rate only the cost would be £1100 million, £30 million (under 3%) less.

3. A tax credit would automatically restrict relief to the basic rate. But as you know, it is possible within the existing structure to stop most of the benefit of an allowance increase flowing through at the taxpayer's marginal rate. (The offset cannot be precise, in particular because of the difference

cc Mr Byatt
Mr Scholar
Miss Sinclair
Mr G P Smith
Mr Scotter
Mr Haigh
Mr Hudson
Miss Evans
Mr Cropper

Mr Isaac
Mr Lewis
Mr Beighton
Mr Mace
Mr Martin
Mr Weeden
Dr Keenay
PS/IR

between the single and married allowances.) This can be done by adjusting the starting point for higher rate tax, not increasing it as much as you otherwise would. For example a 5% increase in present allowances combined with a £100 reduction in the first higher rate threshold (leaving the other band widths unchanged) would cost £1110 million.

Complexity

3. I am afraid there would inevitably be an increase in complexity, and in our manpower requirement, in moving over to a system of tax credits even if this was accompanied by a matching rise in the higher rate thresholds so that the total number of higher rate taxpayers remained unchanged.

4. The problems arise with PAYE. At present PAYE codes, in combination with the operation of PAYE tax tables, automatically give a taxpayer the benefit of all his allowances at the correct marginal rate without any intervention by us. With tax credits due at the basic rate only the present PAYE system would no longer give the right amount of relief automatically. It would be necessary to make ad hoc adjustments in the PAYE codes of higher rate taxpayers (and some basic rate taxpayers at the top of the basic rate band) to restrict their relief to the basic rate. These adjustments would have to be made by the tax office on the basis of a forecast both of the taxpayer's earnings for the year and of his likely marginal rate. These forecasts would often turn out to be wrong, particularly with the present, narrow higher rate bands. Apart from anything else the only information about the taxpayer's income available to the tax office at the time when they would have to make the forecast would relate to two years previously (for 1985-86, for example, in relation to a forecast for 1987-88). And the higher rate thresholds and bandwidths are, of course, not settled until after the codes are issued.

5. In order to put the taxpayer's affairs right it would be necessary to make an adjustment, after the end of the tax year, to collect any tax underpaid or to repay tax overpaid. In some cases the amounts involved could be substantial - several hundred pounds either way. Making these adjustments would involve significant extra staff costs.

6. You will recall that much the same issues arise in relation to a lower rate band and to vanishing exemptions, where the accuracy of PAYE coding adjustments depends on an, often inaccurate, forecast of the taxpayer's income and marginal rate, and adjustments may be needed after the end of the year to put matters right.

7. With tax credits the additional Revenue manpower costs might be eased to some extent by changing the structure of PAYE codes (which at present represent amounts of tax-free income) so that they represented amounts of tax. Higher rate taxpayers would then automatically get the benefit of their allowances at the basic rate only. This change would, however, require a significant alteration to the procedures which employers have to carry out in applying PAYE. Employers with computerised payrolls would need perhaps 12 months notice to make this change from the time detailed instructions were issued to them.

8. Once the new system was in place, it would be no more difficult for employers than the present system. But the transition would probably involve all employers (not just computer users) in some additional work and costs.

9. Although this approach would simplify PAYE coding for tax credits it would have the disadvantage that it would complicate coding for other items where relief was due (or income was to be taxed) at the individual's marginal rate. For example, where a higher rate taxpayer needed a coding adjustment to collect tax on car benefits it would be necessary for the tax office to make a forecast of his income and marginal rate in order to estimate

the tax due on the benefit and restrict the PAYE code (expressed in terms of tax) accordingly. As before, adjustments of this kind would often turn out to be wrong with the need to sort the position out after the end of the year. We think it is likely that a substantial proportion of higher rate PAYE taxpayers have at least one adjustment of this kind, and unlike the standard sums involved in tax credits, the amounts involved will vary, from taxpayer to taxpayer.

10. Our conclusion is that fitting tax credits into either approach would be likely to involve a significant element of extra complexity. We would want to consider the question in much more detail before deciding which approach was, on balance, to be preferred.

B A Mace

B A MACE

pub



FROM: CATHY RYDING
DATE: 24 April 1987

MR MONCK

cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Burgner
Mrs Lomax
Mr Scholar
Mr P Gray
Miss Sinclair
Mr Ross Goobey

PS/IR
Mr P Lewis - IR
Mr McGivern - IR

LORD YOUNG'S LETTER ON "1987 BUDGET"

The Chancellor was grateful for your minute of 16 April, and agrees with your advice that he should not reply to Lord Young.

CR

CATHY RYDING



UP

FROM: N G FRAY

DATE: 27 April 1987

MR MACE - INLAND REVENUE

1987 BUDGET: LORD YOUNG: TAX CREDITS

The Chancellor has seen and was grateful for your minute of 23 April.

Nigel Fray
N G FRAY