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PART A

SECRET
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PART A

1987 BUDGET OVERVIEW

DD'S 25years NAJ13 10-3-95

PO -CH /NL/~~0014~~ 0818
PART A

STARTS:-24-11-86
ENDS 5-3-87

BUDGET CONFIDENTIAL

FROM: MRS D C LESTER

DATE: 24 November 1986

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS AND EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/Inland Revenue
PS/C&E

BUDGET OVERVIEW MEETINGS

Budget Overview meetings will take place every Monday from 12 January until 16 March inclusive. They will start at 11 am and proceed through a working lunch until approximately 2 pm. I should be grateful if you would ensure that these times are kept clear in your diary please.

Debbie Lester

MRS D C LESTER

FROM: A C S ALLAN
DATE: 27 January 1987

MR JEFFERSON-SMITH C&E

cc: PS/Minister of State
Sir P Middleton
Mr Cassell
Mrs Lomax
PS/IR
Mr Painter - IR
PS/C&E

CUSTOMS PROJECT FIVE

At yesterday's Overview meeting, the timetable agreed was that you would provide advice urgently to the Minister of State on instructions to Parliamentary Counsel, and would as soon as possible thereafter produce the joint paper with Treasury and Inland Revenue on mortgages. The timetable envisaged at the meeting was for the paper on instructions to counsel to come forward on Wednesday, and the paper on mortages on Friday.

2. The Chancellor would be very grateful if you could ensure that the paper on mortgages is with him by Friday night at the latest, and if at all possible some what earlier.

ACSA

A C S ALLAN

RA3.14 BUDGET CONFIDENTIAL

1 Tony
2 Cathy
3 BF 15/1.

FROM: A C S ALLAN
DATE: 13 January 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS AND EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/IR
Mr Houghton - IR (item (v))
Mr Mace - IR (item (iv))
Mr Wilmott - C&E

Ch
Inland Revenue unable to produce more on IHT this week, so choice fell on Hyde Park

AA

BUDGET OVERVIEW MEETINGS: PROVISIONAL AGENDA FOR FIRST OVERVIEW MEETING ON MONDAY 19 JANUARY

Mrs Lester's minute of 22 December 1986 reported that overview meetings this year would be held on Mondays, from 3.00 pm to 6.00 pm. A provisional agenda will be circulated on the preceding

Tuesdays, and the final agenda on Thursday. All papers for dicussion must be circulated by Thursday evening.

2. The first overview meeting will be held on Monday, 19 January. The provisional agenda is as follows:

(i) <u>Budget scorecard</u>:
To be circulated by Mr Scholar.

(ii) <u>Excise duties (including VED)</u>
Mr Knox's minutes of 8 January and 18 December, with an update by Customs and Excise and FP division if possible.

(iii) <u>Consumer credit tax</u>
Paper by Customs and Excise, to be circulated.

(iv) <u>Higher rate tax options</u>
Further discussion of the options.

(v) <u>Inheritance tax</u>
Further discussion of the options.

ACSA

A C S ALLAN

Ch

OVERVIEW MEETING.

Michael Scholar and I feel that the agenda for the first overview meeting next Monday should be

1. Scorecard
2. Excise duties (including VED)
3. Consumer Credit Tax
4. either higher rate options or IHT

(CGT is being discussed at a separate meeting on Thursday).

OK?

AA

OK. Provisionally, put both 4 alternatives on agenda – I will probably prefer the former, but will confirm on Mon.

RA3.14

BUDGET CONFIDENTIAL

FROM: A C S ALLAN

DATE: 15 January 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS AND EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/IR
Mr Mace - IR (item (iv))
Mr Wilmott - C&E
Mrs Boardman - C&E (item (iii))

BUDGET OVERVIEW MEETINGS: AGENDA FOR FIRST OVERVIEW MEETING ON MONDAY 19 JANUARY

The agenda for the first overview meeting at 3.00pm on Monday, 19 January is as follows:

(i) Budget scorecard:

Mr Scholar's minute of 15 January.

(ii) Excise duties (including VED)

Mr Knox's and Mr Romanski's minutes of 15 January, updating Mr Knox's earlier minute of 18 December.

(iii) Consumer credit tax

Note of MST's meeting on 15 January to discuss Mr Jefferson Smith's note of 14 January.

(iv) Higher rate tax options

Mr Mace's minute of 15 January.

ACSA

A C S ALLAN

RA3.14

BUDGET CONFIDENTIAL

pmp

FROM: A C S ALLAN

DATE: 20 January 1987

22 NB!!

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR A WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS AND EXCISE
MR KNOX - CUSTOMS AND EXCISE

cc PS/IR
Mr Wilmott - C&E
Mr Houghton - IR
(item (ii))
Mr Jefferson Smith - C&E
(item (iii))

BUDGET OVERVIEW MEETINGS: AGENDA FOR SECOND OVERVIEW MEETING ON MONDAY 26 JANUARY

The second overview meeting will be held on Monday 26 January at 3.00pm. The provisional agenda is as follows:-

BUDGET CONFIDENTIAL

(i) <u>Budget scorecard:</u>
To be circulated by Mr Scholar.

(ii) <u>Inheritance tax</u>
Paper by Inland Revenue, to be circulated.

(iii) <u>Consumer credit tax</u>
Progress report by MST. and Custom

(iv) <u>Enterprise measures</u>
Submission by FP on Lord Young and Mr Trippier's Budget representations, to be circulated.

(v) <u>PRP</u>
Note by Mr Monck, to be circulated.

2. As usual, all papers for discussion must be circulated by Thursday evening, 22 January.

pp A C S ALLAN

Minute by [illegible] IR of 22 January on Lord Young's proposals; minute by [illegible]

psl/89A

BUDGET CONFIDENTIAL

FROM: A C S ALLAN
DATE: 22 January 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc PS/IR
Mr Wilmott - C&E
Mr McGivern - IR (Item (iii))
Mr Houghton - IR (Item (iv))
Mr Jefferson Smith - C&E (Item (v))

BUDGET OVERVIEW MEETINGS: AGENDA FOR SECOND OVERVIEW MEETING ON MONDAY 26 JANUARY

The second overview meeting will be held on Monday, 26 January at 3.00 pm. The agenda is as follows:-

(i) **Budget scorecard:**

Circulated by Mr Scholar on 22 January;

(ii) **PRP:**

Mr Monck's minute of 22 January on estimated revenue costs;

(iii) **Enterprise measures**:

Mr Scholar's minute of 22 January covering a list of measures, and notes on CBI representations; Mr Walker's (IR) minute of 22 January on Lord Young's and Mr Trippier's proposals;

(iv) **Inheritance Tax**:

Mr Battersby's minute of 20 January on rates and bands;

(v) **Consumer Credit Tax**:

Report by MST, following his meeting on 23 January.

ACSA

A C S ALLAN

MINUTES OF SECOND OVERVIEW MEETING

RA7.6

BUDGET SECRET
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REF NO: J 87/3
COPY No: 2 of 33

BUDGET SECRET

B.L.O.

SECRET

PLAIN PAPER

THIRD

RECORD OF THE SECOND BUDGET OVERVIEW MEETING:

3.00PM ON MONDAY, 26 JANUARY 1987

9 FEBRUARY

Present

Chancellor
Chief Secretary (Items 1, 2 + 3 only)
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Scholar
Mr Sedgwick (Items 1 & 2 only)
Mr Odling-Smee (Items 1 & 2 only)
Miss C Evans
Mr Cropper
Mr Ross Goobey
Mr Tyrie

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr McGivern (Item 3 only) 4
Mr Houghton (Item 4 only)

Sir A Fraser - C&E
Mr Knox - C&E
Mr Jefferson Smith - C&E (Item 5 only)

Papers

5 February

(i) Scorecard: Mr Scholar's minute of 22 January;

THEN ON TAPE

(ii) PRP: Mr Monck's minute of 22 January on estimated revenue costs;

(iii) Enterprise Measures: Mr Scholar's and Mr Walker's (IR) minutes of 22 January;

(iv) Inheritance Tax: Mr Battersby's minutes of 20 and 21 January and Mr Houghton's of 22 January;

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED

(v) Consumer Credit Tax: Mr Jefferson Smith's minute of 22 January and note of MST's meeting on 23 January.

Scorecard

The following points were made:-

(i) The RPI effects now totalled nearly ½ per cent, which was uncomfortably large. It might be necessary to go for less than full revalorisation of excise duties on goods other than cigarettes. No action was needed now, but the position should be reviewed nearer the time.

(ii) The switch to VAT cash accounting was particularly attractive because its continuing costs were very small. We had not yet had a reply from the Commission, but the indications so far seemed reasonably promising. There might well be a case for raising the limit to £500,000.

(iii) The separate item on the Scorecard for capital gains should be removed, and the proposal incorporated within the item for corporation tax.

(iv) There should be no change in the minor excise duties, and there was no need to recoup the cost of £5 million from elsewhere.

PRP

2. Mr Monck's paper provided a helpful explanation of the way the numbers had been built up. The presentation in the Budget should make the point that for 1989-90, the "full year" cost could exceed £100 million. There was no need to increase any of the incentives.

Enterprise measures

3. The following points were made on the CBI proposals:-

(i) Extension of BES to connected persons. There was an argument for extending the relief to parents, but the cost could be high and additionality doubtful. No changes should be made.

(ii) VAT on bad debts. The right way to deal with this was to increase the limit for cash accounting as high as possible, though this might itself in time produce pressure for wider relief for bad debts.

(iii) The other CBI proposals either found no support, or were under separate consideration.

4. The following points were made on Lord Young's proposals:

(i) Enterprise companies. There were genuine worries that the BES scheme had not stimulated local investment in local businesses. But the proposals for enterprise companies were extremely complex and generous, and would overlap with the BES. On balance it was not attractive to pursue them. Nor was it attractive to put a low per-company limit on BES investments, since this would have its own disadvantages, including ending any investment in shipping. The most attractive option was to put renewed effort into promoting BES in the regions, eg. via the DTI/DEm regional organisations.

(ii) Learn as you earn. There was a good case for putting the Revenue's extra statutory concession onto a statutory footing. The Inland Revenue would supply a note on this.

(iii) Spin outs. It was not clear whether there were any actual cases where companies paying for re-training would not be able to claim this as a normal business expense. Lord Young should be asked to provide examples. It was important that the review of Section 79 should try so far as possible to distinguish between avoidance and innocent transactions.

(iv) Small workshops. Extending the BES in this way would mean overturning several of the basic rules of the scheme. Before this could be considered, it was necessary to find out whether there really was a shortage of small workshops.

5. It might be worth looking at whether roll over relief might be given for an individual's gains under a 1984 share option scheme if they were reinvested in a BES company run by him. This could cause problems of round tripping, but would be looked at further in the Inland Revenue submission on BES.

Inheritance Tax

6. The most promising option in Mr Battersby's paper was "4 point 90", which precisely met the remit from Chevening. But it produced some odd numbers, and it would be worth also looking at a scale with bands of 90/80/80/80. The Inland Revenue should investigate options of this type, with the top rate coming in at around £330,000, with a first year cost less than £100 million, and a full year cost up to £220 million.

7. On business relief, there were considerable attractions in the proposal in paragraph 17 of Mr Battersby's minute of 21 January (that 50 per cent relief should be given to controlling holdings in any company and to holdings of more than 25 per cent in companies without a full or USM listing; the 30 per cent relief would be restricted to holdings of 25 per cent or less in companies without a full or USM listing). This would withdraw the favoured treatment for companies with USM listings, but the package was balanced by the additional relief for other companies. The Revenue should produce further advice on this proposal, including a note on the implications for IHT treatment of agricultural land, and for the wider tax treatment of USM securities. There was some support for a 100 per cent business relief, but it was agreed that this was not something in any case for this Budget.

Consumer Credit Tax

8. It was agreed that this should in future be referred to by the code word "Customs Project 5".

9. The following points were made on the recommendations in paragraph 15 of Mr Jefferson Smith's note of 22 January:-

(a) The basis of the tax was agreed, though more work needed to be done on trusts in particular.

(b) Safeguards against anti-avoidance by individuals were agreed, though more work was needed on credit unions.

(c) There were clear administrative advantages in making the exemption broader, and covering all those who were registered for VAT or paid Class II or Class IV NICs. This would in principle provide scope for abuse, but alternative proposals seemed to lead to much greater compliance costs for small businesses. There was, however, a need to make sure that loans for start ups were not caught by the tax.

(d) This was agreed.

(e) It was very disturbing that it need not seem possible to place any figure at all on what the de minimis limit should be. It would be much better to assemble whatever evidence was available, and then at Budget time publish a rough estimate for consultation. It would always be possible to revise it after consultation.

(f) This was agreed.

10. The figures for the cost of exempting all mortgages (£40 million in a full year) seemed very low. But these were probably only the impact effects, and did not take account of behavioural changes. It would be helpful to have a joint Treasury/Revenue/Customs paper on the treatment of mortgages as soon as possible, though it was accepted that getting instructions to Parliamentary Counsel was the first priority.

11. Summing up the discussion, the Chancellor said that he was grateful to the Minister of State and Customs for the work they had

put in. He was minded to introduce the tax, but it was clear that a great deal more work was required before a final decision could be taken.

Next week's overview

12. The Chancellor noted that there did not seem to be enough items to warrant an overview meeting the following week. The slot would instead be taken for a meeting on the forecast.

pp A C S ALLAN
26 January 1987

Distribution

Those present
Mr F E R Butler
PS/IR
Mr Wilmott - C&E

psl/89A

BUDGET CONFIDENTIAL

FROM: A C S ALLAN
DATE: 3 February 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc PS/IR
Mr Wilmott - C&E
Mr Corlett - IR)
Mr Munro - IR) Item (iv)
Miss Noble)
Mr Mace - IR
(Item (v))
Mr McGivern - IR)
Mr Reid - IR) Item (vi)

BUDGET OVERVIEW MEETINGS: PROVISIONAL AGENDA FOR THIRD OVERVIEW MEETING ON MONDAY 9 FEBRUARY

The third overview meeting will be held on Monday, 9 February at 3.00 pm. The provisional agenda is as follows:-

(i) **Budget scorecard:**

To be circulated by Mr Scholar.

(ii) **Lollipop Trawl**

Paper by FP, to be circulated (plus any contributions from Ministers or advisers).

(iii) **Sectoral Impact of the Budget**

Paper by FP, to be circulated.

(iv) **Personal Pensions and AVCs**

Paper by Inland Revenue, to be circulated.

(v) **Changing the basic rate of income tax**

Report by FST, following his meeting on Friday to discuss Mr Mace's note of 2 February.

(vi) **Business Expansion Scheme**

Notes by Mr McGivern and Mr Reed (IR) of 30 January (and record of FST's meeting on Wednesday - to be circulated).

2. As usual, all papers must be circulated by close of play on Thursday (5 February).

ACSA

A C S ALLAN

psl/89A

BUDGET CONFIDENTIAL

FROM: A C S ALLAN
DATE: 6 February 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc PS/IR
Mr Wilmott - C&E
Mr Mace - IR (Item (iv))
Mr McGivern - IR) Item (v)
Mr Reid - IR)
Mr Haigh (item (iii))

BUDGET OVERVIEW MEETINGS: AGENDA FOR THIRD OVERVIEW MEETING ON MONDAY 9 FEBRUARY

The third overview meeting will be held on Monday, 9 February at 3.00 pm. The agenda is as follows:-

(i) **Budget scorecard**:

Circulated by Mr Scholar on 5 February.

(ii) **Lollipop Trawl**

Miss Sinclair's minute of 5 February.

BUDGET CONFIDENTIAL

(iii) **Sectoral Impact of the Budget**

Mr Scholar's minute of 5 ~~April~~ February.

(iv) **Changing the basic rate of income tax**

Report by FST, following his meeting on Friday to discuss Mr Mace's note of 2 February.

(v) **Business Expansion Scheme**

Record of FST's meeting on Wednesday, 4 January to discuss the notes by Mr McGivern and Mr Reed (IR) of 30 January.

pp A C S ALLAN

Ref no: F87/1
Copy no: 1 of: 34

RECORD OF THE THIRD BUDGET OVERVIEW MEETING:
3.00PM ON MONDAY, 9 FEBRUARY 1987

Present
Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Scholar
Mr Sedgwick
Mr Odling-Smee
Miss C Evans
Mr Haigh (Item 3 only)
Mr Cropper
Mr Ross Goobey
Mr Tyrie

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr McGivern - IR (Item 4 only)
Mr Mace - IR (Item 5 only)

Sir A Fraser - C&E
Mr Knox - C&E

Papers

(i) Scorecard: Mr Scholar's minute of 5 February;

(ii) Lollipop Trawl: Miss Sinclair's minute of 5 February;

(iii) Sectoral Impact of the Budget: Mr Scholar's minute of 5 February;

(iv) Changing the Basic Rate of Income Tax: Minutes by PS/FST of 5 February and by Mr Mace (IR) of 2 February;

(v) Business Expansion Scheme: Minute by PS/FST of 5 February, and by Mr McGivern (IR) and Mr Reid (IR) of 30 January.

Scorecard

The following points were made:-

(i) Mr Hurd's letter of 3 February on restructuring the beer duty to favour low alcohol beers had come as a surprise. It was almost certainly too late to do anything for 1987, but the proposal should be investigated for 1988.

(ii) The Chancellor noted that he was most unlikely to be able to do any more than a simple revalorisation of the personal allowances. There was some concern about the lack of coherence in the higher rate package, in the changed circumstances since last year: it might look odd to bring more people into the 60 per cent band when the Government had held out hopes of cuts in the higher rates in the future. But there would still be political advantages in being able to demonstrate that the basic rate cut would not disproportionately help the better-off, particularly in a year when the Opposition were pledged to resist tax cuts. On balance it was preferable to retain the existing proposals. But both the personal allowances and the higher rate schedule should be reviewed again before a final decision was taken.

(iii) No decision was yet possible on revalorisation of specific duties.

(iv) A ceiling on cash accounting for VAT of up to £¼ million seemed likely to be possible. The wording in the Budget speech should say that the proposal was subject to our obtaining the necessary derogation from the EC Commission. The Budget arithmetic would assume that it would be implemented on 1 October. This procedure seemed likely to be satisfactory providing it did not prejudice our negotiating position in Brussels.

Lollipops

2. The proposals in Annex A of Miss Sinclair's note for VAT lollipops for charities were already agreed. The proposals in Annex B had been considered but rejected last year, and the only ones worth considering again were:

(i) Item 6 (Car Tax relief on cars supplied to Motorbility for Leasing.) The Minister of State would be asked for his views on this;

(ii) Item 7 (Blind Allowance). This was attractive. The choice lay between £500 (a round number), revalorisation from 1981 (about £515), or some slightly higher number. The Inland Revenue would produce a note;

(iii) Item 9 (CTT "douceur" concession). This was a "lolly without the pop". On balance it should not be pursued.

3. On the new lollipops in Annex C, the only attractive option (apart from BES and films which was being discussed later in the agenda) was Item 7, to increase the tax relief limit for life assurance business by friendly societies. The Economic Secretary would be considering this at a meeting later in the week. His initial view was that it looked attractive: it would allow the long-standing traditional friendly societies to undertake more business, without favouring other friendly societies newly created to take advantage of loopholes in the tax laws. It would require about one and a half pages of legislation, which seemed manageable. The proposal was agreed, subject to confirmation at the Economic Secretary's meeting.

4. Two other items were raised:

(i) Widow's bereavement allowance. There would undoubtedly be pressure to do something for widows, whether by this route or through category B pensions. But the bereavement allowance was already generous, and there did not seem to be significant pressure for an increase. The Inland Revenue would provide a note;

(ii) the Inland Revenue would be providing a note on the profit limit for the small companies' rate of Corporation Tax, and the taper.

Sectoral Impact of the Budget

5. The sectoral impact seemed generally satisfactory. The increased revenue from the company sector was the result of stopping avoidance. The only potential problem area was oil companies. The net increases in oil taxation were the result of the valuation and pricing decisions already announced, and which would come into effect before the Budget. After some discussion of the definition of the Budget, it was agreed that the pricing and valuation changes should be removed from the Budget and the scorecard. They should be built into the baseline and excluded from the FSBR.

6. The effects on individual oil companies would vary. The Inland Revenue agreed to provide a note disaggregating the likely impact on different types of company of all the various measures, subject to the usual requirements of confidentiality.

Changing the Basic Rate of Income Tax

7. The Financial Secretary's note identified the two main issues as being LAPR and the additional rate on discretionary trusts. It was agreed that there was no need to do anything on LAPR this year; the rate might be cut to 12½ per cent when the basic rate was reduced to 25p. On trusts, there was a case for considering a measure in the Finance Bill to prevent any increase in the additional rate for accumulation and maintenance trusts, though there would be problems over drawing a line between those trusts and discretionary trusts. But it was agreed that no change should be made this year, pending a further look at the structure of these

rates next year. Help was already being given to trusts via the IHT change for interest-in-possession trusts.

BES

8. The following points were made on the proposals in the Financial Secretary's package:

(i) Year end bunching. There were some doubts about this, since it would make an already complex scheme even more complex. But the scheme was inevitably (and rightly) aimed at the sophisticated investor, and it was essential that something was done to ease the problem of bunching. The proposal was agreed;

(ii) Films. This was agreed;

(iii) Shipping. This was also agreed. It was noted that there would be attractions in a ceiling on BES schemes, but that would virtually rule out any schemes for shipping;

(iv) Increased promotional effort. The Chancellor would raise this in his reply to Lord Young, and would offer to prepare a new leaflet with D/Em.

ACSA

A C S ALLAN
10 February 1987

Distribution

Those present
Minister of State
Miss Sinclair
PS/IR
Mr Wilmott - C&E

Ref no: F87/1
Copy no: 2 of: 34

RECORD OF THE THIRD BUDGET OVERVIEW MEETING:
3.00PM ON MONDAY, 9 FEBRUARY 1987

Present
Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Scholar
Mr Sedgwick
Mr Odling-Smee
Miss C Evans
Mr Haigh (Item 3 only)
Mr Cropper
Mr Ross Goobey
Mr Tyrie

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr McGivern - IR (Item 4 only)
Mr Mace - IR (Item 5 only)

Sir A Fraser - C&E
Mr Knox - C&E

Papers

(i) Scorecard: Mr Scholar's minute of 5 February;

(ii) Lollipop Trawl: Miss Sinclair's minute of 5 February;

(iii) Sectoral Impact of the Budget: Mr Scholar's minute of 5 February;

(iv) Changing the Basic Rate of Income Tax: Minutes by PS/FST of 5 February and by Mr Mace (IR) of 2 February;

(v) Business Expansion Scheme: Minute by PS/FST of 5 February, and by Mr McGivern (IR) and Mr Reid (IR) of 30 January.

Scorecard

The following points were made:-

(i) Mr Hurd's letter of 3 February on restructuring the beer duty to favour low alcohol beers had come as a surprise. It was almost certainly too late to do anything for 1987, but the proposal should be investigated for 1988.

(ii) The Chancellor noted that he was most unlikely to be able to do any more than a simple revalorisation of the personal allowances. There was some concern about the lack of coherence in the higher rate package, in the changed circumstances since last year: it might look odd to bring more people into the 60 per cent band when the Government had held out hopes of cuts in the higher rates in the future. But there would still be political advantages in being able to demonstrate that the basic rate cut would not disproportionately help the better-off, particularly in a year when the Opposition were pledged to resist tax cuts. On balance it was preferable to retain the existing proposals. But both the personal allowances and the higher rate schedule should be reviewed again before a final decision was taken.

(iii) No decision was yet possible on revalorisation of specific duties.

(iv) A ceiling on cash accounting for VAT of up to £¼ million seemed likely to be possible. The wording in the Budget speech should say that the proposal was subject to our obtaining the necessary derogation from the EC Commission. The Budget arithmetic would assume that it would be implemented on 1 October. This procedure seemed likely to be satisfactory providing it did not prejudice our negotiating position in Brussels.

<u>Lollipops</u>

2. The proposals in Annex A of Miss Sinclair's note for VAT lollipops for <u>charities</u> were already agreed. The proposals in Annex B had been considered but rejected last year, and the only ones worth considering again were:

(i) Item 6 (Car Tax relief on cars supplied to Motorbility for Leasing.) The Minister of State would be asked for his views on this;

(ii) Item 7 (<u>Blind Allowance</u>). This was attractive. The choice lay between £500 (a round number), revalorisation from 1981 (about £515), or some slightly higher number. The Inland Revenue would produce a note;

(iii) Item 9 (CTT "douceur" concession). This was a "lolly without the pop". On balance it should not be pursued.

3. On the new lollipops in Annex C, the only attractive option (apart from BES and films which was being discussed later in the agenda) was Item 7, to increase the <u>tax relief limit for life assurance business by friendly societies</u>. The Economic Secretary would be considering this at a meeting later in the week. His initial view was that it looked attractive: it would allow the long-standing traditional friendly societies to undertake more business, without favouring other friendly societies newly created to take advantage of loopholes in the tax laws. It would require about one and a half pages of legislation, which seemed manageable. The proposal was agreed, subject to confirmation at the Economic Secretary's meeting.

4. Two other items were raised:

(i) <u>Widow's bereavement allowance</u>. There would undoubtedly be pressure to do something for widows, whether by this route or through category B pensions. But the bereavement allowance was already generous, and there did not seem to be significant pressure for an increase. The Inland Revenue would provide a note;

(ii) the Inland Revenue would be providing a note on the profit limit for the small companies' rate of Corporation Tax, and the taper.

Sectoral Impact of the Budget

5. The sectoral impact seemed generally satisfactory. The increased revenue from the company sector was the result of stopping avoidance. The only potential problem area was oil companies. The net increases in oil taxation were the result of the valuation and pricing decisions already announced, and which would come into effect before the Budget. After some discussion of the definition of the Budget, it was agreed that the pricing and valuation changes should be removed from the Budget and the scorecard. They should be built into the baseline and excluded from the FSBR.

6. The effects on individual oil companies would vary. The Inland Revenue agreed to provide a note disaggregating the likely impact on different types of company of all the various measures, subject to the usual requirements of confidentiality.

Changing the Basic Rate of Income Tax

7. The Financial Secretary's note identified the two main issues as being LAPR and the additional rate on discretionary trusts. It was agreed that there was no need to do anything on LAPR this year; the rate might be cut to 12½ per cent when the basic rate was reduced to 25p. On trusts, there was a case for considering a measure in the Finance Bill to prevent any increase in the additional rate for accumulation and maintenance trusts, though there would be problems over drawing a line between those trusts and discretionary trusts. But it was agreed that no change should be made this year, pending a further look at the structure of these

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rates next year. Help was already being given to trusts via the IHT change for interest-in-possession trusts.

BES

8. The following points were made on the proposals in the Financial Secretary's package:

(i) Year end bunching. There were some doubts about this, since it would make an already complex scheme even more complex. But the scheme was inevitably (and rightly) aimed at the sophisticated investor, and it was essential that something was done to ease the problem of bunching. The proposal was agreed;

(ii) Films. This was agreed;

(iii) Shipping. This was also agreed. It was noted that there would be attractions in a ceiling on BES schemes, but that would virtually rule out any schemes for shipping;

(iv) Increased promotional effort. The Chancellor would raise this in his reply to Lord Young, and would offer to prepare a new leaflet with D/Em.

ACSA

A C S ALLAN
10 February 1987

Distribution

Those present
Minister of State
Miss Sinclair
PS/IR
Mr Wilmott - C&E

psl/89A

BUDGET CONFIDENTIAL

FROM: A C S ALLAN
DATE: 10 February 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc PS/IR
Mr Wilmott - C&E

BUDGET OVERVIEW MEETINGS: PROVISIONAL AGENDA FOR FOURTH OVERVIEW MEETING ON MONDAY 16 FEBRUARY

The fourth overview meeting will be held on Monday, 16 February at 3.00 pm. The provisional agenda is as follows:-

(i) **Budget scorecard:**

To be circulated.

(ii) **Excise Duties**

Note by Mr Knox (C&E) (to be circulated)

(iii) **Pensions**

Mr Corlett's note of 6 February covering report by Mr Munro. Note of FST's meeting (to follow)

(iv) **CT small companies rate and taper**

Note by IR (to be circulated)

(v) **Presentation of the Budget**

Note by Sir P Middleton (to be circulated)

2. As usual, all papers must be circulated by close of play on Thursday (12 February).

ACSA

A C S ALLAN

CHANCELLOR OF THE EXCHEQUER

FROM: A C S ALLAN
DATE: 13 February 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc PS/IR
Mr Wilmott - C&E
Mr Jefferson Smith - C&E (item (ii))
Mr Corlett - IR)
Mr Munro - IR)(item (iii))
Miss Noble)
Mr Culpin (item (iv))

BUDGET OVERVIEW MEETINGS: AGENDA FOR FOURTH OVERVIEW MEETING ON MONDAY 16 FEBRUARY

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Circulated by Miss Sinclair on 12 February.

(ii) **Excise Duties**

Mr Knox's note of 12 Feburary.

(iii) **Pensions**

Mr Corlett's note of 6 February covering report by Mr Munro. Note of FST's meeting on 10 February.

(iv) **Presentation of the Budget**

Mr Scholar's note of 13 February.

AWK

pp A C S ALLAN

BUDGET - CONFIDENTIAL

FROM: A. LYONS
DATE: 13 February 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
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MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc PS/IR
Mr Wilmott - C&E
Mr Jefferson Smith - C&E
(item (ii))

BUDGET OVERVIEW MEETINGS: AGENDA FOR FOURTH OVERVIEW MEETING ON MONDAY 16 FEBRUARY

Please find below a further paper for item ii

A Lyons

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

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

11 February 1987

1195 br

HM TREASURY – MCU	
REC'D.	13 FEB 1987
ACTION	FP
	Previous: 10786/87
	cc APS/CHX
CHARGE	CHX
REF No.	12253/87

Dear Nigel

EXCISE DUTIES ON ALCOHOLIC DRINKS

When I wrote to you on 19 January about other taxation issues, I promised to let you have my views on excise duties following the planned inter-departmental discussions at official level. These have now been held.

Our alcoholic drinks industry provides employment for about 75,000 people and contributes about 0.6 per cent to GDP. The industry is important in terms of its contribution to government funding - some £6.3 billion in excise duties and VAT in 1985. Employment in the industry has, however been falling and is now 27 per cent below what it was in 1980, with the fall in the distilling sector being particularly acute.

The fortunes of the different sectors within the industry have varied over recent years. Beer production and consumption has been falling (with some levelling off in 1986), while wine imports and consumption have shown significant growth. Spirits production has still not fully recovered from the major difficulties in the period between 1979 and 1983 when it fell by 45 per cent. Cider production and consumption which has shown rapid growth in the late 1970s is still stagnating.

Your decision last year to freeze duty levels was widely welcomed by the whole industry. Naturally, they hope for similarly favourable treatment this year. I certainly take the view that it would be damaging if duties were to be increased in real terms. As the analysis above suggests, the sector most able to bear an increase would be wines; but I recognise that the European Court ruling prevents you from increasing duties on wines by relatively more than those on beer. Profitability in the brewing sector has been improving in the last few years and, despite the standstill on excise duties, brewers felt able to increase their prices in 1986. If, therefore, you are

/ disposed to some ...

disposed to some increase in the duty on wines, I could not really argue that this should not be matched on beer, although I would hope that this would no more than match inflation since the last budget.

The position of cider is much more difficult. On the one hand, per degree of alcohol it is subject to a substantially lower rate of tax than beer. But the big increase in duty applied at the 1984 budget was followed by a prolonged period of stagnation in production and consumption from which the industry is only now showing signs of emerging. Nonetheless, if there is to be a modest increase in the duty on beer I think it should probably be matched on cider in money terms or at least to a level which would avoid any increase in the differentials between the duties applied to these drinks per degree of alcohol.

This leaves spirits, which are, of course, still taxed much more heavily than any of the other alcoholic drinks having regard to alcohol content. There is a strong case for reducing this differential as, indeed, you have been doing in all recent budgets. The Scotch Whisky industry continues to face difficulties of falling market shares both at home and overseas. Profitability in the industry is still very shaky and, as you know, the industry has suffered particularly from the abolition of stock relief. I would, therefore, urge you to treat this sector more favourably.

I know that this year's decisions in the alcoholic drinks sector are complicated by the need which you have identified to restructure the duty categories, principally to deal with the complaint of Spanish Sherry importers while protecting the interests of the British Wine and Sherry producers. The proposals which our officials have discussed for a new duty band for 13-15 per cent fortified wines and a reduction in the duties applied to the 15-18% band (which would benefit Spanish Sherry) are, I agree, the least objectionable course open to you; I would hope, however, that the rates for 13-15 per cent fortified wines are kept as close as possible to the light wine rates, and that the reduction in the 15-18 per cent band is not so great as to radically alter the current effective duty differential between British sherry and Spanish sherry. I would also hope that if you follow this solution you will do all you can to avoid widening the differential in duty rates per degree of alcohol between fortified wines and spirits since, generally speaking, while the former are imported, the latter are major UK products.

Yours Ever,
Michael

MICHAEL JOPLING

RA7.6

Ref no: F 87/2
Copy no: 1 of: 34

RECORD OF THE FOURTH BUDGET OVERVIEW MEETING:

3.00PM ON MONDAY, 16 FEBRUARY 1987

Present
Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Scholar
Mr Sedgwick
Mr Odling-Smee
Mr Culpin (item 4 only)
Miss Noble (Item 3 only)
Mr Cropper
Mr Ross Goobey
Mr Tyrie

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Corlett - IR (Item 3 only)
Mr Munro - IR (Item 3 only)

Sir A Fraser - C&E
Mr Knox - C&E

Papers

(i) Scorecard: Miss Sinclair's minute of 12 February;

(ii) Excise duties: Mr Knox's minute of 12 February.

(iii) Pensions: Mr Corlett's minute of 6 February, covering report by Mr Munro. FST's minute of 12 February.

(iv) Presentation of the Budget: Mr Scholar's minute of 13 February.

Budget Statement Outline

The Chancellor said it was most important that all comments on the second draft should be sent to Mr Scholar by Wednesday night, 18 February. Mr Scholar would then produce a first full draft of the statement.

Scorecard

2. The following points were made:-

(i) VAT Small Business Review A submission was with the Minister of State. It recommended withdrawing the proposals on compulsory deregistration and on ending the "standard method" of accounting in retail schemes. Cash accounting would be brought into effect by a commencement order, probably on 1 October. This was reflected in the scorecard.

(ii) Personal pensions and free-standing AVCs This was in the scorecard to take effect from 1 April 1988. Mr Fowler was now proposing to introduce personal pensions (and probably free-standing AVCs) on 1 January 1988; there were some elements of retrospection back to 1 April 1987. The costings in the scorecard should be reviewed.

(iii) Small companies CT It was agreed that the ceilings of £100,000 and £500,000 should be left at their existing levels.

(iv) Lloyds RIC This was very tricky, and needed to be resolved urgently. The Economic Secretary was holding a meeting the following week.

(v) Extra statutory concession for training A submission by the Inland Revenue on giving this concession legislative force (and possibly widening it somewhat) would be coming forward shortly.

(vi) Income tax Mr Mace (IR) had provided a useful note updating the costings. On balance it seemed preferable to stick to the present package.

Lollipops

3. Mr Mace's note of 13 February had set out options on the blind allowance and on widows' bereavement allowance; the former, at a level of £540, seemed attractive, but the latter was probably not worth pursuing. This was agreed.

4. There would be considerable pressure to do something for pensioners. Any suggestions for popular but cheap measures would be welcome. The possibilities raised at the meeting were:

(i) the Inland Revenue would provide a note on allowing pensioners tax relief for private medical insurance, setting out the revenue and staff costs;

(ii) Help the Aged had raised a point on the taxation of annuities which pensioners received after selling their home to insurance companies. The Inland Revenue agreed to provide a note on this;

(iii) an increase in the age allowance would have a helpful effect on Inland Revenue staffing, but was too expensive, and against the general trend of policy;

(iv) giving the wife's earned income allowance against the category B pension was also too expensive.

Excise duties

5. The Chancellor said he would prefer to wait until the overview meeting on Monday 2 March to have a substantive discussion and to take final decisions.

6. It was generally agreed that if there was no revalorisation of excise duties, it would be presentationally much easier not to

proceed with the restructuring of the wine duties. Taking no action could cause the EC Commission to institute proceedings against the UK, but these would inevitably take time, and changes could be made in the 1988 Budget. It would nonetheless be possible to carry forward the proposal for a new duty band for low strength mixed drinks ("coolers"); but if so, this should not be included in the Budget speech unless it was essential. Customs would provide a further note on these points.

Pensions

7. The Chancellor noted that time was pressing and decisions were needed as soon as possible on this complex subject. He was most grateful to the Financial Secretary and to Mr Corlett and his group for their work.

8. The meeting discussed the proposals in the Financial Secretary's minute of 12 February.

(i) There was agreement that the present scale of uplift was unfair to those whose service began within five years of retirement. There was also a good case for extending the period of uplift so that maximum benefit could only be achieved after 20 years service. The new uplift schedule at table A in the annex to the Financial Secretary's note was agreed.

(ii) Exploitation of Final Remuneration The Financial Secretary's three recommendations (a), (b) and (c) were agreed. It was also agreed that nothing should be done this year on (d) "salary sacrifice".

(iii) Exploitation of the rules for lump sums It was agreed that the uplift rules should be partially restricted, as recommended (paragraph 4(a)) by the Financial Secretary.

(iv) Loan-backs, pension mortgages and self investment It was agreed that nothing should be done this year, except for any consequentials from any action on caps.

(v) Small self-administered schemes The Financial Secretary's proposals were agreed.

9. The main discussion centred on the proposal for caps on lump sums or on final salary for pension purposes. There were arguments for putting the cap on the final salary, so that it affected both lump sums and ordinary pensions. But this would be seen as an attack on the two-thirds final salary rule, and arguably something which should be preceded by a Green Paper. A cap on lump sums would not restrict pension rights, but would simply force the very highest earners to take less of their pension in a lump sum. It was agreed that the appropriate level for a cap on lump sums would be £150,000; this should be indexed to the RPI. No public sector schemes would be affected for some years. The cap would have to be prospective, and not retrospective. The legislation needed would be short. Some of the other pension proposals would be announced for consultation and implementation in 1988; but the cap (and the new definition of final salary) must start from Budget day.

10. The Chancellor asked for a further note by the Inland Revenue on the timing of the introduction of the cap, on the interaction between the cap and the length of service and on the presentation of this change.

Presentation of the Budget

11. The following points were made:

(i) There were several answers to an attack on the size of the fiscal adjustment for 1987-88: we always made cautious revenue estimates; and these were coupled with unforeseen buoyancy in revenues (CT, VAT etc).

(ii) The presentation of the (cautious) revenue projections was tricky. We would not really want to highlight the once-for-all effects of Keith as an explanation for not projecting continued buoyancy of VAT receipts. It would be better to stand by the explanation that there are always great uncertainties and it was only wise to be cautious. Mr Odling-Smee noted that the MTFS might show effective tax rates constant over the medium term; this would certainly help the presentation.

(iii) There were problems over publishing different numbers from the CSO for GDP etc. Sir T Burns would discuss these with the CSO.

(iv) An attack on the lack of employment measures could be countered by highlighting the importance to jobs of the general performance of the economy; and pointing to existing spending on Restart and JTS, which had yet to work through fully, and to PRP.

(v) On tax reform, we could point to the important steps we were taking this year in closing loopholes. The proposal on dual resident companies could be singled out in a comparison of UK and US tax reform, since that was the one loophole which the US had closed earlier but we had not.

12. There was some discussion about the presentation of the PSBR numbers due to be released the following day. There was a danger that commentators might add the average February and March PSBR from previous years to the cumulative figure for the first 10 months of this financial year, and reach a PSBR of about £3 billion for 1986-87. There were a number of points which could be made in public to suggest that the outturn might be higher:-

(i) Much of the PRT revenues received in February and March last year would not be received this year.

(ii) We were due to make further repayments of APRT.

(iii) The large payment of composite rate tax last year would not be received this year.

(iv) We stood by the public expenditure totals published in the PEWP, and that implied a heavy level of supply expenditure in the last two months of the year.

(v) We could draw attention to earlier statements on Rover, though without mentioning any amount yet.

(vi) Much of the shortfall was on the LABR, and local authorities' borrowing intentions revealed an expected surge.

But it was important not to overdo the talking up of the PSBR estimate for this year; to do so would run a risk of damaging our credibility.

13. The Chancellor said he would consider further the issue of responsibility among Ministers for preparing the presentation of the various measures.

AJK

pp A C S ALLAN

17 February 1987

<u>Distribution</u>

Those present
Miss Sinclair
Miss C Evans
PS/IR
Mr Wilmott - C&E

MINUTES OF FOURTH OVERVIEW MEETING

RA7.6

Ref no: F 87/2
Copy no: 2 of: 34

RECORD OF THE FOURTH BUDGET OVERVIEW MEETING:

3.00PM ON MONDAY, 16 FEBRUARY 1987

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(v) We could draw attention to earlier statements on Rover, though without mentioning any amount yet.

(vi) Much of the shortfall was on the LABR, and local authorities' borrowing intentions revealed an expected surge.

But it was important not to overdo the talking up of the PSBR estimate for this year; to do so would run a risk of damaging our credibility.

13. The Chancellor said he would consider further the issue of responsibility among Ministers for preparing the presentation of the various measures.

pp A C S ALLAN
17 February 1987

Distribution

Those present
Miss Sinclair
Miss C Evans
PS/IR
Mr Wilmott - C&E

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1253/43

NR/14 A.

FROM: A ROSS GOOBEY
DATE: 17 FEBRUARY 1987

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Miss Noble
Mr Hudson
Mr Cropper
Mr Tyrie

Mr Lilley H/C

PENSIONERS

You asked me to work up a paper describing the beneficial effect this Government has had on the standard of living of pensioners. One problem is that the statistics are of varying age.

2. In 1986-87, there are 9½ million recipients of full retirement pension of whom 5 million are in receipt of an occupational pension. 7.8 million elderly people received retirement pension only, 1.6 million received a supplementary pension.

3. In 1984-85, the composition of pensioners' incomes was:

	%	
NI pensions (incl SERPS)	49	
Other state benefit	11	
		60 state
Occupational pensions	22	
Earnings	9	
Income from savings	9	
		40 non-state
Less income tax	11	

4. In 1982 pensioner couples had an average disposable income of £88 per week, with those under 70 averaging £96 per week. Lone men and women fared worse and those over 75 had lower average incomes.

Every man under 70 now has the benefit of a SERP on top of his basic state pension. Those on average earnings who retired in 1986 would receive £16.25 extra.

6. The average new occupational pension in payment in 1983 was £31 per week (nearly doubling the single state pension).

7. Since 1983, pensions in payment in private pension schemes have risen by about 1% per annum real with public sector schemes being "merely" index-linked.

8. Between 1979 and 1985 total net income of pensioners increased by 2.7% in real terms against an increase for the population as a whole of 1.3% pa.

9. However, 1.4 million pensioner households remain in the bottom quintile of national income and a further 2.6 million in the 2nd quintile. The remaining 2.5 million households have average to higher than average incomes.

10. Each person 65 and over had capital assets of £24,000 in 1986. Home owners, (half the households) had assets of £50,000 per capita of which £30,000 was the value of the home. Pensioners' net assets (in 1982) were 50% more than those of non-pensioners.

11. On taxation, the age allowance is at its highest in real terms since introduction (1975-76). The threshold for a married man is the highest since World War II.

12. On interest rates, the pensioner who invested in a National Savings Investment Account between March 1974 and April 1979, would have lost 24.7% of the real value of his deposit, but under this Government he would have seen a rise in the real value of his deposit of 30%.

13. On inflation, the average inflation rate under Labour was over 15%; since 1979 it has averaged 8% and since 1983 only 4.7%, so that the period between pension increases has not put so much strain on pensioners' pockets.

14. The target area for help for pensioners may be narrowed down to those over 75, non-householders, non-taxpayers. These would almost certainly fall in the lowest quintile of incomes.

15. More can certainly be made of the standard of living of recently retiring pensioners who would typically (over half) have an occupational pension, SERP and be a home owner.

16. I am grateful for input from Miss Noble and Mr Hudson.

ARG

A ROSS GOOBEY

BUDGET CONFIDENTIAL

FROM: A C S ALLAN
DATE: 17 February 1987

MR ISAAC - INLAND REVENUE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Cassell
Mr Monck
Mr Scholar
Miss Noble
Miss Sinclair
Miss Evans
Mr Cropper
Mr Ross Goobey
Mr Tyrie
PS/IR
PS/C&E

ACSA to ISAAC 17/2

LOLLIPOPS FOR PENSIONERS

At yesterday's overview meeting the Inland Revenue were asked for a note on two possible measures to help pensioners:

(i) tax relief for private medical insurance;

(ii) taxation of annuities from sales of a pensioner's house.

Since then, two other possibilities have been raised:

(iii) an increased age allowance for the very elderly - defined in terms of a different, higher age limit. It would be helpful if you could provide illustrative costings for a range of age limits (eg 70, 75 and 80) and a range of amounts;

(iv) some special tax relief to assist pensioners moving house (eg because they were moving out of an over-large family home). The relief could be exemption from stamp duty, or a special allowance against income tax, or some other measure.

2. I should be grateful if you could provide a note on these possibilities - and any others - for discussion at the overview meeting next Monday.

ACSA

A C S ALLAN

CAR TAX RELIEF/ MOTABILITY

...OR LEASING

B/C

20/2

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

FROM: B H KNOX

DATE: 17 February 1987

Ch
MST wd like to raise
AWK 19/2

MINISTER OF STATE

cc: Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Ross Goobey

I think we have lollipops agreed @ the latest overview. N

BUDGET LOLLIPOPS - CAR TAX RELIEF ON CARS SUPPLIED TO MOTABILITY FOR LEASING

The minutes of the Overview Meeting on 9 February record that you would be asked for your views on giving relief from car tax on vehicles supplied to Motability for leasing to disabled persons.

2. Background

Motability is an independent charitable organisation formed in 1977 at the suggestion of the Secretary of State for Social Services and the then Minister for the Disabled. Its main objective is to enable people who receive Mobility Allowance to use it to lease (or hire purchase) a new standard production car, either as a driver or passenger. The cars supplied may, where appropriate, be adapted for the needs of the disabled person. Motability negotiate special discounts with manufacturers, insurance brokers and can arrange hire purchase where necessary.

3. Reliefs already available

(a) Vehicle Excise Duty: Since December 1978 vehicles used exclusively for the purposes of a disabled person in receipt of Mobility Allowance are exempt from Vehicle Excise Duty (ie Road Fund Tax).

/(b) VAT Input Tax:

Internal distribution:

CPS Mr Jefferson Smith Mr Wilmott Mr Cockerell
Ms Barrett

KNOX To MST 17/2

(b) VAT Input Tax: The normal VAT rule for cars is that input tax on cars purchased by a business for its own use is non-deductible (ie the business cannot reclaim the VAT on the cars it uses, though it can reclaim the VAT on cars it purchases for resale). However, since July 1979 Motability has been allowed to reclaim input tax on all cars it purchases whether for leasing or resale to persons on receipt of Mobility Allowance.

(c) VAT on Leasing Charge: As with a normal business, Motability was initially required to charge VAT on its car sales and leases. However, since September 1984 the leasing charge has been relieved of VAT by taxing it at the zero rate.

4. The Present Proposal

To relieve from car tax vehicles purchased by Motability for leasing to recipients of Mobility Allowance.

5. Arguments in Favour

To appease further the disabled lobby and directly to help those recipients of Mobility Allowance to acquire the use of a new car.

6. Arguments Against

(a) Revenue: This proposal has been considered and rejected in the past on the grounds, inter alia, of cost. Based on Motability's level of supplies in 1986, the car tax involved would be of the order of £5 million. If such relief generated an increase in demand (which we would expect) the figure would be even higher. This loss would be permanent since, unlike VAT (which is chargeable when Motability sell a vehicle, possibly after a period of leasing), any relief from it will not be recouped at a later stage because car tax is a one stage tax.

(b) Control: This concession would appreciably widen the scope for abuse and would present significant administrative and control problems. There would be nothing to prevent entitled persons leasing cars through the Motability Scheme free of car tax and VAT, nominally for themselves, but in reality for their relatives and friends. Since there is no ability to recoup car tax on subsequent sales by Motability, there would be considerable control problems in ensuring that vehicles do not pass into private ownership after only a nominal leasing period. We would not welcome the extra

/administrative

administrative burden which this would impose in an area which would be very sensitive indeed to police.

(c) Repercussions: This concession would heavily favour the Motability scheme and could lead to similar applications from other bodies which would be difficult to resist. This would increase further both the revenue loss and the control difficulties.

7. Recommendation

Our recommendation must, once again, be against granting this concession, both on revenue grounds and more significantly because of the control problems and possible repercussions. A facility for Motability would undermine the principle that assistance for the disabled should allow the recipients freedom of choice as to how the relief may be used. The present proposal is of genuine advantage only to a handicapped person wishing to have the use of a car.

8. Motability received generous concessions in 1984 and have not sought further concessions in subsequent years.

Bryce Knox

B H KNOX

ISAAC TO CH/EX 19/2

THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

Mobility - con tent

FROM: A J G ISAAC
19 February 1987

CHANCELLOR OF THE EXCHEQUER

LOLLIPOPS: THE ELDERLY; and TRAINING

1. Notes by Mr Lewis, Mr Mace and Miss Rhodes report the results of our trawl of some further possible lollipops.

2. As I said at your last overview meeting, we must necessarily begin with a strong preference for lollipops which would save staff costs (such as an increase in age allowance), or at least not increase staff costs (such as an increase in the income limit for age allowance). This is against a post-Budget prospect which

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cc Chief Secretary
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Sir G Littler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Sedgwick
Mr Scholar
Mr Odling-Smee
Miss Evans
Mr Cropper
Mr Tyrie
Mr Ross Goobey
Miss Sinclair
Miss Noble

Sir Angus Fraser (C&E)
Mr Knox (C&E)

Mr Battishill
Mr Isaac
Mr Painter
Mr Lewis
Mr Corlett
Mr Pitts
Mr Beighton
Mr Calder
Mr Mace
Mr Eason
Mr Johns
Mr R H Allen
Mr O'Brien
Mr Boyce
Dr Keenay
PS/IR

already shows our staff needs increasing by around 130 by April 1988 (with decisions outstanding on at least one potentially significant item - home improvement loans compliance), and as much as 300 by April 1989. The position thus already gives us considerable cause for concern against our current PES provision, particularly given the other pressures on our Vote provision for 1987/88.

The elderly

3. Of the other fish caught in this trawl, I can see that there might be attraction in an enhanced age allowance for the over-80s. You can buy something - though perhaps not very much - here, within the cost limits suggested. There are additional staff costs - but provided that the extra relief does not go below age 80 - you may not feel that they are conclusive.

4. You may feel that none of the remaining ideas look very attractive - or (in some cases) realistically practicable.

5. If I may, I would add one further point on the family of ideas at (iv) of Mr Allen's note of 17* February - encouraging the elderly to "trade down" their houses. For better or worse, one of the arguments for abolishing domestic rates - in favour of a much more staff-costly community charge - was (precisely) that domestic rates fell unfairly on the retired couple or widow who wanted to stay on in a larger house, as compared with the large family (all in work) who lived in a smaller house.* On the face of it, it might be difficult to defend, on grounds of consistency or cost-effectiveness, a new and staff-costly tax relief to encourage the retired couple or widow to move house: a Babel's tower of tax reliefs to offset the effect of other tax reliefs.

*Below NJF.

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*Some of the suggested further changes to inheritance tax would be designed to have, or could in practice have, similar effects.

Training

6. The notes by Mr Lewis and Miss Rhodes consider legislation to embody the existing extra-statutory concessions for job related training.. The conclusion is that legislation here is not altogether straightforward but would be practicable - if you find it attractive. The note discusses some minor extensions, but these generally add up to either rather little or heavy additional staff costs.

7. A substantial extension of tax relief, where employees pay their own costs of general training or education, is a much more far-reaching proposition, and carries a potential staff cost rising possibly into four figures. It has all the difficulties of Lord Young's proposal, which you have rejected already, plus a much more costly bureaucracy.

A J G ISAAC

PENSIONERS

OVERVIEW

SECRET

Inland Revenue

Policy Division
Somerset House

FROM: B A MACE

DATE: 19 FEBRUARY 1987

MACE To CH/EX 19.2

Some notes for an over-80s looks the best.

1. MR ~~ISAAC~~ see a separate note CJ 19/2

Ch
This is an overview agenda for Monday
AA

2. CHANCELLOR OF THE EXCHEQUER

LOLLIPOPS FOR PENSIONERS

1. We were asked to provide notes on a number of possible measures to help pensioners. This submission considers the four options mentioned in Mr Allan's note of 17 February and also looks at some other possibilities.

Tax relief for private medical insurance

Taxation of annuities

Tax relief for moving house

2. These measures are discussed at Annexes A, B and C respectively. For various reasons we do not think that any of them looks attractive.

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cc Chief Secretary
Financial Secretary
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Miss Sinclair
Miss Noble

Sir Angus Fraser (C&E)
Mr Knox (C&E)

Mr Battishill
Mr Isaac
Mr Painter
Mr Lewis
Mr Corlett (Annex A&C)
Mr Pitts (Annex B)
Mr Beighton
Mr Calder
Mr Mace
Mr Johns
Mr R H Allen
Mr O'Brien
Mr Boyce
Dr Keenay
PS/IR

Changes to personal allowances

3. The scope for measures to help the elderly by changes in personal allowances etc depends mainly on the resources available. There are about $2^{1/2}$ million elderly taxpayers so measures affecting substantial numbers of them can never be very cheap. It is also desirable, so far as possible, to avoid additional complication. The personal tax system for elderly people is already more complex than for other taxpayers, and many elderly people have difficulty in understanding it.

4. We have looked at a number of possible measures for helping the elderly through changes in personal taxation.

An increase in age allowance

5. A straightforward increase in age allowance would give most help to elderly taxpayers with modest incomes. It would be widely welcomed and would produce a saving in Revenue staff.

6. The minimum worthwhile extra increase in the age allowance would probably be £20 on the single allowance and £30 on the married. This would:

- cost £10 million in 1987-88 and £13 million in 1988-89 on top of the Option 5 main income tax package;
- take some 18,000 elderly people out of tax and save something under 5 staff in the Revenue at 1 April 1988;
- be worth 10p per week (single) and 16p per week (married) on top of Option 5.

7. A 1% real increase in the age allowance (£30 extra on the single age allowance, £50 on the married allowance) would:

- cost £17 million in 1987-88 and £21 million in 1988-89 on top of Option 5;
- take some 26,000 elderly people out of tax altogether;

- save about 5 staff at 1 April 1988;

- be worth 16p per week (single) and 26p per week (married).

8. The cost of other relatively small increases in age allowance would be broadly pro-rata to the above figures. To restore the percentage differential of the age allowance over the basic allowance which existed in 1983-84 would require an increase of £250 in the single age allowance and £430 in the married age allowance costing about £150 million in 1987-88.

Increase in the age allowance income limit

9. At present the income limit for age allowance is £9,400 and this would go up to £9,800 under indexation. Above this level the age allowance is withdrawn by £2 for every additional £3 of income until the taxpayer's allowances are reduced to the level of the basic allowance. Under indexation this would be at income of £11,120 (married) and £10,603 (single). Over the withdrawal band the effective marginal rate is 48 1/3% (but this would fall to 45% under the Option 5 main income tax package). The withdrawal band, and its associated high marginal rate, is a troublesome feature of the age allowance rules and provokes a disproportionate amount of correspondence to local tax offices even though in practice only about 130,000 taxpayers have incomes falling in the band.

no incentive effect!

10. Raising the income limit by more than indexation would increase the number of taxpayers who benefit in full from age allowance (though it would not change significantly the total numbers in the withdrawal band). The income limit is already about 22% higher in real terms than in 1978-79 and a £200 increase (to £10,000) would make the limit 25% higher in real terms. This would cost £4 million in 1987-88 and £5 million in 1988-89. It would give an additional 22,000 taxpayers the benefit of full age allowance. With the limit at this level you would be able to say that around 3/4 of elderly taxpayers get the full benefit of age allowance. For those in the age allowance withdrawal band a £200 increase in the limit would be worth 69p per week on top of Option 5.

?

11. Larger increases in the limit would of course be possible, depending on the availability of resources. A £400 rise would cost £7 million in 1987-88 and £9 million in 1988-89 and give the benefit of full age allowance to a further 43,000 taxpayers compared with indexation. The increase would be worth £1.38 per week to a taxpayer in the withdrawal band, on top of Option 5.

12. An alternative option would be to introduce a higher income limit for married couples. A £1000 increase in the limit for elderly married couples would cost £12 million in 1987-88 and £15 million in 1988-89. It would give a further 75,000 couples the benefit of full age allowance. A couple in the withdrawal band would gain an extra £3.46 per week on top of Option 5.

13. We have also looked at the possibility of altering the rate at which the age allowance is withdrawn, for example withdrawing the allowance by £1 for every £3 of additional income (instead of £2 for every £3 as at present.) But this would require some complex computer programming changes (because the calculation of the withdrawal also has to be linked to the difference between the age allowance and the basic allowance) and we therefore do not think it is practicable for 1987-88. In any case the change would substantially increase the numbers of taxpayers affected by the withdrawal band, which looks unattractive given the trouble which this feature already causes.

Age allowance premium for the very elderly

14. Mr Allan's note of 17 February asked us to look at the possibility of an increased age allowance for the very elderly.

15. Out of the total of around 2 1/2 million elderly taxpayers, up to 1/2 million are aged over 80, up to 1 million are aged over 75 and around 1 1/2 million are over 70. In round terms the cost of any extra allowance for the very elderly as a proportion of the cost of a straightforward increase in age allowance would be as follows:

Age group	Cost of extra allowance as proportion of cost of age allowance increase
over 80s	15%
over 75s	35%
over 70s	60%

16. The attached table shows the cost of a range of possible options. An age allowance premium for the over 70s or over 75s looks expensive, except for a very small increase which would have little presentational impact and would not be worth the effort involved (see below). But an increase for the over 80s looks more within range (and would tie in with the age at which DHSS pay a small (25p per week) supplement on the national insurance retirement pension). For a cost of £6 million in 1987-88 you could have a $2^{1}/_{2}$% premium on age allowance for this group. (£80 on the single allowance, £120 on the married). This could be rounded up to £100 on the single allowance and £150 on the married age allowance for a cost in 1987-88 of about £8 million. This might take up to 20,000 of the over 80s out of tax. If you were prepared to go a bit further you could have a 5% premium (£150 on single age allowance, £240 on married) for a cost of around £13 million in 1987-88. This would take up to about 30,000 of the over 80s out of tax, and restore about 60% of the percentage reduction in the differential of age allowance over the basic allowance since 1983-84 for this group.

or down - an extra 3.7%?

17. On the operational side we think that an age allowance premium for the over 70s and over 75s probably has to be ruled out. Making special adjustments to PAYE codes for a million or more taxpayers would be very staff intensive during the Budget recoding period and we do not think tax offices could take on this task. But our initial examination suggests that a premium for the up to 1/2 million over 80s <u>may</u> be manageable. Tax offices would be able to identify a substantial proportion of those who would qualify from their computer records. In order to give the extra relief it would then be necessary to make manual adjustments to PAYE codes. This would have to be done on a fairly ad hoc basis for 1987-88. But in

due course it should be possible to build the new allowances fully into the COP system. We would also hope to bring them within the employer uprating mechanism for future Budget increases by inventing two new PAYE code suffixes. (This would have many advantages but it would inevitably be a small step backwards against the objective of deregulation and reducing PAYE compliance costs.)

18. We think the extra Budget recoding work for this year could be handled by tax offices along with the other jobs which they have to undertake in April. But there could be some on-going staff cost possibly, on a very rough calculation, of around 20 units during 1987-88 (and perhaps a little beyond) to build the new allowances into the system. We would need extra provision for this.

19. For simplicity we should probably want any new age allowance premium rules to match those of the ordinary age allowance, including the same income limit and withdrawal rate.

20. Since we could not be certain of identifying all those who would qualify from our records, some taxpayers, particularly Schedule D taxpayers, would need to put in a claim for the new allowance in order to receive it. We would need to give further thought to exactly how this should be organised.

21. I should emphasise that in the brief time available we have not been able to consider fully all the consequences of this proposal and we may yet find some insuperable snags in it. We would need to examine the implications more thoroughly before we could be completely satisfied that the task can be handled without causing unacceptable disruption to other work programmes, in particular on COP. But on what we have done so far it looks as if an age allowance premium for the over 80s could be practicable for 1987-88, if you are attracted by it.

B A Mace

B A MACE

Table

Percentage increase in age allowance		Cost on top of Option 5* 1987-88	1988-89
1%	All elderly	17	21
	over 70s	10	13
	over 75s	6	7
	over 80s	3	3
$2^{1}/2$%	All elderly	42	53
	over 70s	25	32
	over 75s	15	18
	over 80s	6	8
5%	All elderly	88	110
	over 70s	53	66
	over 75s	31	38
	over 80s	13	16
3.76	over 80s	10	12

1% = £ 30 on single age allowance, £ 50 on married
$2^{1}/2$% = £ 80 on single age allowance, £120 on married
5% = £150 on single age allowance, £240 on married

* The cost on top of indexation, before allowing for the basic rate change, (on which the FSBR figures would be based) would be very slightly higher.

taken 25,000 out of tax

CONFIDENTIAL

ANNEX A

ANNEX A PRIVATE HEALTH INSURANCE TAX RELIEF FOR PREMIUMS PAID BY PENSIONERS

PRIVATE HEALTH INSURANCE: TAX RELIEF FOR PREMIUMS PAID BY PENSIONERS

Background

1. So far as we know, all private health insurance companies have more restrictive terms for people over 65:

- most will not take on new members over that age (of the 'big three', only PPP will - and they charge an 'entrance fee');

- all will allow existing members who reach 65 to renew membership, but at substantially higher premiums. For BUPA, the increase is about 50 per cent;

- cover does not normally extend to geriatric, psychiatric and long-stay treatment.

2. We believe (but do not know) that about 300,000 people over 65 have private health insurance cover. Their premiums will vary, depending on where they live (London hospitals are more expensive than elsewhere).

Tax relief on premiums

3. Tax relief could be at marginal rate or at some flat rate: basic rate (29 per cent) or the rate for premiums on pre-1984 life assurance (15 per cent).

Cost

4. The annual premium for an individual pensioner in BUPA currently varies from £450 (outside London) to £875 (London). Premiums charged by other companies may be a bit lower. But if the average premium is about £650, the cost of tax relief for 300,000 subscribers would be:

- at marginal rate, about £60m;
- at basic rate, about £55m;
- at 15 per cent, about £30m;

4. This would be the dead weight cost. If more pensioners were encouraged to join or stay in schemes, the total cost would clearly be higher. But, unless the companies relaxed their present restrictive rules on pensioners, this additional cost might be no more than £5-10m.

Other relevant considerations

6. When Ministers considered this question in the past, they were not attracted to it. Apart from the cost, there are other objections:

i) It would do nothing for the elderly who are least well off, since even with tax relief they could not afford the premiums. Two thirds of the elderly do not pay tax.

That applies to any tax concession!

ii) It would invite renewed pressure for tax relief on all private health insurance premiums. This would be expensive: assuming some 3 million subscribers (possibly on the high side), over £350m at marginal rates and £170m at 15 per cent. Again, these would be deadweight costs.

iii) It would not achieve any significant reduction in the resources devoted to the NHS. (DHSS agree). It would take some old people out of NHS beds into private beds, but these beds would not remain empty. They would be filled by people at present on a waiting list - or by those who have not applied for treatment because the waiting list is so long.

V defeatist

What's wrong with that?

iv) It might not reduce the net cost of cover to the pensioner. We believe the cost of cover for the elderly subscriber is, to some extent, cross-subsidised by the premiums of younger members. The companies might take advantage of the new tax relief to redistribute premium levels.

These are the main points. In addition there would be heavy staff costs, unless we went for a MIRAS-type approach (in which case there could be some public expenditure consequences). CHL.

ANNEX B

ANNEX B TAXATION OF ANNUITIES FROM SALES OF A PENSIONERS HOUSE

Taxation of annuities from sales of a pensioner's house/ Proposal from Help the Aged

1. These annuities arise under home loan annuity plans. They are aimed at enabling elderly taxpayers who own their own homes to supplement their income. A homeowner takes out a loan raised on the security of his equity in the property, and this is used to buy a life annuity. Only interest is paid on the loan during the annuitant's lifetime. The capital is repaid after death. As an exception to the general rule that mortgage interest relief is available only for the purchase or improvement of the borrower's home, interest paid on a home annuity loan also qualifies for interest relief, subject to the £30,000 loan relief limit. This already provides some favourable treatment for these annuity plans.

2. Help the Aged would like that part of the total annuity payment received by the elderly homeowner which is regarded as income to be subject to a reduced rate of tax. The interest relief is already exceptional and we think it would be difficult to single out this class of pensioners for special treatment for this particular kind of income. By contrast, help for elderly people with modest incomes through the age allowance assists them all, regardless of who they are and whether their income is from eg annuities, savings or a pension.

Help the Aged's representation on interest relief

3. As a separate matter Help the Aged have recently circularised a number of MPs with representations for extending the circumstances in which interest relief can be made available in two cases:

a) for home equity loans taken out for other purposes, notably to meet home repair bills and medical expenses; and

b) for home annuity loans where the interest is not paid by the elderly annuitant during his lifetime but rolled-up and only paid after his death, from his estate.

4. A copy of the Financial Secretary's reply of 7 January to Mr Teddy Taylor MP on these representations is attached. Mr Taylor has since written in again and a draft reply for the Financial Secretary is in preparation.

5. It is not clear how (b) would benefit the annuitant. The prospect of relief for the estate does not help the lender (it actually makes the loan fractionally more costly to him), so there is no benefit for him to pass on to the annuitant; and it does not help the annuitant directly if there is no relief in his lifetime. That being so, it is not clear why his estate should be singled out for an exceptional tax relief.

PLEASE DO NOT
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FINANCIAL SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

7 January 1987

Teddy Taylor Esq MP

Dear Teddy

You wrote to Nigel Lawson on 2 December enclosing this correspondence from Mr Mervyn Kohler who works for Help the Aged and who has some suggestions for relaxations in the mortgage interest tax relief legislation, with the aim of assisting elderly home owners on limited incomes.

His main proposal concerns relief on home annuity loans. Perhaps I could first set out the background here. Generally speaking, and for some years now, tax relief on interest paid for personal borrowing has been available only for certain limited purposes; notably for loans (up to the current overall £30,000 relief limit) to help people buy or improve their home. In addition, and as something of an exception to this rule, relief is also available for people aged 65 or more in respect of loans secured on their home, which are used to purchase a life annuity to supplement their income.

Mr Kohler's proposal is for annuity companies to forego requiring elderly annuitants to repay any of the interest due during their lifetime, allowing it to be rolled up and paid only on their death; by their personal representatives. He also asks for the personal representatives to receive tax relief for the payment of this accumulated interest. I note this suggestion but I am afraid it would extend relief beyond the circumstances envisaged for home annuity loans. The relief here derives essentially from the main relief for home purchase. One basic condition is that relief is only given in respect of interest paid while the property is used as the borrower's main residence. Insofar as interest is rolled up and only paid after the annuitant's death, the relief conditions are not met and so relief would not be available.

I am sorry if this is disappointing to Mr Kohler. But I would add that it is not clear anyway that the absence of tax relief for the interest paid subsequently by the personal representatives is crucial to his suggestion, this essential aim is no doubt to enable the elderly annuitants themselves to enjoy more disposable annuity income, insofar as none of this would be off-set by interest payments made. The question is perhaps more whether home annuity companies would be prepared to agree not to receive any interest at all until after the annuitant's death and whether they would feel obliged to make some compensating adjustment to the amount of annuity income they were prepared to pay. But that of course would be a matter for them.

Mr Kohler makes similar suggestions for extending relief to elderly home owners who take out loans for home repair or medical expenses. But in addition to the objections already referred to relief is not available anyway for medical expenses or for ordinary home maintenance repairs. Given that we do not consider that we should re-introduce interest relief for personal borrowing generally, relief for these items has, I am afraid, to remain unavailable.

But I would add that, as mentioned above, relief is available for loans taken out to purchase or improve the borrower's main residence. Many major items of home renovation, such as roof or wall insulation, roof and window replacements, for which people may possibly take out loans, involve improvement and will therefore qualify for relief. Elderly home owners who take out loans to carry out such improvements will therefore be eligible for relief under the normal rules for the interest they pay.

Finally Mr Kohler also asks for further tax assistance for elderly people, either by applying a composite rate tax arrangement - as applies for bank and building society interest - to annuity income, or by increasing the age allowance, the specially high personal tax allowance for elderly people with modest incomes. I note his views here but would say that it is the essence of a composite rate arrangement that the tax treated as deducted is not repayable. So the least well-off elderly annuitants, whose incomes are below the tax threshold, would be adversely affected compared with the present situation where any tax

FINANCIAL SECRETARY TO THE TREASURY

deducted from their annuity income is repayable. As regards the age allowance we have, as you know, made regular and worthwhile increases, and, in addition, this year we also managed to cut the basic rate of income tax. I would assure Mr Kohler that we will continue to look for ways of reducing the general burden of income tax still further, not least for elderly people.

Yours
Norman

NORMAN LAMONT

ANNEX C

ANNEX C
MOVING HOME

LOLLIPOPS FOR PENSIONERS: MOVING HOME

1. We were asked to consider special tax reliefs to assist pensioners moving home.

Stamp Duty

2. One possibility was a relief from stamp duty. There are three options:

i. Total exemption

ii. A half per cent rate

iii. A higher threshold

With any of these options there is a choice between a simple scheme which would have a minimum resource cost and a more sophisticated scheme that applied only to a pensioner's principal private residence which could have a significant resource cost which would need to be provided for.

Simple scheme: all property

3. There is a one per cent duty on sales of all categories of property other than shares, where the rate is a half per cent. A simple scheme would be to extend the half per cent rate to all categories of property where it was certified that the purchaser (or both of them where there was more than one) was of pensionable age.

4. There would be problems even with a simple scheme of this kind. For example what do we do where there is a joint purchase and one purchaser qualifies and the other does not.The scheme would, moreover, be open to abuse:

- declarations would have to be accepted at face value; there could not be more than a check of a handful of cases;

- how to stop avoidance if over age relative is later bought out for no more than £30,000.

Avoidance schemes would be devised which utilised the relief in the lucrative commercial property market.

Scheme for residential property

5. If the relief were to apply only to residential property - as we think it would - the administrative problems would be very much greater. There would need to be some policing to stop gross abuse, and a substantial staff cost would seem unavoidable. In any case, there are practical problems in devising a workable scheme for readily identifying residential property in documents as they arrive at Stamp Offices. Rating status is the obvious starting point but this is not an infallible guide. There would be problems with:

- new properties where the rating assessment had not been made;

- where property is bought with the intention of changing its use; and

- if it was desired to restrict relief to the purchasers principal private residence (with stamp duty the relief could not be subsequently withdrawn if the purchaser failed to use the property as such or subsequently gave it away).

6. If the liability to duty had to be formally determined in every case (as would probably have to be the case with a relief restricted to residential property) this could require

additional staff in the Stamp Offices. Additional resources might also be needed in the Valuation Office if full vetting was required.

General merits

!! (not what they mean.

7. On the wider merits of the proposal:

i. stamp duty is a tax on transactions not people - it would substantially alter the nature of the tax to introduce a relief of this kind;

ii. most of the pressure for an easing of stamp duty on houses comes from first time buyers and those moving to the South for employment reasons; not from the elderly who if they are trading down (often to a cheaper area) do not have the same problems in finding the purchase price;

iii. on the income tax side we see a significant number of letters from the elderly asking for tax concessions to enable them to stay in the family home. A stamp relief working in the other direction might get a mixed response.

iv. to the extent that a change from rates to the community charge would ease the burden on the elderly living in large houses the two measures might be perceived as cancelling each other out.

8. If there are resources to spare for a stamp duty lollipop, there is the question whether it might not be better spent on doing something on the threshold this year, if some break with the mortgage interest ceiling can be envisaged. The £30,000 threshold is creating problems for people at the bottom end of the market. And there would be some easing of our staffing problems, rather than the reverse.

Cost

9. Provisional costings of the various options are attached.

Other measures

10. We have not been able to identify any alternative form of relief for pensioners' costs in moving house which would be cheap or satisfactory. We have considered whether there is any interest relief which could be given, but can think of no relevant circumstances where relief is not already available. A pensioner moving down-market is not likely to need a loan except possibly as a bridging loan but even if he does, mortgage interest relief is available in the usual way. This does not seem an appropriate area for an exceptional raising of the £30,000 limit (even if any such exceptional move were wise) nor has it been requested.

Doesn't cover (though I doubt it's attractive) an extra personal allowance for elderly in year they sell family home.

Houses only

Purchasers over 65		Cost
Threshold	£35,000	£m3
	£40,000	£m5
	£50,000	£m12
Half per cent rate		£m15
Exemption		£m20

CONFIDENTIAL

FROM: A ROSS GOOBEY
DATE: 19 FEBRUARY 1987

For overview folder.

CHANCELLOR
CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS C EVANS
MISS NOBLE
MR CROPPER
MR TYRIE
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
MR CORLETT - INLAND REVENUE
MR MUNRO - INLAND REVENUE
SIR A FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

ROSS GOOBEY TO CH/EX 19/2

<u>Pensioners' Incomes</u>

Mr Allan's agenda asked Miss Noble for a paper on pensioners' incomes, but since I had been commissioned at Prayers to work up a line on this segment of the population, there seemed little purpose in duplicating that effort; my pensioner paper is enclosed.

2. Two items are worth adding:

(i) DHSS now estimate, the total net income of the whole population in real terms between 1979 and 1985, grew only 1% pa, making the pensioners' increase of 2.7% pa that much more substantial relatively (para 8). They have no figures for the working population's net real income.

(ii) The Pensioner Price Index has increased by about 90% 1979-1986 inclusive (2 persons), and the RPI by about 97%.

ARG

A ROSS GOOBEY

ENC

psl/89A

BUDGET CONFIDENTIAL

FROM: A C S ALLAN
DATE: 17 February 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc PS/IR
Mr Wilmott - C&E
Miss Noble (items (ii) and (iii)
Mr Corlett - IR (item (iii))
Mr Munro - IR (item (iii))
Mr McGivern - IR) (item (iv))
Mr Spence - IR)

BUDGET OVERVIEW MEETINGS: PROVISIONAL AGENDA FOR FIFTH OVERVIEW MEETING ON MONDAY 23 FEBRUARY

The fifth overview meeting will be held on Monday, 23 February at 3.00 pm. The provisional agenda is as follows:-

(i) **Budget scorecard:**

To be circulated by Mr Scholar.

(ii) **Lollipops**

Note by IR on lollipops for pensioners; note by Miss Noble on trends in income of the elderly; and note by MST on Car Tax and Motorbility.

(iii) **Pensions**

Notes by IR on caps for lump sums, and on personal pensions and free-standing AVCs; note by Mr Ross Goobey on presentation;

(iv) **Lloyd's RIC**

Report by EST.

(v) **Finance Bill**

Note by FP on state of play, likely length and complexity.

2. As usual, all papers must be circulated by Thursday night, 19 February.

ACSA

A C S ALLAN

BUDGET CONFIDENTIAL

FROM: A C S ALLAN
DATE: 17 February 1987

MR ISAAC - INLAND REVENUE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Cassell
Mr Monck
Mr Scholar
Miss Noble
Miss Sinclair
Miss Evans
Mr Cropper
Mr Ross Goobey
Mr Tyrie
PS/IR
PS/C&E

LOLLIPOPS FOR PENSIONERS

At yesterday's overview meeting the Inland Revenue were asked for a note on two possible measures to help pensioners:

(i) tax relief for private medical insurance;

(ii) taxation of annuities from sales of a pensioner's house.

Since then, two other possibilities have been raised:

(iii) an increased age allowance for the very elderly - defined in terms of a different, higher age limit. It would be helpful if you could provide illustrative costings for a range of age limits (eg 70, 75 and 80) and a range of amounts;

(iv) some special tax relief to assist pensioners moving house (eg because they were moving out of an over-large family home). The relief could be exemption from stamp duty, or a special allowance against income tax, or some other measure.

2. I should be grateful if you could provide a note on these possibilities - and any others - for discussion at the overview meeting next Monday.

ACSA

A C S ALLAN

psl/89A

BUDGET CONFIDENTIAL

FROM: A C S ALLAN

DATE: 20 February 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc PS/IR
Mr Wilmott - C&E
Miss Noble (items (ii) and (iii))
Mr Mace - IR)
Mr Lewis - IR) (item (ii))
Mr Corlett - IR)
Mr Munro - IR) (item (iii))

BUDGET OVERVIEW MEETINGS: AGENDA FOR FIFTH OVERVIEW MEETING ON MONDAY 23 FEBRUARY

The fifth overview meeting will be held on Monday, 23 February at 3.00 pm. The agenda is as follows:-

(i) **Budget scorecard**:

Circulated by Mr Scholar on 19 February.

from PS1/84A

(ii) **Lollipops**:

(a) Mr Isaac's note of 19 February;

(b) Mr Mace's note of 19 February on lollipops for the elderly;

(c) Mr Ross Goobey's note of 19 February on pensioners' incomes;

(d) Mr Lewis's and Miss Rhodes's notes of 19 February on tax relief for training costs;

(e) Mr Knox's note of 17 February on Car Tax relief on cars supplied to Motorbility for leasing;

(iii) **Pensions**:

(a) Mr Munro's note of 18 February on a cap for lump sums;

(b) Mr Corlett's and Mr Munro's notes of 19 February on personal pensions;

(c) Mr Ross Goobey's note of 19 February on presentation of the pensioners package;

(iv) **Finance Bill**

Miss Sinclair's note of 19 February on likely contents and length of the Finance Bill.

ACSA

A C S ALLAN

psl/89A

BUDGET CONFIDENTIAL

FROM: A C S ALLAN
DATE: 20 February 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

Done ETL 20/2

cc PS/IR
Mr Wilmott - C&E
3.05 Miss Noble (items (ii) and (iii))
Mr Mace - IR) (item (ii))
Mr Lewis - IR)
3.20 Mr Corlett - IR) (item (iii))
Mr Munro - IR)
3.40 Miss Sinclair

BUDGET OVERVIEW MEETINGS: AGENDA FOR FIFTH OVERVIEW MEETING ON MONDAY 23 FEBRUARY

The fifth overview meeting will be held on Monday, 23 February at 3.00 pm. The agenda is as follows:-

(i) **Budget scorecard:**

Circulated by Mr Scholar on 19 February.

(ii) **Lollipops**

(a) Mr Isaac's note of 19 February;

(b) Mr Mace's note of 19 February on lollipops for the elderly;

(c) Mr Ross Goobey's note of 19 February on pensioners' incomes;

(d) Mr Lewis's and Miss Rhodes's notes of 19 February on tax relief for training costs;

(e) Mr Knox's note of 17 February on Car Tax relief on cars supplied to Motorbility for leasing;

(iii) **Pensions**

(a) Mr Munro's note of 18 February on a cap for lump sums;

(b) Mr Corlett's and Mr Munro's notes of 19 February on personal pensions;

(c) Mr Ross Goobey's note of 19 February on presentation of the pensioners package;

(iv) **Finance Bill**

Miss Sinclair's note of 19 February on likely contents and length of the Finance Bill.

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A C S ALLAN

MINUTES OF FIFTH OVERVIEW MEETING

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SIXTH

RECORD OF THE ~~FIFTH~~ BUDGET OVERVIEW MEETING:

3.00PM ON ~~MONDAY, 23 FEBRUARY~~ 1987

2 MARCH

Present
Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Scholar
Mr Sedgwick
Mr Odling-Smee
~~Miss Noble (Item 2 & 3 only)~~
Miss Sinclair
Mr Cropper
Mr Ross Goobey
Mr Tyrie

Mr Culpin
Miss O'Mara } (item 6 only)
Miss C Evans

SECRET

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
~~Mr Corlett - IR (Items 2 & 3 only)~~
~~Mr Munro - IR (Items 2 & 3 only)~~
Mr P Lewis - IR (Item ~~2~~ 4 only)
~~Mr Mace - IR (Item 2 only)~~

Sir A Fraser - C&E
Mr Knox - C&E

B.L.O.

Agenda

Papers

(i) **Scorecard**:

Mr Scholar's minute of ~~19~~ 26 February.

(ii) **Lollipops**:

(a) Mr Isaac's note of 19 February;

(b) Mr Mace's note of 19 February on lollipops for the elderly;

SECRET

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(c) Mr Ross Goobey's note of 19 February on pensioners' incomes;

(d) Mr Lewis's and Miss Rhodes's notes of 19 February on tax relief for training costs;

(e) Mr Knox's note of 17 February on Car Tax relief on cars supplied to Motorbility for leasing;

(iii) **Pensions**:

(a) Mr Munro's note of 18 February on a cap for lump sums;

(b) Mr Corlett's and Mr Munro's notes of 19 February on personal pensions;

(c) Mr Ross Goobey's note of 19 February on presentation of the pensioners package;

(iv) **Finance Bill**:

Miss Sinclair's note of 19 February on likely contents and length of the Finance Bill.

Scorecard

The following points were raised:-

(i) **Oil taxation**: the Chancellor would reply to Mr Walker's letter of 19 February, confirming that we were going ahead with the proposals, and agreeing that Treasury officials should discuss the presentation with D/En officials. Mr Cassell would do this later this week, once the details had been settled;

(ii) **Ring-fence ACT**: it was agreed that the priorities were to deal with the new anti-avoidance legislation first, and then to do starter 160 if it was possible to work up legislation in time;

(iii) it was noted that the difference in the first and second years between the revenue cost and PSBR cost of not revalorising excise duties were surprisingly large; and that the differences went in opposite directions in the two years. Mr Odling-Smee explained that this arose from the impact of second round effects, especially on output and interest rates;

(iv) it was agreed that the Economic Secretary and Financial Secretary should produce a joint recommendation on the possible increase in exemption limits for trade union provident benefits.

2. The Chancellor asked the Inland Revenue for an oral report on foreign entertainers and sportsmen. Mr Painter explained that the main points raised by Kenneth Warren MP and others were:-

(i) that the Inland Revenue had failed to consult properly;

(ii) that the draft regulations were too complex;

(iii) that the proposed system was unworkable.

Mr Painter thought there had been adequate consultation, though there had been an unfortunate two month delay before the draft regulations could be issued (owing to the explosion in work on drafting regulations in the Revenue last autumn). He accepted that the regulations were more complicated than had been hoped for; the Revenue had been required to do much more of the drafting themselves, since Parliamentary Counsel had not been able to. He also accepted that the proposals would impose unwelcome compliance costs; but the Revenue had encouraged all payers to keep in close touch with the special office in Birmingham.

3. He thought the main problem was with performance royalties for records. This was an area where we had gone rather further than other countries - though the US, for example, wanted to tighten up their own procedures. Taxing record royalties was part of the general problem of taxing income from ancillary activities (such as sales of T-shirts); a clear policy decision had been taken to

include these within the scope. A submission would be put to the Financial Secretary shortly; it would recommend that an exception should be announced for performers' record royalties while further consultations were undertaken.

4. The Chancellor said he would be grateful for the Financial Secretary's advice when he had seen that submission. His initial view was that there would have to be very strong grounds before we went any further than other countries had. And, equally, we should not impose greater compliance costs than other countries.

5. The Chancellor asked the Economic Secretary for a report on Lloyds Reinsurance to Close (RIC). The Economic Secretary said his provisional view was that we should act, without an opening adjustment in the year of change. To lessen any immediate financial strain on individuals, he would favour phasing in the once for all tax charge over three years. He thought it unduly complicated to make special provisions for those who joined or left syndicates. The Chancellor said he would hold a small separate meeting later in the week to discuss this further.

Lollipops

6. On lollipops for pensioners the following points were made:-

(i) it was agreed that a higher age allowance for the over 80s should be introduced; this should be achieved by a double indexation of the existing age allowance, ie a nominal increase of 7.4 per cent. This would cost about £10 million. It would have a small staff cost in the short run;

(ii) the figures for the real increases in the net income of pensioners, and for the population as a whole needed checking. This was a potentially important presentational point. Miss Noble would do this;

(iii) there was little information available on the impact of the 1986 Budget action on pension surpluses. Mr Corlett would investigate further, and would ask the private sector for anecdotal evidence if that looked likely to be helpful. The Chancellor said that in general we should aim where possible to monitor the effects of important changes in the law like this one.

7. It was agreed to drop the proposed lollipop on car tax relief on cars supplied to Motability for leasing.

8. On training, the Chancellor said he saw a strong case for extending the extra statutory concession to cover costs paid by an employer where the training was not directly related to the employee's present work. This could cover, for example, cases where an employer was making an employee redundant but sent him on a retraining course as part of the redundancy package. In discussion of this the following points were made:-

(i) the employer would in fact be able to deduct such payments as a business expense under normal CT rules. The issue was whether the employee in receipt of non job-related training was receiving a benefit in kind;

(ii) there were potential avoidance problems from employers paying what might be essentially recreational "training" expenses;

(iii) if the training took place after an employee was made redundant, it was doubtful whether he would be taxed on the benefit, since it was not received by virtue of his employment;

(iv) the proposed relief should also cover the contribution paid by an employer where the cost of such training were shared between the employer and the employee.

9. The Chancellor said he would be grateful if the Inland Revenue could prepare a note for the Financial Secretary, in consultation with Mr Monck. It should discuss whether the wider relief should apply to all training paid for by the employer, or whether it should be confined to certain certified courses; and it should cover both the employee sent on a course before redundancy, and the case where training was offered after the employment ended. It should also discuss the timing, and in particular whether the relief could be included in the Finance Bill this year, or whether we should announce that we were extending the extra statutory concession now and would legislate to put it on the Statute Book next year.

Pensions: a "cap" on lump sums

10. After some discussion it was agreed that the cap should be set at £150,000. There were two ways of operating the cap: (i) a straightforward cut off at £150,000; or (ii) requiring lump sums to be calculated on the basis that final earnings were no more than £100,000. The second option would scale back the pace at which very high earners could reach the £150,000 ceiling. Mr Ross Goobey favoured option (ii); the change was a prospective one, and the new rules on transferability avoided the earlier problems of locking in. Mr Wilson also supported option (ii); building up a large tax-free lump sum had never been the purpose of the tax relief on pension contributions. The Chancellor said it seemed generally agreed that option (ii) was preferable. He would see Mr Fowler, and inform him of his proposals, handing over an aide memoire. (Mr Munro to draft.)

Personal pensions

11. The following points were made:-

(i) **Harmonisation:**

It was agreed that this should not be proceeded with;

(ii) **Certification:**

It was agreed that a certificate by pension providers was the most reasonable compromise;

(iii) **Multiple personal pensions:**

It was agreed that the single-holding requirement should be dropped;

(iv) **Defined contribution schemes:**

This was extremely complex. DHSS argued that if a simplified occupational scheme was contracted out, the contracted-out rebate should be in addition to the 17.5 per cent limit. But this carried the risk that the benefits might be larger than two-thirds of final salary, and would encourage these schemes in ways which were far removed from the original intentions. Mr Ross Goobey thought that the only reason for doing so would be to put them on an equal footing with personal pensions; but personal pensions contained no guarantee of employers contributions whereas these schemes did. It was therefore agreed that the contracted-out rebate should not be additional. Mr Corlett noted that the same arguments did not apply to higher contribution limits for older scheme members; it was agreed that this should be retained as a possible concession if DHSS pressed hard;

(v) the detailed recommendations in paragraphs 35 et seq of Mr Munro's note were agreed.

12. The Chancellor asked whether these decisions needed to be conveyed to Mr Fowler, or whether they could be dealt with by officials. Miss Noble agreed to investigate this. It was agreed that all the detailed points on pensions should be included in a press release on Budget day.

Finance Bill

13. There were no particular problems this year, and the length seemed manageable. This meant that there was no need to drop Starters 402, 403 and 407 on grounds of space. In discussion of the Starters on which final decisions had not yet been reached, the following points were made:-

(i) decisions on excise duty rates (Starter 1) would be taken at the overview meeting on 2 March;

(ii) Customs would check whether the Lord Chancellor's Department wished to proceed with Starter 17, and would if necessary provide a draft letter for the Minister of State to send to press for an urgent decision;

(iii) after some discussion, it was agreed that there should be no change in the pool betting duty structure (Starter 31) this year;

(iv) final decisions on income tax allowances, thresholds and rates (Starter 101) would be taken at the overview meeting on 2 March.

(v) decisions on inheritance tax (Starter 104) would be taken at the same meeting; it was almost certain that the option chosen would be "smooth four point 90";

(vi) no action was required on mortgage interest relief (Starter 109);

(vii) We were still waiting for the results of consultation on the Keith proposals on PAYE and sub-contractors (Starter 118). There was nothing yet to suggest we should not proceed as planned. The Chancellor was doubtful about mentioning these proposals in the Budget Speech;

(viii) the results of consultations on pay and file (Starter 120) were also awaited;

(ix) the Inland Revenue would provide a further report on dual resident companies (Starter 127) after discussions with the US;

(x) it was agreed there should be no change to the stamp duty threshold this year (Starter 130);

(xi) the Economic Secretary's recommendations on technical changes to stamp duty were confirmed. (This means Starters 137-143, and 175, will be included);

(xii) it was most unattractive to include an exemption for the Russian fund (Starter 182). The Foreign Office would need to be informed;

(xiii) decisions were needed urgently from Mr Spicer on the minor changes to VED (Starters 404-6, 408 & 410);

(xiv) it was agreed that the limit for tax-exempt friendly societies (Starter 412) should be increased, even though this was a late starter.

ACSA

A C S ALLAN
23 February 1987

Distribution

Those present
Mr Culpin
Miss C Evans

PS/IR
Mr Wilmott - C&E

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RECORD OF THE FIFTH BUDGET OVERVIEW MEETING:
3.00PM ON MONDAY, 23 FEBRUARY 1987

Present
Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Scholar
Mr Sedgwick
Mr Odling-Smee
Miss Noble (Item 2 & 3 only)
Miss Sinclair
Mr Cropper
Mr Ross Goobey
Mr Tyrie

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Corlett - IR (Items 2 & 3 only)
Mr Munro - IR (Items 2 & 3 only)
Mr P Lewis - IR (Item 2 only)
Mr Mace - IR (Item 2 only)

Sir A Fraser - C&E
Mr Knox - C&E

Papers

(i) **Scorecard:**

Mr Scholar's minute of 19 February.

(ii) **Lollipops:**

(a) Mr Isaac's note of 19 February;

(b) Mr Mace's note of 19 February on lollipops for the elderly;

(c) Mr Ross Goobey's note of 19 February on pensioners' incomes;

(d) Mr Lewis's and Miss Rhodes's notes of 19 February on tax relief for training costs;

(e) Mr Knox's note of 17 February on Car Tax relief on cars supplied to Motorbility for leasing;

(iii) **Pensions**:

(a) Mr Munro's note of 18 February on a cap for lump sums;

(b) Mr Corlett's and Mr Munro's notes of 19 February on personal pensions;

(c) Mr Ross Goobey's note of 19 February on presentation of the pensioners package;

(iv) **Finance Bill**:

Miss Sinclair's note of 19 February on likely contents and length of the Finance Bill.

Scorecard

The following points were raised:-

(i) **Oil taxation**: the Chancellor would reply to Mr Walker's letter of 19 February, confirming that we were going ahead with the proposals, and agreeing that Treasury officials should discuss the presentation with D/En officials. Mr Cassell would do this later this week, once the details had been settled;

(ii) **Ring-fence ACT**: it was agreed that the priorities were to deal with the new anti-avoidance legislation first, and then to do starter 160 if it was possible to work up legislation in time;

(iii) it was noted that the difference in the first and second years between the revenue cost and PSBR cost of not revalorising excise duties were surprisingly large; and that the differences went in opposite directions in the two years. Mr Odling-Smee explained that this arose from the impact of second round effects, especially on output and interest rates;

(iv) it was agreed that the Economic Secretary and Financial Secretary should produce a joint recommendation on the possible increase in exemption limits for trade union provident benefits.

2. The Chancellor asked the Inland Revenue for an oral report on foreign entertainers and sportsmen. Mr Painter explained that the main points raised by Kenneth Warren MP and others were:-

(i) that the Inland Revenue had failed to consult properly;

(ii) that the draft regulations were too complex;

(iii) that the proposed system was unworkable.

Mr Painter thought there had been adequate consultation, though there had been an unfortunate two month delay before the draft regulations could be issued (owing to the explosion in work on drafting regulations in the Revenue last autumn). He accepted that the regulations were more complicated than had been hoped for; the Revenue had been required to do much more of the drafting themselves, since Parliamentary Counsel had not been able to. He also accepted that the proposals would impose unwelcome compliance costs; but the Revenue had encouraged all payers to keep in close touch with the special office in Birmingham.

3. He thought the main problem was with performance royalties for records. This was an area where we had gone rather further than other countries - though the US, for example, wanted to tighten up their own procedures. Taxing record royalties was part of the general problem of taxing income from ancillary activities (such as sales of T-shirts); a clear policy decision had been taken to

include these within the scope. A submission would be put to the Financial Secretary shortly; it would recommend that an exception should be announced for performers' record royalties while further consultations were undertaken.

4. The Chancellor said he would be grateful for the Financial Secretary's advice when he had seen that submission. His initial view was that there would have to be very strong grounds before we went any further than other countries had. And, equally, we should not impose greater compliance costs than other countries.

5. The Chancellor asked the Economic Secretary for a report on Lloyds Reinsurance to Close (RIC). The Economic Secretary said his provisional view was that we should act, without an opening adjustment in the year of change. To lessen any immediate financial strain on individuals, he would favour phasing in the once for all tax charge over three years. He thought it unduly complicated to make special provisions for those who joined or left syndicates. The Chancellor said he would hold a small separate meeting later in the week to discuss this further.

Lollipops

6. On lollipops for pensioners the following points were made:-

(i) it was agreed that a higher age allowance for the over 80s should be introduced; this should be achieved by a double indexation of the existing age allowance, ie a nominal increase of 7.4 per cent. This would cost about £10 million. It would have a small staff cost in the short run;

(ii) the figures for the real increases in the net income of pensioners, and for the population as a whole needed checking. This was a potentially important presentational point. Miss Noble would do this;

(iii) there was little information available on the impact of the 1986 Budget action on pension surpluses. Mr Corlett would investigate further, and would ask the private sector for anecdotal evidence if that looked likely to be helpful. The Chancellor said that in general we should aim where possible to monitor the effects of important changes in the law like this one.

7. It was agreed to drop the proposed lollipop on car tax relief on cars supplied to Motability for leasing.

8. On training, the Chancellor said he saw a strong case for extending the extra statutory concession to cover costs paid by an employer where the training was not directly related to the employee's present work. This could cover, for example, cases where an employer was making an employee redundant but sent him on a retraining course as part of the redundancy package. In discussion of this the following points were made:-

(i) the employer would in fact be able to deduct such payments as a business expense under normal CT rules. The issue was whether the employee in receipt of non job-related training was receiving a benefit in kind;

(ii) there were potential avoidance problems from employers paying what might be essentially recreational "training" expenses;

(iii) if the training took place after an employee was made redundant, it was doubtful whether he would be taxed on the benefit, since it was not received by virtue of his employment;

(iv) the proposed relief should also cover the contribution paid by an employer where the cost of such training were shared between the employer and the employee.

9. The Chancellor said he would be grateful if the Inland Revenue could prepare a note for the Financial Secretary, in consultation with Mr Monck. It should discuss whether the wider relief should apply to all training paid for by the employer, or whether it should be confined to certain certified courses; and it should cover both the employee sent on a course before redundancy, and the case where training was offered after the employment ended. It should also discuss the timing, and in particular whether the relief could be included in the Finance Bill this year, or whether we should announce that we were extending the extra statutory concession now and would legislate to put it on the Statute Book next year.

Pensions: a "cap" on lump sums

10. After some discussion it was agreed that the cap should be set at £150,000. There were two ways of operating the cap: (i) a straightforward cut off at £150,000; or (ii) requiring lump sums to be calculated on the basis that final earnings were no more than £100,000. The second option would scale back the pace at which very high earners could reach the £150,000 ceiling. Mr Ross Goobey favoured option (ii); the change was a prospective one, and the new rules on transferability avoided the earlier problems of locking in. Mr Wilson also supported option (ii); building up a large tax-free lump sum had never been the purpose of the tax relief on pension contributions. The Chancellor said it seemed generally agreed that option (ii) was preferable. He would see Mr Fowler, and inform him of his proposals, handing over an aide memoire. (Mr Munro to draft.)

Personal pensions

11. The following points were made:-

(i) **Harmonisation:**

It was agreed that this should not be proceeded with;

(ii) **Certification:**

It was agreed that a certificate by pension providers was the most reasonable compromise;

(iii) **Multiple personal pensions:**

It was agreed that the single-holding requirement should be dropped;

(iv) **Defined contribution schemes:**

This was extremely complex. DHSS argued that if a simplified occupational scheme was contracted out, the contracted-out rebate should be in addition to the 17.5 per cent limit. But this carried the risk that the benefits might be larger than two-thirds of final salary, and would encourage these schemes in ways which were far removed from the original intentions. Mr Ross Goobey thought that the only reason for doing so would be to put them on an equal footing with personal pensions; but personal pensions contained no guarantee of employers contributions whereas these schemes did. It was therefore agreed that the contracted-out rebate should not be additional. Mr Corlett noted that the same arguments did not apply to higher contribution limits for older scheme members; it was agreed that this should be retained as a possible concession if DHSS pressed hard;

(v) the detailed recommendations in paragraphs 35 et seq of Mr Munro's note were agreed.

12. The Chancellor asked whether these decisions needed to be conveyed to Mr Fowler, or whether they could be dealt with by officials. Miss Noble agreed to investigate this. It was agreed that all the detailed points on pensions should be included in a press release on Budget day.

Finance Bill

3. There were no particular problems this year, and the length seemed manageable. This meant that there was no need to drop Starters 402, 403 and 407 on grounds of space. In discussion of the Starters on which final decisions had not yet been reached, the following points were made:-

(i) decisions on excise duty rates (Starter 1) would be taken at the overview meeting on 2 March;

(ii) Customs would check whether the Lord Chancellor's Department wished to proceed with Starter 17, and would if necessary provide a draft letter for the Minister of State to send to press for an urgent decision;

(iii) after some discussion, it was agreed that there should be no change in the pool betting duty structure (Starter 31) this year;

(iv) final decisions on income tax allowances, thresholds and rates (Starter 101) would be taken at the overview meeting on 2 March.

(v) decisions on inheritance tax (Starter 104) would be taken at the same meeting; it was almost certain that the option chosen would be "smooth four point 90";

(vi) no action was required on mortgage interest relief (Starter 109);

(vii) We were still waiting for the results of consultation on the Keith proposals on PAYE and sub-contractors (Starter 118). There was nothing yet to suggest we should not proceed as planned. The Chancellor was doubtful about mentioning these proposals in the Budget Speech;

(viii) the results of consultations on pay and file (Starter 120) were also awaited;

(ix) the Inland Revenue would provide a further report on dual resident companies (Starter 127) after discussions with the US;

(x) it was agreed there should be no change to the stamp duty threshold this year (Starter 130);

(xi) the Economic Secretary's recommendations on technical changes to stamp duty were confirmed. (This means Starters 137-143, and 175, will be included);

(xii) it was most unattractive to include an exemption for the Russian fund (Starter 182). The Foreign Office would need to be informed;

(xiii) decisions were needed urgently from Mr Spicer on the minor changes to VED (Starters 404-6, 408 & 410);

(xiv) it was agreed that the limit for tax-exempt friendly societies (Starter 412) should be increased, even though this was a late starter.

ACSA

A C S ALLAN
23 February 1987

Distribution

Those present
Mr Culpin
Miss C Evans

PS/IR
Mr Wilmott - C&E

psl/89A

BUDGET CONFIDENTIAL

FROM: A C S ALLAN
DATE: 27 February 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc PS/IR
Mr Wilmott - C&E

BUDGET OVERVIEW MEETINGS: AGENDA FOR SIXTH OVERVIEW MEETING ON MONDAY 2 MARCH

The sixth overview meeting will be held on Monday, 2 March at 3.00 pm. The agenda is as follows:-

(i) Budget scorecard: circulated by Mr Scholar on 26 February;

(ii) Excise duty rates: final decisions;

(ii) Income tax allowances, thresholds and rates: final decisions;

(iii) Inheritance tax rates and thresholds: final decisions;

(iv) Loose ends;

(vi) Presentation: Mr Scholar's annotated agenda of 26 February.

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A C S ALLAN

psl/89A

BUDGET CONFIDENTIAL

FROM: A C S ALLAN
DATE: 27 February 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
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MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
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cc PS/IR
Mr Wilmott - C&E

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(~~iii~~ iv) Inheritance tax rates and thresholds~~: final decisions;~~

(v) Loose ends~~;~~

(vi) Presentation: Mr Scholar's annotated agenda of 27 February.

ACSA

A C S ALLAN

psl/89A

BUDGET CONFIDENTIAL

pmg

FROM: A C S ALLAN
DATE: 20 February 1987

CHIEF SECRETARY
FINANCIAL SECRETARY
ECONOMIC SECRETARY
MINISTER OF STATE
SIR P MIDDLETON
SIR T BURNS
MR F E R BUTLER
SIR G LITTLER
MR CASSELL
MR MONCK
MR WILSON
MR SEDGWICK
MR SCHOLAR
MR ODLING-SMEE
MISS EVANS
MR CROPPER
MR TYRIE
MR ROSS GOOBEY
MR BATTISHILL - INLAND REVENUE
MR ISAAC - INLAND REVENUE
MR PAINTER - INLAND REVENUE
SIR ANGUS FRASER - CUSTOMS & EXCISE
MR KNOX - CUSTOMS & EXCISE

cc PS/IR
Mr Wilmott - C&E
Miss Noble (items (ii) and (iii
Mr Mace - IR)
Mr Lewis - IR) (item (ii))
Mr Corlett - IR)
Mr Munro - IR) (item (iii))

Ch

Still a bit unclear whether we do Lloyds at this meeting or at separate meeting: EST now has all advice, and may raise at Prayers on Monday leaving scope for doing it @ overview. If so, I will send round a supplementary agenda note.

AA

WE spoke -

BUDGET OVERVIEW MEETINGS: AGENDA FOR FIFTH OVERVIEW MEETING ON MONDAY 23 FEBRUARY

The fifth overview meeting will be held on Monday, 23 February at 3.00 pm. The agenda is as follows:-

(i) **Budget scorecard**:

Circulated by Mr Scholar on 19 February.

(ii) **Lollipops**

(a) Mr Isaac's note of 19 February;

(b) Mr Mace's note of 19 February on lollipops for the elderly;

(c) Mr Ross Goobey's note of 19 February on pensioners' incomes;

(d) Mr Lewis's and Miss Rhodes's notes of 19 February on tax relief for training costs;

(e) Mr Knox's note of 17 February on Car Tax relief on cars supplied to Motorbility for leasing;

(iii) **Pensions**

(a) Mr Munro's note of 18 February on a cap for lump sums;

(b) Mr Corlett's and Mr Munro's notes of 19 February on personal pensions;

(c) Mr Ross Goobey's note of 19 February on presentation of the pensioners package;

(iv) **Finance Bill**

Miss Sinclair's note of 19 February on likely contents and length of the Finance Bill.

ACSA

A C S ALLAN

Ref no: M87/1
Copy no: 2 of: 33

RECORD OF THE SIXTH BUDGET OVERVIEW MEETING:

3.00PM ON MONDAY, 2 MARCH 1987

Present

Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Sir G Littler
Mr F E R Butler
Mr Cassell
Mr Monck
Mr A Wilson
Mr Scholar
Mr Sedgwick
Mr Odling-Smee
Mr Culpin (Item 6 only)
Miss O'Mara (Item 6 only)
Miss C Evans
Mr Cropper
Mr Ross Goobey
Mr Tyrie

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr P Lewis - IR (Item 5 only)

Sir A Fraser - C&E
Mr Knox - C&E

Agenda

(i) **Scorecard:**

Mr Scholar's minute of 26 February.

(ii) **Excise duty rates.**

(iii) **Income tax allowances, thresholds and rates.**

(iv) **Inheritance tax rates and thresholds.**

(v) **Loose ends.**

(vi) **Presentation:**

Mr Scholar's annotated agenda of 27 February.

Scorecard

The following points were raised:-

(i) The cost of the new 80+ age allowance was confirmed as being £10 million.

(ii) Inland Revenue would provide a note giving a breakdown of the yield expected from the two elements of the Keith proposals on PAYE and sub-contractors and on directors. The Chancellor would probably want to mention the larger in his Budget speech.

(iii) The Economic Secretary would supply a single sentence on the impact on trade unions of the Friendly Society provisions.

(iv) Further examination was needed of the treatment in the FSBR of the 1988-89 effects of the tax package.

(v) The presentation of Lloyd's RIC in the FSBR needed further consideration.

2. The Financial Secretary reported the latest state of play on entertainers and sportsmen. He agreed with the Inland Revenue proposals that royalties on records should be removed from the scope; he would be meeting various delegations later that week and would report further if there were other areas of particular difficulty. In discussion, it was noted that there were considerable problems over the treatment of other ancillary income (eg. sales of T-shirts), though a clear decision to include them had been taken last year. We did not want to go further than in other countries, but equally there was a strong case for not falling short. The best answer seemed to be to make such income

liable to withholding tax but to use considerable discretion in administering the charge.

Excise Duties

3. The Chancellor said that he had reached the conclusion that there should be no revalorisation this year, and no restructuring of wine duties. If necessary, and after the Finance Bill had been enacted, we could give an undertaking that we would implement restructuring next year. Mr Knox noted that there was some risk of a case in the UK courts going against us; if so we might need to make an extra statutory concession until the following year's Finance Bill.

4. The Chancellor said it might be helpful if the Ways and Means resolutions could be drafted so that it was out of order for any new clauses on drink or tobacco to be moved. Customs agreed to provide a note discussing whether this would be possible, and whether there were any precedents.

Inheritance Tax

5. The "smooth 4 point 90" scale was confirmed.

Income Tax

6. The allowances, thresholds and rates in the Scorecard were confirmed.

Loose ends

7. In discussion the following points were made:-

(i) The proposal on VAT tribunal chairmen (Starter 17) had been dropped.

(ii) The Inland Revenue would be having a wind-up meeting shortly with the representative bodies to discuss the Keith recommendations (Starter 118); no problems were foreseen.

(iii) The Financial Secretary was content with the Inland Revenue recommendations on Starter 135C on pensions.

(iv) A submission would be with the Financial Secretary shortly on dual resident companies (Starter 127).

(v) Starter 160 (ACT and North Sea ring-fence profits) was still under discussion.

(vi) If Mr Spicer did not come forward with proposals shortly, all the proposals in Starters 404, 405, 406, 408 and 410 should be dropped.

Training

8. There was some discussion about whether the proposed extension of the extra statutory concession should be confined to redundancies. It was difficult to conceive of circumstances in which an employer would give an employee work-related training which was not of benefit to his current or prospective employment, except when there was a real prospect of redundancy. The Inland Revenue proposals were somewhat wider than a narrow description of "redundancy" might suggest: there would be no tax charge on an employee if the training was against the prospect of the employee leaving his current employment within 2 years, and if he subsequently did do so. There would be some hard cases, but it would be reasonable to expect the employer to pay the employee's tax if he decided to retain him. The proposed extension was agreed.

9. There was then a discussion about the legislation required. The Chancellor said it was most important to have something in the Bill itself. The Inland Revenue agreed to explore with Parliamentary Counsel the possiblity of having just the extension in the Bill, and then - presumably under pressure - bringing forward new clauses to enact the full extra statutory concession at Committee Stage.

Controlled foreign companies

10. There was a strong case in principle for legislating to block this loophole, but there were some very considerable difficulties, and it would be a contentious change. The most promising option seemed to be to wait until after the Finance Bill was enacted, and then make an announcement proposing legislation in the following Finance Bill backdated to the date of the announcement. The announcement would have to spell out explicitly what would be in the legislation (perhaps by publishing draft clauses). The Economic Secretary and the Financial Secretary agreed to look into this urgently. A decision was needed this week.

Presentation

11. The following points were made on the points in Mr Scholar's annotated agenda:-

2(a) The main argument on the corporate sector was that the tax yield was rising because companies were so profitable; and each measure was fully justified on its merits.

2(b) The changes in this Budget could not be presented as the completion of the 1984 reform: that had already been completed. Instead, they should be presented as going with the grain of those reforms.

2(c) The Chancellor noted that the draft of his Budget speech now accepted the Revenue's point of view, and made the case for aligning CT payment dates rest mainly on arguments about equity/level playing fields, not anti-avoidance.

2(d) The change on company capital gains should be presented as a logical consequence of CT reform, not as a specific attempt to assimilate income and capital. With CT rates now much lower, there was no point in the complicated business of fractions. Defensive briefing was needed on why we were not treating capital losses in the same way as income losses (neither did the US). The Inland Revenue would provide this.

2(e)&(f) Much should be made of the VAT and small business package. But it was very important to keep partial exemption as a separate issue: it did not apply just to small businesses.

3(a) We would need a line to take on the Green Paper ready for questions immediately after the Budget.

3(b) The rationale for cutting the basic rate was to help everyone, not just those in the middle. Mr Scholar would work up some examples of the amounts by which particular types of individuals might gain.

3(c) There were some difficulties over how to justify the treatment of higher rate taxpayers. The main answer was that we were concentrating on other things this year. The presentation should be positive, emphasizing that the basic rate cut was designed to help the great majority of taxpayers. The Chancellor's comments in his FT interview had made it clear that cutting the top rates was an objective for the next Parliament.

3(d) The tax changes in this Budget would help those on below average earnings, though it would still leave many of them paying more than in 1978-79. For the married man on average earnings, this would be the first year in which the burden of income tax plus NICs was below 1978-79. More generally, it was essential to select a group of key statistics and use them consistently. Mr Scholar would put up a variety of illustrations to the Financial Secretary for him to choose from.

3(e) It was perfectly acceptable after the Budget to use the argument that the rise in house prices made extra help at the bottom end of the IHT scale justified.

3(f) There was no need at all to be defensive on wider share ownership. The Financial Secretary would have a private word with Nigel Forman about ESOPs.

3(g) There were some difficulties over presenting the North Sea regime. The best line seemed to be that the tax system was highly price sensitive; that the industry had always asked for stability; and that we had selected some small, carefully targetted measures.

4(b) The justification for restricting tax credit relief for banks was clear; the only difficult question that might be posed was why we had not acted sooner.

5(a) The issue of why we had not increased excise duties was tricky. For the general public, the line must be that the Chancellor did not need the money. It was not desirable to justify the change by reference to the expected inflation path. For the pundits, the main point was that the "broad presumption" that the duties would keep pace with prices applied over a period; and taking all excise duties together, the 1987-88 rates would be higher in real terms than they were in 1978-79 and 1983-84. A further defensive point was that the Budget still shifted the burden of taxation from direct to indirect.

3(c) It was noted that the abolition of on-course betting duty was the only issue that united the Jockey Club and the Leader of the Opposition.

3(d) Mr Monck would prepare a note on the presentation of PRP, including defensive briefing on the NIC change.

6(a) On health and education the line was that major increases had been announced in the Autumn Statement. On employment the line was that it was clear that the Government's policies were working, and that specific employment measures were already in place.

6(b) FP would prepare a list of all the "useful things" which had been urged on the Government but were not being taken up.

12. Mr Culpin and Miss O'Mara would provide a paper on bull points in the Budget; this would concentrate mainly on the economy, but would also be Budget related. Any suggestions for a unifying theme for the Budget would be gratefully received.

Manpower effects

13. The Chancellor noted that the effects of the package were to increase Inland Revenue manpower by 128 in 1987-88 and 300 in 1988-89. Customs would save staff.

ACSA

A C S ALLAN
2 March 1987

Distribution

Those present
PS/IR
Mr Wilmott - C&E

RH12.94

BUDGET SECRET

COPY NO 18 OF 18

FROM: A P HUDSON

DATE: 5 March 1987

PS/CHIEF SECRETARY

cc PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Mr Scholar
Mr Culpin
Miss O'Mara
Miss Sinclair
Mr Romanski
Mr Cropper
Mr Tyrie
Mr Ross Goobey
PS/IR
PS/C&E

BUSINESS AND THE BUDGET

The Chancellor has seen your 4 March minute. On the question of CT payment dates (your paragraph 3), he notes that the presentational line was discussed at the last Overview meeting, and it was agreed to present the measure as sensible streamlining rather than primarily anti-avoidance. He assumes the Chief Secretary will be following this.

APH

A P HUDSON