PO-CH/NL/0820
PART A

STARTS 9-03-84
~~END~~

SECRET

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PO -CH /NL/~~0016~~ 0820

PART A

1984 BUDGET FINANCE BILL
6 - 9 MARCH

DDs 25 years N A3/3 25/08/94

PO -CH /NL/~~0018~~ 0820

PART A

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

PW

C.

I've fed all these in to Adam.

[illegible]

PS. Forges has spotted, as I didn't, that X at + is wrong.

[illegible]

[illegible]

Personal

FROM: J O KERR
DATE: 11 January 1984

But restrict this. I think all 3 advisers shd be invited. N.

CHANCELLOR

BUDGET "OVERVIEW" MEETINGS

In the 1982 Budget run up we invented a series of weekly meetings, starting in late January, to review progress on the main Budget issues. Invited to all such meetings were all the Ministers, all the Permanent Secretaries (including Airey and Lovelock), and the then equivalents of Cassell, Monck (in his new incarnation), Evans, Battishill and Monger, together with Ridley and Hall. Particular "experts" were invited to join in on an ad hoc basis according to the subjects for discussion: I circulated in advance an agenda and invitation list, and prepared formal records. The Central Unit also put up each week a running "score card".

2. Refining this process, we last year decided that it made sense, in order to secure a full attendance, to go for a particular date and time each week. I chose 11 o'clock on Tuesdays, on the basis that the main papers tend to be submitted on Fridays, and considered over the weekend; that it is good to leave Mondays for tidying up minor issues and queries which arise on them; that papers for the Prime Minister ought to reach her office on Tuesday night, given that your weekly meeting with her falls on Wednesdays; and that officials have their weekly PCC fest early on Tuesday mornings.

3. I thought that this arrangement worked quite well; and I have checked that Sir P Middleton thinks it well worth repeating this year. If you agree, I shall therefore ask the "permanent members" to reserve 11.00 am to lunchtime on Tuesdays for these

meetings, beginning on 24 January.

4. Apart from usefully keeping a check on progress, and ensuring that decisions are taken in the right order, the main value of the weekly meeting is of course to ensure that your Ministerial colleagues are kept alongside the Budget-making process. You will want to take key decisions in a much smaller grouping - in some cases of not more than two or three people. This is one of the advantages of having the formal meeting on Tuesdays rather than Mondays: informal ones can be slipped in in advance.

good

5. I have incidentally arranged with Mr Turnbull that No 10 will do their best to ensure that your weekly meeting there becomes a fixed point in the Prime Minister's diary for each Wednesday afternoon, and runs for a full 45 minutes. I have also suggested that the meeting on 1 February should be still longer - for at it you will, inter alia, want to take her through the draft of your 9 February Cabinet Paper - she will be away in Hungary from 2-4 February - and the broad scope of the Budget proposals should by then be beginning to take shape.

JOK.

J O KERR

356/84

BACKBENCH BRIEF SKELETON

1.	Themes (one sentence each)	Reduce overall tax burden and thresholds: Budget for 2 years Reform Jobs LTPE	(MP)
2.	Summary	Main Budget proposals and measures in telegraphic style (much as early part of brief A2)	(MP)
3.	Economic Situation	Telegraphic - covering brief B	(ANR)
4.	MTFS and PSBR & MONETARY POLICY	To include asset sales point Defensive on VAT on imports?	(ANR)
~~5.~~	~~Monetary Policy~~	~~Aggregates, targets, funding~~	~~(ANR)~~
6.	Company Taxation	Reasons for reform: high rate, poor investment, complexity, bias against labour Higher quality investment and impact on jobs Cash flow effect Abolition of NIS - widely demanded history - impact on jobs Company taxes to be seen as a package Other company taxation	(MP)
7.	Oil taxation		(MP)
8.	VAT on imports	Reason, impact, equality. One year effect cf lasting benefit of ~~CT~~ NIS reduction	(RL)

BUDGET SECRET
until after Speech on 13.3.84
then UNCLASSIFIED

B2

II
~~A2~~ **SUMMARY OF MAIN PROPOSALS**

A. **Financial Framework**

a) ~~(i)~~ Medium-Term Financial Strategy now mapped out up to 1988-89. Declining path for monetary growth and also for PSBR as per cent GDP.

b) ~~(ii)~~ Monetary targets for 1984-85 are 6-10 per cent growth at an annual rate for broad money (£M3) and 4-8 per cent for narrow money (MO). Targets to apply over period of 14 months beginning mid-February, 1984.

c) ~~(iii)~~ PSBR for 1984-85 is about £7½ billion (2¼ per cent of GDP).

B. **Individual Measures**

a) ~~(i)~~ Income Tax

- single person's allowance and married man's allowance raised by ~~over~~ 12½ per cent, more than double indexation.
- higher rate thresholds and age allowances indexed in line with inflation.
- investment income surcharge abolished.
- relief on life assurance premiums to be withdrawn on new policies taken out after Budget Day.
- reliefs on foreign earnings and foreign emoluments reduced or withdrawn.

~~b)~~ ~~(ii)~~ Social Security

- ~~as a consequence of return to historic basis for calculating uprating factors, social security benefit upratings will henceforth be announced by Secretary of State for Social Services in June (when May RPI is available), not in Budget. Price protection - which Cmnd 9143 assumes will apply to Child Benefit, etc, as well as pensions - is currently expected to require an uprating of about 5½ per cent.~~

b) ~~ii~~ ~~(iii)~~ Specific duties

- duty on table wine reduced by 18p a bottle, and duty on beer increased by 2p a pint, ~~in compliance~~ Complies with European Court of Justice ruling. ~~on relative taxation of alcoholic drinks.~~ Italy not complying (overtaxing Scotch whisky) so temporary 20p surcharge on vermouth from September.
- duties on other alcoholic drinks raised by varying amounts. Overall, duties on alcoholic drinks raised in line with inflation, but substantial differences in relative tax increases betwen drinks (only 10p on spirits)
- duty on cigarettes raised by 10p a packet: no increase on pipe tobacco
- other specific duties raised broadly in line with inflation.

(i) VAT

- VAT base widened by withdrawing zero rating from ~~newspapers, periodicals (not books), newspaper advertisements, news services,~~ alterations to buildings and hot take-away food. (No change in VAT rate.)
- ~~Deferred accounting for VAT payments on imports abolished w.e.f 1 October. (Represents a once-for-all retiming of VAT paid on imports.)~~
- VAT ~~to be charged~~ on imports to be charged earlier. Deferred accounting abolished. Payment arrangements brought into line with customs duty (and other EC countries) from 1 October 1984.

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until after Speech on 13.3.84
then UNCLASSIFIED

~~A2 (Cont.)~~

~~(v)~~ c) Stamp Duty

- on share transfers and rate reduced from 2 per cent to 1 pe cent.
- ~~on transfers of land and buildings, main rate reduced from 2 per cent to 1 per cent. Threshold raised from £25,000 to £30,000. Reduced rate bands abolished.~~

Threshold rarest v. imp...

~~(vi)~~ d) Composite Rate on Banks

- extension of 'composite rate' tax treatment of building society deposits to bank deposits. Implementation in 1985-86.

~~(vii)~~ e) Corporation Tax

i) ~~(a)~~ rates

main rate reduced from 52 per cent to 50 per cent. Applies to corporate income for FY 1983.

- further reductions in main rate thereafter as follows - to 45 per cent for FY 1984 income; to 40 per cent for FY 1985 income; to 35 per cent for FY 1986 income: all in this year's Finance Bill.
- 'small companies rate' of corporation tax to be reduced from 38 per cent to 30 per cent from April 1984.

ii) ~~(b)~~ allowances

- stock relief abolished ~~w.e.f~~ from April.
- capital allowances changed for capital expenditure incurred after Budget Day. First-year allowances for plant and machinery and industrial building each reduced by 25 per cent (to 75 per cent and 50 per cent respectively) from Budget Day. Further reductions from March 1985 and March 1986. Then replaced by "writing down" allowances.

f) ~~(viii)~~ National Insurance Surcharge

- to be abolished ~~w.e.f~~ from October 1984. (Currently 1 per cent).
- ~~as with earlier rate reductions, will be 'clawed back' from public sector through expenditure adjustments.~~

g) ~~(ix)~~ North Sea taxation

- repayment of ACT to oil companies with insufficient CT liability as offset against PRT to be discontinued.
- tax treatment of 'farm-ins' to be revised (in effect, closing tax loop-hole).

~~(x) Public Expenditure~~

- ~~public expenditure will be reduced by [ ] million in 1984-85 ([ ] million in a full year) to recover NIS cut from Central Government and nationalised industries. (Local Authorities will continue to pay 1 per cent for 1984-85 only).~~
- ~~[Loan Guarantee Scheme - if anything to be announced]~~

Autumn Measures

National Insurance Contributions for 1984-85

- lower earnings limit to be increased to £34 a week (in line with single rate retirement pension), and upper earnings limit to £250 a week (a rise of 6 per cent). New rates to take effect in April.

9.	Stock Options		(RL)
10.	Capital taxes	Stamp duty: international competitiveness of Stock Exchange, wider share and home ownership CGT CTT - bang the drum DLT - durability?	(RL)
11.	Income tax	Thresholds: every available penny used. Effects on numbers in tax, comparison with housing benefit change. Major stride in right direction (Brief H5) IIS : aged and basic ratepayers, and self-employed LAPR: arguments [payers of admin-cum-legislation a statute] Composite rate : simplicity, equity, manpower Car benefits Foreign earnings Foreign emoluments	(MP)
12.	National Insurance Contributions	Recap Autumn Statement as per Brief F1	(RL)
13.	Indirect taxes	VAT base: reasons (including to make possible thresholds), "regressitivity", RPI effect, benefits indexed, what next? VAT threshold ~~Tobacco - Liverpool saved~~ Wine/beer - could have been worse (7p), whisky etc gets off lightly, ~~tough on vermouth.~~ Cider. Derv and petrol - indexation or less VED - heavy lorries Kerosene	(RL)

14. LTPE — Very brief synopsis of Green Paper (ANR)

15. Miscellaneous minor measures of political interest (ANR)

Including impact on widows.

Appendices

~~I MTFS (ANR)~~

~~II Fuller details of CT package (MP)~~

III Income tax - main changes (Brief H1) (MP)

I BUDGET THEMES

Stabilisa[illegible] | jobs long-term strategy [generally [illegible] the way forward]

a) <u>To reduce inflation and improve the prospect for jobs:</u>

i) MTFS covers 5 years, PSBR 1984-85 £7¼ billion

ii) Tax changes improve workings of the economy with accent on jobs

iii) ~~Some~~ Substantial tax cuts for 1985-86 already announced

b) <u>To reform and simplify the tax system</u>

i) Major corporation tax reform; NIS abolished

ii) Greater tax neutrality in treatment of savings

iii) Thresholds greatly increased; VAT base widened

iv) Taxpayer left to take more decisions for himself

c) <u>To look ahead</u>

i) Green paper on Government spending and tax into the 1990s published

ii) Shows we can reduce tax burden if we keep firm control of spending

d) <u>Three packages (in a neutral budget)</u>

i) <u>Company taxes</u>

- Corporation tax rates greatly reduced, and allowances cut back: cash flow advantage to business in 1984-85 and big advantage in 1985-86
- NIS abolished: big advantage to business
- VAT on imports payable earlier: cash flow disadvantage to <u>some</u> businesses this year, but only <u>one-year effect</u>. Other changes long-term advantage.

ii) Savings

- Investment income surcharge abolished
- Life assurance premium relief abolished (new policies)
- Building societies and banks treated more equally:

  "composite rate" tax on bank interest
- stamp duty halved

iii) Personal tax

- Efforts concentrated on tax thresholds - up 12½%
- Higher thresholds up by indexation - no more
- VAT extended to hot take-away food and building alterations
- Cigarettes up 10p

III ECONOMIC SITUATION AND OUTLOOK

For full details, see FSBR, Section 3.

1. Recent Developments

Since the Autumn Statement last November, indications of recovery at home and abroad have become firmer.

Overseas: In 1983 OECD output grew by 2 per cent, world trade by 1 per cent, average price increases in major industrial countries fell below 5 per cent, and unemployment grew little or fell. Interest rates changed little. Confidence in recovery grew as policies for reducing public spending and borrowing and inflation strengthened foundations of sustainable recovery. Continuing major uncertainties about US economy and interest rates, however.

UK

- GDP 3 per cent up in first three quarters of 1983, manufacturing output up by 1 per cent in Q.3 and 4.
- Demand rising strongly, with estimated 1982-83 growth rates of $1\frac{1}{2}$ per cent for exports, 4 per cent for consumer spending, 5 per cent for investment;
- Manufactured exports held their share of world trade in 1983, but grew by 7 per cent (excluding erratics) in 3 months to January; and the balance of payments surplus reached £2 billion;
- Over first 12 months of target period £M_3

within range, M_1 just outside;

- Interest rates continued their decline, with Bank Base rates now at 8¾-9 per cent (lowest for 6 years) as against 10½ per cent a year ago;

- Gross profits of non-North Sea industrial and commercial companies 25 per cent up in 1983 Q 1-3 over 1982 Q 1-3; and company liquidity maintaining in 1983 the substantial improvement in liquidity begun in 1982;

- Employed labour force (including self-employed) up by an estimated 85,000 between March and September 1983; services employment up 200,000 1982 Q 4 to 1983 Q 3; hours worked up, overtime increased, short-time reduced since 1983 Q 2;

- Productivity in manufacturing continuing to rise at very fast [5-6 per cent] per man hour per year, for [third] year running.

N.B. Also worth noticing that UK's net overseas assets rose from £10 billion in 1978 to £42 billion in 1982 (latest figure) - a very valuable counterpart to depletion of North Sea oil. Earnings on UK's overseas portfolio investments rose from £400 million in 1978 to almost £2½ billion in 1983.

2. Outlook for 1984 and First Half of 1985

See Tables 3.8 and 3.9 of FSBR for compact summary.

General. "Winning combination" of steady growth, rising investment and falling inflation set to continue through 1984 and beyond, with world economy recovering more strongly than in 1983. Autumn Statement forecasts confirmed.

Q?

Overseas. ~~GDP in major six industrial countries to rise by 4 per cent~~; World trade in manufactures (UK weighted) expected to grow by 5 per cent, ~~with inflation stable~~; subject to no serious oil crisis, etc.

Industry Act Forecast and Prospect for UK

?

- Between 1983 and 1984, 3 per cent GDP and consumer spending growth, 2½ per cent increase in manufacturing, 5 per cent growth in exports, 6 per cent increase in fixed investment, and some stock building. No growth in govt. spending.
- Current Account surplus of ~~£1½~~ £2 billion for 1984.
- Inflation at 4½ per cent by 1984 Q 4, 4 per cent by 1985 Q 2. N I prices, ~~only 1½ per cent up on previous year in January 1984~~, are expected to rise more slowly than RPI in 1984-85, for second year in succession. Effect of Budget ~~over and above~~ including indexation of specific duties is only to add ~~[0.3 per cent]~~ three quarters of one per cent to prices: this is insignificant effect; the longer term inflation dependent on monetary conditions.
- Investment in Non-North Sea Industrial and Commercial companies to rise by 9 per cent.

Other indicators and surveys

- Outside forecasters, who doubted Treasury's optimism on growth and inflation in 1983, have been revising their projections upward and downward respectively. More now project further falls in inflation; and most now concede 2-3 per cent GDP increase.

- February CBI trends inquiry suggests increased and broadening demand in manufacturing. CSO longer and shoter leading indicators have been rising, confirming prospect of no slackening of growth in 1984.

IV **MTFS, PSBR AND MONETARY POLICY**

[See also Section 2 of FSBR, which sets out the strategy in detail.]

General With inflation already down to levels not experienced since the 1960s and a steady recovery under way, the 1984 MTFS sets out the policy framework for further reductions in inflation and interest rates, a continuation of the recovery, and for the monetary targets consistent with their achievement.

Changes since last MTFS

- period covered extended by three years, to cover full five year life of this Parliament to 1988-89;
- target aggregates redefined, with M_0 the principal narrow aggregate instead of M_1, which is becoming misleading and difficult to interpret because of its large interest-bearing component;
- different target ranges set for broad and narrow money, as experience shows that thanks to technical innovation (credit cards, cash dispensers etc) trend growth will normally be slower than for wider aggregates such as £M_3.

Background assumptions

- Public spending up to 1986-87 broadly level in real (cost) terms as in latest White Paper, updated for small Budget and estimating changes: assumed to continue constant in real terms to 1988-89, as in Long Term Paper.

- Annual real GDP growth averages 2¼ per cent to 1988-89; inflation (GDP deflator) falls to 3 per cent by 1988-89; no major change in exchange rate.

- North Sea revenues projected on basis of recently published Department of ~~Environment~~ Energy production assumptions Dollar oil price assumed constant till end 1985, then to rise in line with world inflation.

Money Ranges

- Set consistent with inflation reduction, and falling by 1 per cent per annum as in previous versions of MTFS. 1984-85 ranges are targets, 1985-86 and later merely indicative.

-

Fall from	1984-85	by 1% to	1988-89
Narrow Money (M_0)	4-8% p.a		0-4% p.a
Broad Money (£M_3)	6-10		2-6

- Broad and narrow money will have equal status in assessing monetary conditions, and interest rates, exchange rates and other available evidence will continue to be taken into account.

- National Savings contribution to funding policy set at £3 billion as in 1983-84, ~~a reasonable figure in light of intense competition for personal sector deposits.~~

PSBR Profile

- Not targets, but illustration of levels which appear to be needed to ensure falling inflation and interest rates;

- Incorporate substantial reduction 1983-84 to 1984-85, from £10 billion (est) or 3¼ per cent of GDP to £7¼ billion or 2¼ per cent. This major cut is needed and justified given that 1983-84 PSBR overshot the last year's Budget figure, despite July measures; asset sales and oil revenues in 1984-85 are expected to be higher than foreseen last year, the latter near their likely peak. ~~[? VAT on imports]~~;

- Over later years PSBR to stay at £7 billion cash, which will involve a cut of GDP share from 2¼ per cent to 1¾ per cent given assumed growth of money GDP. ~~This~~ Relatively gentle progression ~~reflects inter alia the likelihood of gently falling oil revenues in later years of decade~~;

- Proposed path for PSBR reflects impact of Asset Sales and North Sea over the period, for both of which (necessarily approximate) year-by-year path is set out in Tables 2.4 and 2.5 of FSBR.

Fiscal Adjustment

- MTFS shows clearly (Table 2) scope for further significant tax cuts in later years of period (provided spending is held to plans and recovery is sustained) which could exceed £4 billions by 1986-87 in comparison with post-Budget tax rates.

Interest rates

- Big reduction in PSBR ~~after 1980-81~~ in 1981-82 underpinned dramatic subsequent fall in both long and short interest rates. Further PSBR cut this year favours further reductions hereafter.

- Cannot ignore US influences however. Our policies have already brought UK interest rates below US ones [by ($1\frac{1}{2}$ per cent) for 3 month money and (1 per cent) for long term securities], for first time in decades. Further progress could be limited by US condition.

[No Section V]

VI COMPANY TAXATION

A. Corporation Tax

1. Major reform proposed:

- main rate progressively reduced from 52%:

1983-84	50%
1984-85	45%
1985-86	40%
1986-87	35%

- small companies rate down from 38% to 30% from April 1984
- stock relief abolished
- allowances reduced:

	First year for plant and machinery	Initial industrial buildings
Present	100%	75%
1984-85	75%	50%
1985-86	50%	25%
1986-87	25% writing down allowance	4% writing down allowance

2. Reasons

a) Rates of tax too high: penalise profit and success

b) Too many allowances, original justifications for them overtaken by events eg stock relief needed when inflation high; allowances were meant to encourage investment, but seem to have failed

c) Allowances distort investment decisions: businesses putting money where tax system makes it look profitable, not where effect truly productive

d) Allowances discriminate against all but plant and machinery; all buildings except industrial

e) On any measure, returns on investment in UK lower than USA, Germany, France - sometimes dramatically lower

f) Allowances create bias against labour, in favour of capital.

treat with care

3. Aims

a) To reduce tax rates

b) To remove distortions, and the bias against jobs

more of profits

c) To stimulate higher quality investment, productive in its own right, not just because it saves tax

d) To allow companies to make their own decisions, and higher profits

e) To provide certainty for business: rates and allowances for years ahead will be in Finance Bill

4. Costs

a) Change structured to help business as a whole during transition

b) Cost to government

	£ million	
	1984-85	1985-86
Main CT rate changes	-210	-1010
Small companies CT rate change	-85	-145
Capital allowances and stock relief	+10	+450
	-285	-705

c) Benefit to business

	1984-85	1985-86
Benefit to business	+285	+705

BUDGET - SECRET

B. National Insurance Surcharge

1. Proposal: to abolish from 1 October 1984 (except local authorities: 6 April 1985)

2. History: Labour's tax on jobs introduced 1977. Was 3½% in May 1979. Reduced in 1982 to 2½% then 1½%, and to 1% last year

3. Cost :

a) If still 3½% would cost private sector £3 billion

Equiv. to ~~st~~ 3% on basic rate

b) 1984-85 cost of abolition, £455 million (£335 million to private sector); 1985-86 cost, £1,440 million (£925 million to private sector); Full year cost £1,350 million (£865 million to private sector)

c) Benefit to central government and nationalised industries clawed back through reductions in cash and external financing limits

Sh 58: Check

d) Even taking account of employer's NIC increases since 1978-79, overall effect of NIC and NIS changes worth £2.4 billion to private sector in full year.

4. A bonus for employment. Small reduction in public expenditure.

C. VAT on imports

Please see Section VIII. One-year effect of bringing forward payments which would in any case be made, compared to corporation tax rate reductions and abolition of NIS that will give lasting benefits.

D. Small companies

Benefit from:

a) Corporation tax rate reduced from 38% to 30% from April 1984 (ie 30% applies to 1983-84 profits)

[illegible] 42

b) VAT threshold: increased to max. possible under 6th directive! ~~in line with indexation: £18,000 up to~~ £18,700

c) Capital transfer tax. Top rates above 60% abolished. All lifetime rates made half death rate. [Careful not to over-sell] Benefit to family businesses.

d) Investment income surcharge abolished: benefit to retired small businessmen living on investments (in lieu of pension) made out of taxed income. Also agri rents.

e) ~~Raising of tax thresholds means greater demand, greater incentives~~

f) Changes in stock options etc (see Section IX)

E. Other changes

1. Carry-back of ACT

a) At present ACT which is "surplus" (ie which cannot be set against current year CT liability) may be carried back and set against CT paid on previous two years' profits

b) For accounting periods ending on or after 1 April 1984, this carry-back period is being extended from two to six years

c) Cost: £1 million in 1984-85 and £30 million in 1985-86; declining thereafter

BUDGET - SECRET

2. Corporate Finance Package-Eurobonds, Deep Discounts etc (see Inland Revenue Press Notice)

a) CGT exemption - on lines of gilts exemption - for certain fixed interest corporate stock   more further

b) New tax regime for deep discount securities issued by companies

c) Provisions to allow companies to pay Eurobond interest gross

d) Relief for discounts on bills of exchange (acceptance credits)

e) Relief for incidental costs of convertible loan stock issues

f) Inland Revenue have confirmed that loan stock which carries a right of conversion into other loan stock is exempt from stamp duty.

3. Offshore and Overseas Funds (roll-ups)

See announcements by Chancellor 15 September 1983, 17 November 1983 and 22 February 1984.

4. Consortium Relief (see Inland Revenue Press Notice)

More generous treatment: available to larger permitted number of companies in consortium: up from 5 to 20.

5. Taxation of International Business (see Inland Revenue Press Notice)

"Tax havens" legislation broadly the same as revised draft clauses issued October 1983.

6. Business Expansion Scheme - Farming

a) There has been widespread criticism about the use of the Scheme for investments in farmland: over £15 million known to have been invested in 1983-84

b) Therefore proposed to exclude farming as qualifying trade under the Scheme. Tax relief will not be available for shares in farming companies issued after 13 March 1984.

but piggeries etc still ok

BUDGET - SECRET

VII NORTH SEA TAX REGIME

1. "Farmouts" (Sales of interests in oil fields) (see Inland Revenue Press Notice)

a) ~~Increasing anxiety about losses from "farmouts" which are done just for tax reasons.~~

b) Several loopholes closed: capital gains on "farmouts" brought within North Sea corporation tax ring fence.

c) Yield (ie loss of tax prevented) assuming continuing 1983 level of farmouts £35 million in 1985-86, £40 million in later years.

d) ~~Does not stop small companies planning to take advantage of tax reliefs for future activities but ensures Government takes fair share of benefits (through charge on seller).~~

Essentially Corp tax on [illegible] is PRT [illegible] [illegible] taken

2. Repayment of ACT to oil companies

a) Present law PRT is deductible in calculating corporation tax payable. But ACT already paid is repayable, to the extent that (by deducting PRT and so reducing the corporation tax payable) the possibility of ACT set-off is reduced. Oil taxation Act '75 S.17(3).

b) High Court case in 1983, requiring repayment to be made as soon as facts clear, created two problems: substantial repayments could become due to be made before ACT could have been set off against CT liability under normal ACT/CT rules: administrative uncertainty about date when facts clear.

c) Section 17(3) is therefore being repealed.

d) Yield £100 million 1984-85; full year £150 million?

3. "Incremental" investment projects

Government believes changes may be necessary to make new projects within an existing field more attractive. Will consult industry and legislate next year, backbating concessions to March 13 1984.

4. "Future field" concessions

Changes made last year to benefit future fields (eg no royalty payable), not extended to Southern Basin fields.

VIII VAT ON IMPORTS

Period of grace allowed to importers for payment of VAT to be shortened. Instead of present average 2½ months, arrangements are to be brought into line with those for customs dues giving average 1 month grace period. Payment will either be at time and place of entry or by direct debit on 15th of following month.

2. Change will end discrimination against home suppliers who have to sell goods VAT-inclusive. Follows representations by certain sectors of manufacturing against discrimination in favour of imported goods.

3. Present system has administrative advantages and is favoured by EC Commission as a standard for European harmonisation But despite this no other EC country has properly adopted it. Taxpayer should not be giving importers free credit. If the other EC countries move to our system we will return to it.

4. Bringing VAT payments on imports forward by average 1½ months gives once-for-all benefit of £1.2bn. This will help this year's to finance abolition of NIS, cut in CT rate and other measures. There is an ongoing financing gain equivalent to £120m. at present interest rates. Overall, companies will enjoy large tax cuts in next two years.

5. Implementation October 1, providing time to familiarise with new procedures. No change for non-VAT registered traders.

IX. STOCK OPTIONS

Attractive new kind of approved share option scheme. From April 6 gains on options granted under schemes approved by Inland Revenue will be charged not to income tax but to capital gains tax. There will be no charge on the exercise of the option as there is now; instead the whole gain between the cost of shares obtained under the option and the disposal proceeds will be charged to CGT on disposal. Schemes will be subject to certain limits.

2. All-employee schemes will also be encouraged. The £50 upper limit for monthly contributions under the SAYE share option schemes is to be doubled to £100. Approved schemes for all employees have so far grown from less than 30 in May 1979 to a total of 670 covering nearly ½m. employees and £550m. of shares.

3. Income tax will continue to be paid on unapproved option schemes when options are exercised, but it can now be paid in instalments over 5 years rather than 3, as from April 5 1983.

4. The new approved option schemes will make it easier for small fast-growing companies to attract experienced high quality executives. They will also improve incentives in mature companies. All the changes help to spread share ownership and so increase the commitment of employees to their companies raising the competitiveness of British industry.

CAPITAL GAINS TAX

5. Threshold below which gains are exempt raised in line with prices from £5,300 to £5,600. Keeps about 6,000 taxpayers out of tax who would otherwise have paid~~, and saves 25 Inland Revenue~~ staff. Several small concessions including amendment to market value rules, exemption for housing associations and self-build societies in N. Ireland, amendments to parallel pooling provisions, measures to allow gilts relief to apply to heritage maintenance funds (as urged by Historic Houses Association), extension of concessions on traded options.

CAPITAL TRANSFER TAX

6. Three top rates of CTT on death abolished. Highest rate cut from 75% to 60%. Lifetime rates reduced to half the rate on death throughout the scale reducing top rate from 50% to 30%.

7. Lower and middle rate thresholds increased in line with inflation. Top rate now applies to transfers over £285,000. Thresholds 40% higher than 1978-79 in real terms. ~~Lowest top rate of death duty since 1940.~~

([illegible])

8. Previous top rates confiscatory and out of line with lower top rates of income tax. Now closer to top rates in other countries. Election manifesto of 1983 referred to "lowering taxes on capital and savings". Provides incentive and encourages ownership. Lower lifetime rates encourage transfer

of family businesses and farms into younger hands.

DEVELOPMENT LAND TAX

9. Threshold for DLT raised from £50,000 to £75,000. Increase broadly in line with prices since £50,000 rate set in 1979. Other concessions: where a development is for an owner's use liability to deferred tax will now be extinguished after 12 years. Housing Corporation and registered housing associations are being exempted from charge on deemed disposals.

Takes 1/3 of cases out of tax

X. STAMP DUTY

Stamp Duty on shares and on land and buildings to be halved from 2% to 1%. Threshold for house sales ~~raised~~ from £25,000 to £30,000 ~~and~~ ½% rate abolished. Full year cost about £295m. for land and buildings, £165m. for share transactions.

2. Cut in SD on shares will encourage share ownership, reduce cost of raising new equity finance, help maintain international competitiveness of U.K. stock market. Stock Exchange chairman Sir Nicholas Goodison told Chancellor in letter of 22 February SD "compromises the ability of London to compete effectively as an international financial centre", and in an annex he said it "is probably the single most important deterrent to direct investment in shares".

3. Cut in SD on land and buildings will save the average U.K. home buyer £142.50 (average price of a house is £28,500). Present four different rates and thresholds reduced to one which simplifies tax. Reductions make it easier for people moving house to new jobs. Encourages home ownership.

4. Detailed review of SD in progress.

XI **INCOME TAX** (see Treasury and Inland Revenue Press Notices and Appendix II to this Brief)

? 14% (unhypothecated)

1. Main changes

a) Basic rate thresholds up 12½%: single up £220 to £2005: married man up £360 to £3155. Additional personal allowance and widow's bereavement allowance also up 12½% to £1140.

b) All other allowances increased ~~in line with indexation (about 5.3%)~~ by statutory indexation formula.

c) Investment income surcharge abolished

d) Life assurance premium relief abolished

e) 25 per cent foreign earnings relief for UK residents working abroad reduced to 12½% in 1983-84 and abolished from 1985-86.

f) "Foreign emoluments" relief on UK earnings of "foreign" employees of foreign companies withdrawn (transitional arrangments for existing beneficiaries)

g) Car benefit scales increased 10%

h) "Composite rate" tax arrangements to apply to bank account interest from 1985-86.

i) Stock options, employee share schemes - see Section IX

2. Thresholds and allowances (see Appendix II for table)

a) Increase in thresholds etc (1a) above) more than 7% more than needed for indexation. Cost £915 million in 1984-85 and £1160 million in 1985-86 over and above indexation.

b) Great concentration of effort on thresholds

c) Worth £2.02 per week to marriedman, £1.27 to single (basic rate taxpayers)

d) Higher rate bands increased in line with indexation.

e) Over 850,000 fewer taxpayers than if thresholds had remained at 1983-84 levels (100,000 of them widows); 400,000 fewer than if thresholds had been indexed only.

f) About 150,000 fewer higher ratepayers than if thresholds and allowances had remained at 1983-84 levels.

g) Third successive budget to raise thresholds by more than indexation: thresholds 16% higher than 1978-79 in real terms; ~~highest since 1972-73;~~ for married man ~~under 65~~ highest since war.

h) 10,000 families removed from poverty trap (paying tax and receiving family income supplement) - about 6% of total.

j) Putting "clear water" between tax and benefits will take years of determined effort: but that cannot be reason for not starting on the road.

k) Mr Hattersley opposed to raising thresholds since "ineffective" in defeating poverty trap (probably knows higher spending Labour Government would have to increase tax burden on low incomes).

Note: additional personal allowance and widow's bereavement allowance also up 12½%.

why 12½: & do we want this anyway?

3. Investment Income Surcharge

a) Abolished from 1984-85 (was 15% on top of basic rate on investment incomes over £7,100).

b) 280,000 taxpayers affected. Over half over 65; over 40% otherwise liable only at basic rate; over 70% over 65 or liable only at basic rate, or both

confusing

c) Cost £25 million 1984-85; £200 million 1985-86; £360 million in full year

d) Surcharge bore heavily on elderly; esp. on retired self-employed living on savings (in lieu of pensions) made out of taxed income

e) Wrong in principle to discriminate against investment income

f) Top rate of tax on persons now 60% (was 98% under Labour)

g) Saves 230 staff

h) Removes distortion on treatment of savings; part of package with abolition of life assurance premium relief and halving of stamp duty (see section X).

4. <u>Life Assurance Premium Relief</u>

a) Withdrawn for new (or newly enhanced) policies after Budget Day; existing policies unaffected (ie continue to receive premium ~~relief~~ at ~~equal to 15% of premium~~ half basic rate).

b) Very old established relief from days when life assurance virtually only way of providing for future for ordinary people. But no longer justified. Now ~~used more for investment than assurance and policies~~ often used ~~simply~~ for tax-management schemes. (pages of Statute Book)

c) Represents an important distortion: pushing money into institutional, rather than personal savings. To be seen along side IIS and stamp duty (see section X).

d) Helps provide money to raise basic thresholds.

e) Saves £90 million 1984-85, £240 million 1985-86, £180 million full year. (Total cost of LAPR last year £700 million).

Eh?

5. Foreign Earnings Relief

a) 25% deduction on earnings abroad where UK employee overseas for more than 30 days, reduced to 12½% 1984-85, withdrawn 1985-86.

b) No change in 100% allowance on 365 day absence.

c) No change in reliefs on foreign pensions.

d) 25% relief dates from confiscatory tax rates under Labour: 83% top; no longer justified.

e) Open to abuse: employees extending visits, combining holiday with business trip etc.

f) Saves £15 million 1984-85 and £60 million full year.

g) More generous travel expenses rule proposed for journeys home for expatriate employees. Committee stage new clause.

6. "Foreign emoluments" relief

a) Relief on UK earnings of "foreign" employee of foreign company withdrawn from new applicants, and those here 9 out of last ten years.

b) Was 50%, 25% if here for 9 out of last 10 years

c) Existing beneficiaries: relief phased out over 5 years

d) Foreign executives often paying much less tax here than at home or elsewhere in Europe. Britain becoming tax haven.

e) Encouraged "fiddles" eg UK bank employing foreign staff via Channel Islands company.

f) Son of an immigrant to UK working for foreign firm could claim relief even if he had lived here all his life(by claiming father's foreign domicile).

g) People doing same job in same company for same rate of pay could have very different take home pay: unfair and bad for morale.

7. <u>Car and petrol benefits</u>

a) Scales for 1985-86 will be about 10% up on 1984-85 (announced a year ahead).

b) Scales for cars still fall far short of true benefit: benefit of eg Rover in 1985-86 will be taxed as £825; and free petrol for it also as £825.

c) Compares with 15% increase announced last year for 1984-85.

8. <u>"Composite rate" tax on bank account interest</u>

a) <u>What is "composite rate"?</u>

i) "Composite rate" has applied to building society acoount interest for 90 years.

ii) Tax is deducted at source at (currently) 25%: approximate average of basic rate tax payable by investors allowing for non-taxpayers.

iii) Basic rate taxpayer not required to pay any more tax (though his liability would otherwise be 30%).

iv) But non-taxpayer cannot claim refund.

v) Very efficient in civil service staff terms: 2,000 more would be required if building societies were not handled in this way.

b) <u>Reasons for change</u>

i) Simpler for taxpayers: less form-filling

ii) More equal treatment of banks and building societies: easier for investors to compare rates.

iii) Civil service staff savings: saves up to 1,000.

iv) With trend towards interest on current accounts, without composite rate would become very difficult and require up to 3,000 more staff.

check

c) <u>Non-taxpayer investors</u>

i) Can receive interest without tax deduction in National Savings accounts etc.

ii) Many non-taxpayers choose to invest at building societies, even though tax deducted.

iii) Non-taxpayer would currently do better receiving $8\frac{1}{4}\%$ at building society (tax deducted) than about $5\frac{1}{2}\%$ at bank (gross).

XII. NATIONAL INSURANCE CONTRIBUTIONS

Changes in NICs announced in Autumn Statement take effect in April. This year no change in employer and employee contribution rates. This is the first time these have not been increased since 1979-80.

2. Lower earnings limit, below which no contributions are paid, rises from £32.50 to £34.50 in line with single retirement pension. Upper earnings limit, beyond which contributions level off, increased from £235 to £250 in line with assumed 6½% increase in earnings in 1984-85.

3. Treasury Supplement, which helps to top up National Insurance Fund, reduced from 13% of contributions to 11 %. Reduction should be seen in context of rising proportion of total social security spending met outside National Insurance Fund, i.e. by taxpayer. Lower Treasury Supplement helps to keep a reasonable balance between employee, employer and taxpayer in meeting total social security burden.

4. Taking NIS abolition into account total burden on employers will have fallen from 13.5% of relevant pay in 1979-80 to 10.45% in 1984-85 for contracted-in, and from 9% to 6.35% for contracted-out.

XIII ~~XIV~~ VAT ON BUILDING ALTERATIONS AND TAKEAWAY FOOD

Budget continues the process of switching from direct taxation of income to indirect taxes on spending as outlined in 1979 Conservative manifesto. Sir Geoffrey Howe's first Budget raised the rate of VAT to 15%. This Budget extends the VAT base by bringing into tax two items at present zero-rated, building alterations and hot takeaway food.

2. Transferring the tax burden from income to spending improves the incentive to work and increases freedom of choice for the individual.

3. In total, changes to indirect taxation will raise prices by ¾%. The effect of this on people's spending power will be more than offset on average by reductions in direct tax. The Tax and Price Index will fall slightly as a result of Budget. Any increases in benefits to be announced in June will help to offset the effect on non-taxpayers.

Wrong?

~~Changes will fall~~ sligh. ~~more on the better off. Building alterations are undertaken more by those of above average income, takeaway food is bought by all income groups.~~

4. VAT on building alterations will be levied at standard rate of 15% from June 1. This gives time for most existing contracts to run off. New houses will continue to be zero-rated (but garages, greenhouses and garden sheds which are not part of a new house will be taxed, also certain fixtures and fittings).

The change affects spending which is clearly discretionary rather than essential. Does away with the most confused and nonsensical borderline in all VAT, that between repairs (taxed at 15%) and alterations (currently zero-rated).

5. VAT levied on hot takeaway food from May 1. Most food remains zero-rated, but food served in restaurants has always been subject to VAT. In addition Denis Healey brought various snack items including ice-cream, confectionery, soft drinks and crisps into tax. Takeaway food clearly competes with these forms of catering. All other EC countries tax both takeaway food and building alterations.

6. Taxing building alterations and takeaway food will raise £250m. and £125m. respectively in 1984-85 and £450m. and £200m. in a full year.

VAT THRESHOLD

No: 6 [illegible] ([illegible] < 42)

7. Registration threshold below which small traders not obliged to register raised from turnover of £18,000 to £18,700 in line with inflation. Quarterly threshold up from £6,000 to £6,200. Helps to keep small business out of VAT net, reducing compliance costs and Customs and Excise manpower.

DRINKS DUTIES

8. Changes have to take account of Judgement of European Court last year. Government has fought since 1978 Commission's

view that our taxes discriminate in favour of home-produced beer. Now raising beer by minimum amount necessary to comply with judgement, equivalent to 2p on a pint. Complying with judgement could have raised price as much as 7p. Duty on table wine goes down by about 18p a bottle.

9. Cider goes up by 3p a pint because it is substantially less heavily taxed than beer but increasingly competes with it. Spirits, fortified wine and sparkling wine all up 10p a bottle. In case of spirits that is well below increase indicated by inflation because existing burden of tax is so high. Duties on made-wine (e.g. British sherry) aligned with other wine: represents a reduction in duty on 80% of British wine which is below 15% alcoholic strength.

10. Overall changes in drinks duties equivalent to indexation in line with prices. Revenue yield £140m. 1984-85, £145m. full year.

11. ~~Temporary surcharge on vermouth (e.g. Cinzano, Campari, etc.) of about 20p a bottle proposed from September 1 unless Italian government has implemented European Court's Judgement in favour of Scotch in Italian market. Do not intend to be the only ones playing cricket.~~

TOBACCO DUTIES

12. Cigarettes up ~~4p~~ 10p? a packet. Additional revenue will be used to lower income tax. Strong health arguments for raising duty. Royal College of Physicians' recent report "Health or Smoking ?" recommended steady annual tax increases above the rate of inflation.

13. No increase in duty on pipe tobacco for second year running. Helps pensioners, more of whom smoke pipes. ~~Safeguards jobs in N. Ireland.~~

VEHICLE EXCISE DUTY

14. Duty raised broadly in line with prices. VED on cars and light vans up £5 to £90. Duty reductions for lighter lorries (second year running), offset by bigger increases for Some heavier lorries in line with road costs. Tax bands for heavier lorries simplified by increasing them from 1 tonne to 2 tonnes.

VED exemption extended retrospectively to recipients of War Pensioners Mobility Supplement. Concessionary rate (£60) extended to all pre-1947 cars.

NB Mr 'mobility' concession

Revenue yield £110m. Duty still lower in real terms than set by Labour in 1975. Increased effort at enforcement; prosecutions up by half last year.

PETROL AND DERV

15. Petrol up 4½p a gallon in line with prices. Similar inflation adjustment to Derv rounded down to 3½p. Will help to contain industrial costs. Total tax burden on petrol below 1975 in real terms. Derv well below June 1970. U.K. petrol price still third lowest in EC after Luxembourg and Germany.

Duty on heavy fuel oil, gas oil and aviation turbine fuel unchanged.

KEROSENE

16. Duty on kerosene abolished. Will help pensioners using paraffin stoves for heating.

XIV PUBLIC SPENDING AND TAXATION INTO THE 1990s

1. General. The Green paper is a major contribution to the current debate on the longer term. It

- describes growth of public spending and taxes over the past 20 years; and explains some of the problems which have arisen as the rising burden of public spending has driven up the tax burden in parallel;
- sets out the pressures for higher spending over the next decade;
- examines what might happen to the tax burden on alternative assumptions about GDP and public spending growth;
- concludes that with 2 per cent GDP growth between 1988-89 and 1993-94, and public spending held at its present level for the next ten years, the tax burden could be reduced, but only to its early 1970s level; while with 1 per cent growth in public spending after 1988-89, the tax burden would scarcely be back to its 1978-79 level.

It does not

- offer forecasts or set out policy options for individual programmes by 1993-94. Figures do not exist for the former; and it would be wrong in a discussion document to pre-empt debate about the latter;
- offer forecasts of inflation, pay or unemployment, which are not needed and would needlessly complicate such an exercise.

2. <u>Key points in the Paper.</u> [? Para. refs. to follow]

(a) <u>PE in the past</u>

- Between 1963-64 and 1984-85, real GDP grew at only 2 per cent per annum, or by 50 per cent in total, while real public spending (PE) grew at about 3 per cent per annum, by over <u>90 per cent</u>. PE burden rose in other OECD countries, too.

- A variety of reasons for this, e.g. rising expectations, particularly in social policy; belief (disproved by experience) that higher public spending and borrowing would raise growth rates; the 1973 and 1979 oil crises, and recession.

(b) <u>Taxes in the past</u>

- In the background, chronic over-optimism about growth, and in the foreground, latterly, need to cut public borrowing, Both together plus PE trends meant that tax burden has had to rise sharply: from 29 per cent of GDP in 1963-64, to over 37 per cent by end '60s and to 39 per cent today. ~~But many other factors, too.~~

- Rising tax burden has been the upshot of spending decisions taken with little regard to how programmes would be financed. <u>Spending</u> has been the driving force.

- Pattern of tax increases which has emerged has been very uneven, with particularly large increases in Rates, income tax and, most strikingly, national insurance contributions (See Table 3).

- One pernicious result: tax threshold for ~~childless~~ married ~~men~~ couple with young children down from 45 per cent of 1963-64 average earnings to 31 per cent in 1983-84. Tax threshold has sunk closer and closer to benefit levels, creating poverty and unemployment traps, and threatening absurd position in which very poor pay for their own benefits. & doesn't pay to work.

(c) Pressures for higher public spending in the future

Amongst the major pressures will be:

- the excess demand which is inevitable where sought - after public services are provided free;
- demographic trends, particularly the growing numbers of the very elderly during this century; and the rising proportion of retired people thereafter;
- the normal pressures for more numerous and more generous social security benefits;
- the substantial increases in earnings-related state pensions under the 1975 Pensions Act which 'matures' in '98;
- rising demands for and costs of health care.

Many other countries have recognised they face similar problems, both in Europe, and the US and Japan.

(d) Future prospects for the tax burden

Projections assume:

- GDP growth of $2\frac{1}{4}$ per cent per annum to 1988-89 as in MTFS; and alternative growth rates of 2 per cent ($2\frac{1}{4}$ per cent excluding the influence of a contracting North Sea sector) or $1\frac{1}{2}$ per cent ($1\frac{1}{4}$ per cent excluding North Sea) from 1988-89 to 1993-94;
- PSBR set at 1 per cent by 1993-94, which would be consistent with zero inflation by that date;

and then explore what would happen to Non-North Sea tax burden which is what ordinary people and businesses have to pay, if public spending grows by 1 per cent in 1988-89 to 1993-94; or stays flat at today's levels throughout the decade to 1993-94.

The implications for the Non-North Sea Tax Burden as per cent GDP are as follows:

Past			
'63/4	'73/4	'78/9	'83/4
29%	33	34.7	38.5

1993/4, assuming growth rates '88/9 to '93/4 of pa	GDP 1½	2
PE 0%	33	32
1%	35	34

On these assumptions, non-North Sea Tax Burden

- would fall <u>below</u> '73-74 level with zero PE growth and 2 per cent GDP growth. This would make it possible to reduce the proportion of income taken by income tax to fall to nearly the '63-64 level for those on average earnings; but
- with 1 per cent PE growth and 1½ per cent PE growth the burden would scarcely fall below '73-74 level;
- while with 2 per cent PE growth - 1 per cent per annum <u>below</u> the average rate of the last 20 years - the burden would still be 36-37 per cent, well <u>above</u> '78-79 level. This would only allow the income tax burden for the man on average earnings to fall from about 20 per cent now to 18 per cent in '93-94.

(e) <u>Issues posed by Green Paper</u>

- processes and trends at work in the past have shown how tax burden is driven up by effectively in-built tendency for public spending to rise;
- this process has to be checked, both to recreate tolerable personal taxation, and in order to avoid the vicious circle of a higher spending burden leading to higher taxes and lower growth, pushing the spending burden still higher;
- there will be continuing pressures for higher spending

in the future. But if these are kept under firm control, substantial reductions in the tax burden are possible;

- this requires, in effect, that "finance must determine expenditure" in the future, rather than vice versa, as in the past;

- successful reestablishment of the virtuous ~~vicious~~ circle of a lower tax and PE burden and faster growth is the <u>crucial goal</u>. If that can be established, it is then possible to achieve an absolute level of PE in the long run which, though a smaller share of a "large and healthily growing cake", before long exceeds the absolute level which is possible if PE forms a larger share of a smaller and sluggishly growing cake. Equally it is always possible to devote some of the extra resources generated by a virtuous ~~vicious~~ circle of growth to improved public services, rather than concentrating it all on further tax cuts.

NO APPENDIX I or II

now Needed

Appendix III

INCOME TAX - MAIN CHANGES

(See also Treasury and Inland Revenue press notices)

Factual

(i) Main personal allowances (married, single and additional personal allowance) increased by around 12½ per cent - some 7 percentage points more than statutory indexation requirement of 5.3 per cent. But age allowances (and income limit) and higher rate thresholds simply indexed as statute requires:

(a) **Allowances**

	84-85	83-84	Increase over 83-84		Increase over indexation
	£	£	£	%	£
Married man's	3155	2795	360	12.9	210
Single (& wife's earned income)	2005	1785	220	12.3	120
Additional personal and widow's bereavement	1150	1010	140	13.9	90
Age married man's	3955	3755	200	5.3	-
Age single	2490	2360	130	5.5	-
Age income limit	8100	7600	500	6.6	-

(b) **Higher rate thresholds and bands**

Band	84-85	83-84	Increase in threshold	
%	£	£	£	%
40	15401-18200	14601-17200	800	5.5
45	18201-23100	17201-21800	1000	5.8
50	23101-30600	21801-28900	1300	6.0
55	30601-38100	28901-36000	1700	5.9
60	over 38100	over 36000	2100	5.8

(c) Tax reductions (including any tax overpaid after 6 April) will be in pay packets on first pay day after 10 May.

(ii) Weekly tax reductions in cash terms for a basic rate taxpayer of working age will be £2.08 married (new threshold £60.67 a week) and £1.27 a week single (new threshold £38.56 a week).

(iii) No change in basic rate of tax (30 per cent) or higher rates (40, 45, 50, 55 and 60). But Investment Income Surcharge (IIS) abolished: 1983-84 charge was 15 per cent on investment income over £7,100 (see also Brief H6).

Costs (£ million):

	Total costs		Cost above indexation	
	1984-85	Full year	1984-85	Full year
Allowances	1715	2110	915	1130
Basic rate limit	45	75	0	0
Further higher rate thresholds	35	65	0	0
Investment income surcharge	25	360	25	340
TOTALS	1820	2610	940	1470

80 per cent of the total full year cost of the income tax changes is due to the increase in allowances.

(v) Taxpayer numbers:

(a) over 850,000 fewer taxpayers than if allowances had remained at 1983-84 levels; 400,000 fewer than if all allowances had only been indexed.

(b) about 150,000 fewer higher rate taxpayers than if allowances and thresholds had remained at 1983-84 levels.

(c) about 280,000 taxpayers not now liable to IIS who would have been liable if IIS had been retained and the threshold indexed.

Positive

(i) Real increase in basic personal allowances for third successive year. Part of long-term programme to raise tax thresholds progressively so as to reduce direct tax burden. Real tax thresholds for taxpayers of working age at highest level under present Government: highest since the war for married; since 1973-74 for single. (But note: no real increase for age allowances.)

(ii) Average rates of tax lower than 1983-84 throughout the income range (assuming incomes rise 6½ per cent in line with GAD assumption for average earnings); lower than in 1978-79 for all above 2/3 average earnings - for fuller specimen income and "track record" points see Briefs H3 and H4.

(iii) Low-paid benefit because:

(a) 400,000 fewer low-paid taxpayers (counting working wives separately) compared to indexation (more than 200,000 fewer "tax units" counting husband and wife as one) - but see defensive ((i)(b)).

(b) real terms increase in threshold gives higher proportionate benefits for those on low earnings than for any other earners (see also Brief H3) - more effective for the lowest paid than a reduced rate band (see also Brief H5).

(iv) Single parents: APA for single parents up by £140 to £1150 (worth 81p a week in cash terms: £2.08 including increase in single allowance).

(v) Work incentives - see Brief H5.

(vi) Widows, single women aged 60-64 - see Brief H2.

(SPARE)

FROM: J O KERR
DATE: 20 January 1984

CH/EX Ref No B.843

Copy No. 26 of 25

PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Sir L Airey
Mr Fraser
Sir T Burns
Mr Littler
Mr Bailey
Mr Cassell
Mr Monck
Mr Battishill
Mr Evans
Mr Monger
Mr Odling-Smee
Mr Ridley
Mr Hall
Mr Lord
Mr Portillo

cc Mr Knox, Customs & Excise - items ii and iii
Mr Lovell - item ii
Mr Lankester - item iii

PUT

C.

New papers. Only:-

1. F+CS on PAS
2. FSC on Credit Licence Fee
3. JOK on PM points (immediately below)
" on next week's agenda (back of folder.)

BUDGET "OVERVIEW" MEETING: 11.00 am, 24 JANUARY: PROVISIONAL AGENDA

The provisional agenda for Tuesday's "overview" is as follows:-

a. Budget "scorecard": Mr Battishill's minute of 19 January.

b. PAS: Mr Monger's submission of 20 January.

c. Licence Fee: Mr Knox's submission of 20 January.

(d) VAT on Non-Domestic Construction: Mr Knox of 20 January

In addition to the regular membership, copy addressees are invited to attend for the items shown.

2. Private Secretaries will wish to ensure that their Ministers see the three papers in good time.

J O KERR

Very good - tho X & we quite nice - N.

BUDGET SECRET

1. M.O'M } to see.
2. J.S. }
3 FOR again.
JDC. 25/1.

CH/EX REF NO B.84.7.
COPY NO 1 OF 30 COPIES

RECORD OF THE FIRST BUDGET OVERVIEW MEETING: 11AM 24 JANUARY 1984

Present:

Chancellor	Mr Fraser (C&E)	Mr Monger
Chief Secretary	Mr Bailey	Mr Odling-Smee
Economic Secretary	Mr Cassell	Mr Ridley
Sir P Middleton	Mr Knox (C & E)	Mr Lord
Sir T Burns	Mr Monck	Mr Hall
Sir L Airey	Mr Battishill	Mr Portillo

Papers

(i) PAS: Mr Monger's minute of 20 January

(ii) Credit Licence Fee: Mr Knox's minute of 20 January.

(iii) VAT on Non-Domestic Construction: Mr Knox's minute of 20 January

(iv) Scorecard: Mr Battishill's minute of 19 January.

I VAT on Imports: Postponed Accounting System

The report submitted with Mr Monger's minute was considered. It had been agreed with the DTI, but DTI officials would be likely to oppose the abolition of PAS. So, probably would the CBI, though they would be badly split. Mr Tebbit himself did not reject the idea, but the Foreign Secretary had already minuted his opposition. A disadvantage was the likelihood that the Commission would be able to claim successfully that our "own resources" contribution should be increased. A more serious disadvantage was that the once-for-all benefit could be criticised as a conjuring trick, and particularly if the Community as a whole were to adopt PAS within a few years, obliging us to reverse engines. The latter risk was however thought very low, and the former could be reduced by using the benefit in ways which did not carry forward to later years, and by presenting the change as one which we made only reluctantly, and as a result of the failure of the Commission's efforts, supported by us, to secure uniformity on a PAS system.

NOTE OF 1ST O'VIEW MTG.

2. It was agreed that nothing in the report, or the points raised on it, need deter us from proceeding with the abolition of PAS. For reasons of administrative simplicity, and to avoid a risk of infraction proceedings, the abolition should be across the board, rather than

only in relation to manufactured imports. The most convenient date for the change would be 1 October, but it would be useful to see a calendar of later dates showing the reduced 1984-85 benefit which would accrue. [Action: Customs & Excise] How the benefit should be used would be further assessed, in the light of a post-Forecast assessment of the desirable PSBR path, and fiscal adjustments for 1984-85 and 1985-86. The Chancellor would not reply to the Foreign Secretary's minute, but would mention the PAS decision to him privately in due course.

II Duty on Consumer Credit

3. It was agreed that the proposed duty should not be extended to business, as well as consumer, credit; that duty payments would not be required before 1985-86, and - after some discussion - that mortgages should be exempt. The question for decision was therefore whether to announce in the Budget that powers would be taken in the Finance Bill to bring into effect in April 1985 a 1 per cent licence fee on non-mortgage consumer credit.

4. It was noted that the scheme would have certain disadvantages. There would be administrative costs, though the manpower requirement on the new narrower definition would be well below the figure of 200 staff mentioned in the papers. The papers also spoke of effects on 40,000 traders, but this number too should fall following the redefinition. Certain professions - eg solicitors and estate agents - would also be affected; and it was agreed that a note on losers should be submitted. [Action: Customs & Excise]

5. Nevertheless, it was noted that there was a strong case in principle for a tax on the banking sector, as a proxy for VAT. The suggestion that duty would not be charged on loans exceeding £50,000 needed further examination: while it was clearly important to devise a clear frontier between consumer and business credit, a cut-off at £50,000 would not be seen, in political terms, as demonstrably fair. A further note would be provided.
[Action: Mr Monger]

6. It was provisionally agreed that an announcement on the levy of a fee from 1 April 1985 should be included in the Budget Statement. Further discussions with the DTI, and discussions with OFT in strict secrecy, would be in order. And Parliamentary Counsel should be briefed, so that drafting of the Finance Bill clauses could start. [Action: Customs & Excise]

III VAT on Non-Domestic Construction

7. It was agreed that the extension of the VAT base to cover non-domestic construction was not a runner for the 1984 Budget. If and when action became possible, the right course would be to adopt the option method - Mr Knox's paragraph 10(b). But the question for immediate decision was whether a Budget announcement of action in or after 1985 would serve to kill the threat of infraction proceedings, and, if so, whether such an announcement should be made.

8. It was thought that an announcement would in practice have this effect, particularly if we made clear that the option method was the one to be adopted. The Commission would also note the 1984 action to widen the VAT base, and this would in their eyes improve the credibility of a pledge of future action.

9. It was however noted that the domestic political difficulties created by such an announcement would be very considerable. The construction industry would be up in arms, given the coincidence with reductions in capital allowances, and the extension of VAT to house alterations: the furore might make the Alterations proposal unsustainable.

10. The decision therefore was that we should make no announcement. Our public position should continue to be that we did not accept the legal case put forward by the Commission.

IV Overall Budget Balance: The Scorecard

11. The meeting then considered Table 1 in the Annex to Mr Battishill's minute, noting that the provisional decisions already taken on PAS and the credit licence duty meant that the outline Budget - "above the line" - was no longer broadly revenue-neutral, but in surplus by over £1b in 1984/5, and £0.5b in 1985/6. It was agreed that:-

(a) the right option on income tax thresholds was likely to be option 2, ie indexation plus 2.7 per cent. Whether the higher rate bands should be increased by more than indexation would however require further consideration, perhaps in the context of a decision on IIS.

(b) on stamp duty, the case for its abolition in respect of life assurance - though possibly presentationally useful in the context of the abolition of LAPR - had not been made out. A further note on the arguments for and against the measure should be submitted. [Action: Inland Revenue] Meanwhile, it should not be regarded as a strong runner.

(c) on corporation tax, the counterpart to the reduction of capital allowances should be a reduction of the CT rate, not NIS abolition. Selling the CT package would be very much more difficult if it was not clearly self-balancing in terms of CT. It would be further discussed in the light of a report on current consultations with the DTI. [Action: Mr Monck]

(d) but the absence of any announcement on NIS abolition by April 1985 at the latest would sour the reception of the Budget, and it would be preferable to announce that abolition would take effect during the financial year 1984- 85. Though there might be economic arguments for postponing NIS abolition until much later in the Parliament, or for going for a ½ per cent reduction, rather than outright abolition, the political and presentational arguments pointed towards abolition. The analysis of the effects of the CT package should be on the basis of 3 assumptions about NIS - abolition from 1 August 1984, 1 January 1985, and 1 April 1985. [Action: Mr Monck] And it was noted that advancing the abolition of NIS might be a particularly appropriate way of using the PAS abolition benefit.

(e) abolition of IIS was a good runner for Budget '84 whereas abolition of DLT was not, though an assessment should be made of the effect of a time-limited reduction in the rate of DLT, which might be a politically helpful measure in the context of the imposition of VAT on alterations. [Action: Inland Revenue]

(f) an assessment of the numbers likely to be affected by the proposed changes in minor personal allowances was required. [Action: Inland Revenue]

X (g) it might be difficult to act in Budget '84 on both the foreign earnings deduction and the foreign emoluments deduction. Action on the former was the more desirable; on the latter, it would be useful to see an assessment of the number of losers, and the options for phasing. [Action: Inland Revenue]

(h) the proposal to charge building societies normal CT rates for financial year 1983 should be dropped; and

(i) so should the tentative UEL/higher rate income tax package.

12. Four of the minor starters - Table 4 in the Annex to Mr Battishill's minute - were discussed, and it was provisionally agreed that:-

(a) the VAT registration threshold should simply be revalorised;

(b) the car benefit scales should be increased by only 10 per cent, given that last year's reduction had been only 15 per cent, and that inflation had fallen further;

(c) the proposal for corporate status for the TSBs in effect redeemed a pledge, and should stand; and

(d) an explanatory note on the incidence of the ACT repayment to the oil companies was required. [Action: Inland Revenue]

13. The meeting also considered the VAT base extension package, and agreed the continued exclusion of books, the inclusion of all alterations to houses - with no exceptions for eg double glazing or central heating - and the expansion of the take-away foods category to include sandwiches and rolls.

V Overview: 31 January

14. The Chancellor indicated that item 1 at next week's overview meeting would be a discussion on the Forecast. It was crucial that the Forecast report should be circulated

well in advance. The overview meeting should also consider the PSBR line and monetary ranges for inclusion in the MTFS. And it might be sensible to consider the drafts of the 3 Treasury papers for Cabinet on 9 February, or at least the main paper on "economic strategy", copies of the draft of which should also be circulated well in advance.

JOK.

J O KERR

24 January 1984

Distribution:

Those present
Financial Secretary
Minister of State
Mr Littler
Mr Isaac: IR
Mr Green: IR
Mr H P Evans
Mr Norgrove
Ms Goodman

1. ~~Mott~~ 2. J.S. to see 3. JOK. again.

CH/EX REF NO B(84)28

COPY NO 27 OF 30 COPIES

RECORD OF THE SECOND BUDGET OVERVIEW MEETING: 11AM 31 JANUARY 1984

Present:

Chancellor	Mr Fraser (C&E)	Mr Lankester
Chief Secretary	Mr Littler	Mr Monger
Financial Secretary	Mr Bailey	Mr Odling-Smee
Minister of State	Mr Cassell	Mr Ridley
Economic Secretary	Mr Monck	Mr Lord
Sir P Middleton	Mr Battishill	Mr Hall
Sir T Burns	Mr Evans	Mr Portillo
Sir L Airey		

Papers

(i) Scorecard: 27 January version

(ii) Forecast: Report by Mr Evans (27 January) and minute by Sir T Burns (30 January)

(iii) MTFS: Minute by Sir T Burns (27 January)

I Overall Budget Balance: The Scorecard

The Chancellor said that it seemed clear, in the light of the Forecast, that it remained sensible to plan for a Budget which would be PSBR-neutral (in 1984-85), which for present planning purposes he defined as including the once and for all benefit of the abolition of PAS on imports. It was argued that PAS abolition would have a smaller effect on money supply than other revenue-raising measures, that financing tax reductions by cash flow adjustments was dangerous, and that the net monetary effect of a revenue-neutral Budget on the definition proposed would be expansionary. It was however noted that to use PAS abolition purely to reduce the PSBR would be politically very difficult, and that the arguments for not spending the PAS money were weaker now that the Forecast showed an expected £7 billion, rather than £8 billion PSBR. It was on the other hand argued that the structure, as well as the level, of the PSBR must be considered when the likely pressures on interest rates were assessed, and that the effect of widening the VAT base while reducing direct taxation would be to put upward pressure on interest rates for a given money supply. It was nevertheless pointed out that the Forecast report suggested that, even if the PSBR were to stay at £8 billion, that would be consistent with a fall in interest rates.

2. It was agreed that for provisional planning purposes it would be appropriate to set out a PSBR-neutral package (in 1984-85) including PAS abolition, and that the abolition of NIS was an appropriate way of spending a proportion of the PAS money. Whether the balance of the PAS money should also be spent would be considered again in the light of an assessment of the 1985-86 effects of the overall package, and when final decisions about the level of the 1984-85 PSBR fell to be taken.

3. The meeting then considered Table 1 in the Annex to Mr Battishill's minute of 27 January, and agreed that:-

(a) the £90 million shown as the 1985/86 cost of PAS abolition was incorrect. The Commission's claims would be contested, and the correct figure for internal planning purposes should in any case assume the continuation of 2/3rds EC Budget refunds, and should therefore be only £30 million.

(b) the simultaneous announcement of the introduction of the composite rate for banks, and of the credit licence duty from 1985/86, and of the Capital Allowances package (which would reduce the attractions of leasing) would evoke hostile reactions from the banking sector. Nevertheless, it was thought right to proceed with all three proposals, sugaring the pill to the extent possible by a larger and earlier reduction in the corporation tax rate than would be required to match the Capital Allowance reductions and the abolition of stock relief, and reducing the preferential treatment of the building societies.

(c) given that the legal opinion had proved favourable, it would be appropriate - subject to considered advice from the Inland Revenue - to pursue the tax treatment of building society gilts through the Courts, rather than by legislation. /Action: IR/

(d) on the income tax thresholds, the right course might be to go for straight indexation of the higher rate thresholds and allowances but double indexation of the basic rate threshold. This option should be analysed, and distribution tables circulated. /Action: IR/

(e) Investment Income Surcharge should be abolished. There would be considerable presentational problems, but doing no more than indexation of the higher rate thresholds could be presented as an approximately balancing offset. The staff savings from outright abolition, and the high proportion of pensioners among IIS-payers, were noted; and abolition was seen as an integral part of the reform package in the area of savings and investment (stamp duty, LAPR, IIS).

(f) on LAPR, it would be prudent to drop the idea of phased abolition on existing policies, and to present abolition for new policies in the context of cutting down tax avoidance devices. A firm statement that existing policyholders would not be affected would greatly diminish the political difficulties of abolition, though it would be necessary to devise a formula which avoided ruling out reductions in the rate of LAPR if and when the basic rate fell.

(g) a further discussion on share options would be necessary in the light of Inland Revenue advice now being considered by the Financial Secretary. /Action: FST/

(h) withdrawal of the foreign earnings and foreign emoluments deductions on the basis proposed should now be considered as strong runners for Budget '84.

(i) similarly the proposed reductions in stamp duty on share transfers and on land and buildings were confirmed (and a suggestion for the outright abolition of stamp duty on house purchase was dropped). In considering how to present the reductions, Ministers would wish to see a note on the history of stamp duty /Action: Inland Revenue/

(j) on Capital Transfer Tax, the proposed reduction in the top rate to 60 per cent would be appropriate. The CTT thresholds - and the CGT threshold - should also be indexed, and it would be appropriate to make life time rates of CTT one half of the death rate throughout the whole scale.

(k) on Corporation Tax, it might still be appropriate to reduce the main rate from 52 per cent to 45 per cent over the two years 1984-85 and 1985-86 even though further work had shown that this would more than offset the abolition of stock relief and reduction in Capital Allowances. An analysis of the effect of bringing the building society rate in line with the main rate at 45 per cent was commissioned. /Action: Mr Monger/IR/. For the small companies rate, an immediate reduction from 38 per cent to 30 per cent would be politically attractive, given that the smaller companies would be particularly hard hit by stock relief abolition and the capital allowance package. It was however noted that small company lobbies would campaign for a further concession in Budget '85, and that a change in the relative attraction of incorporation could affect various professions. Papers were commissioned on (i) the effect of the whole corporation tax package on different types of company /Action: Mr Monck/ and (ii) the effects - including the effect on incorporation - of a 1984-85 reduction in the small companies rate to 35 per cent or 30 per cent. /Action: Mr Monger/IR/.

(l) on NIS, the Budget arithmetic should now provisionally assume abolition from 1 August 1984 (though the options of 1 October 1984 and 1 January 1985 need not be absolutely ruled out at this stage).

(m) the proposed action on the minor personal allowances - DRA etc - could be dropped.

(n) the Budget speech would have to announce the continuation of the loan guarantee scheme. If any tightening were thought necessary, that might be politically feasible: but termination was not an option, politically. Advice was commissioned. /Action: Mr Monck/.

(o) the option of a time-limited reduction in the rate of DLT was considered but rejected. It was agreed that the threshold should rise to £60,000, and it was suggested that some non-time-limited reduction in the rate (because the corporation tax rate was falling) might deserve consideration. A note on the case for and cost of reductions to 55 per cent or 50 per cent was commissioned. /Action: IR/

(p) the provisional decision (24 January) that car benefit scales should be increased only by 10 per cent was further discussed, and confirmed.

II Forecast

4. In a brief discussion of Mr Evans' report of 27 January it was noted that:-

(a) fiscal adjustments should in future internal papers, and papers for publication, be presented non-cumulatively;

(b) the Forecast assumed that the £2.75 billion Reserve would be fully spent;

(c) the increase shown (para 46) in expenditure on housing in 1983 was strikingly high. The figure should be checked: if it proved correct, full use of it should be made in public presentation.

(d) the scale of the discrepancies in the CSO's company sector statistics (paras 52 and 53) was remarkable, and the CSO should be encouraged to accelerate their investigations. It was however noted that the corporate sector as a whole did not seem short of liquid assets.

(e) the interest rate outlook (paras 91) was not unfavourable.

(f) the increase in Mo was expected to be only slightly below that of nominal GDP in the Forecast period; and

(g) the fact that M2 growth might rise to some 10 per cent in 1984-85 and 1985-86 reinforced the case for not attaching too much weight to M2 in the monetary target section of the MTFS.

5. The separate paper by Mr Shields on the public finances:-

(a) brought out very clearly the desirability of moving in future to April Budgets;

(b) suggested that the planning total could come under strain in 1986-87 for reasons which required a fuller explanation [Action: Mr Bailey/Sir T Burns]; and suggested that the threat to the 1986-87 Reserve was largely attributable to the low levels of local authority current expenditure assumed in the PEWP, which also merited further investigation. /Action: Mr Bailey/.

6. It was noted that the Forecast, subject of course to a considerable margin of error, was for non-cumulative fiscal adjustments of £1 billion and £4 billion in 1984-85 and 1985-86, assuming PSBRs of £8 billion in both years.

III MTFS

7. The meeting then considered the tables attached to Sir T Burns' minute of 27 January.

8. For the monetary targets, it was agreed that the 1984-85 targets for broad and narrow money should be 6/10 and 4/8 respectively. For the four later years, it was provisionally agreed that it might be appropriate for both target ranges to be wound down by 1 point per year. For narrow money, it was argued that a short plateau in the middle of the 5 year range might be appropriate, or that the band could be narrowed. It was noted that final decisions were not yet required.

9. On the PSBR, it was suggested that, in the light of the Forecast, the aim should be to announce a 1984-85 PSBR target of £7.5 billion, but, in order to retain a safety margin, and for reasons for monetary policy, in fact to plan internally for £7 billion. £7.5 billion would be shown as 2¼ per cent of GDP, and the appropriate figure for 1985-86 would be 2 per cent of GDP.

10. In a brief discussion of the appropriate MTFS PSBR figures for the later years, it was suggested that no further reduction below 2 per cent need be signalled, given that the peak of asset

sales would have been passed before the MTFS period elapsed. It was on the other hand noted that no further fall below 2 per cent might be seen as inconsistent with the ultimate aim of zero inflation; and that the debt/income ratio would start to rise. The Chancellor asked for further advice, incorporating foreign comparisons (of low PSBR/low inflation countries). /Action: Mr Cassell/.

J O KERR
1 February 1984

Distribution:

Those present
Mr Isaac: IR
Mr Green: IR
Mr Anson
Mr Norgrove
Ms Goodman

AGENDA

FROM: J O KERR
DATE: 2 FEBRUARY 1984

CH/EX Ref No B.84.35.

Copy No.23 of 23 Copies

PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Sir L Airey
Mr Fraser
Sir T Burns
Mr Littler
Mr Bailey
Mr Cassell
Mr Monck
Mr Battishill
Mr Evans
Mr Monger
Mr Odling-Smee
Mr Ridley
Mr Hall
Mr Lord
Mr Portillo

cc Mr Green) items i
Mr Beighton) and ii

BUDGET "OVERVIEW" MEETING: 11.00 AM, 7 FEBRUARY

The provisional agenda for the third "overview" is as follows:-

a. Effects on the Corporate Sector of PAS/NIS/CT proposals: Report to be circulated by Mr Monck (3 February).

b. Small companies CT Rate: Minutes by Mr Beighton and Mr Green (2 February).

c. ? [PSBR and] Budget "scorecard": revised version to be circulated by Mr Battishill (3 February).

d. Trailer for Next week's business: Excise Duties, structure + Rates (including the Booze, on which all your Ministers will want 4p worth.)

2. Private Secretaries will wish to ensure that their Ministers see the four papers in good time.

3. Copy addressees are invited to attend for the items shown.

JOK.

J O KERR

CONFIDENTIAL

B(84)143

PCC(84) 6TH MEETING

BUDGET - SECRET

~~MCM~~
~~JS~~
D.

HER MAJESTY'S TREASURY

POLICY CO-ORDINATING COMMITTEE

Minutes of a meeting held at 9.30 am on Tuesday, 14 February 1984
in Sir Peter Middleton's room, HM Treasury

PRESENT

Sir Peter Middleton
Sir Terence Burns
Mr Bailey
Mr Anson
Mr Byatt
Mr Cassell
Mr Kemp
Mr Monck
Mr Unwin
Mr Battishill
Mr Hall

SECRETARIES

Mr Norgrove
Mr Williams

ALSO PRESENT

Mr Monger

CONTENTS

CURRENT DEVELOPMENTS

1. Mr Bailey noted that the Public Expenditure White Paper would be published at noon on 16 February. There would probably be a Parliamentary debate on the White Paper before the Budget.

2. It was noted that Mr Anson's review of the main demand led programmes was complete. Sir Peter Middleton said he would be holding a meeting shortly before submitting the report, along with Mr Norgrove's earlier note on the improvements made to PSBR monitoring and forecasting, to Treasury Ministers. Sir Peter Middleton also noted that there was a need to consider the case for some greater consistency and reconciliation between the various forms of accounts used in Government. The Accountancy Adviser to the Treasury, when appointed, would have an important input to make to this consideration.

3. Mr Cassell reported that his discussions with Mr Higgins on 13 January had focussed exclusively on negative EFLs. There had been no reference to the economic treatment of asset sales. Mr Cassell also reported on the recent decline in the US market. US market behaviour was difficult to predict and characterised by uncertainties. This uncertainty had affected the launch of the new gilt on 8 February. Applications had been very disappointing.

4. Mr Kemp drew attention to the helpful judgement in the recent IRSF court case.

II FOURTH BUDGET SCORE CARD

This section of the minutes is being given a restricted circulation.

BUDGET - SECRET

5. Sir Peter Middleton reported that:

(i) The Chancellor was allocating responsibilities for the various Budget measures among the junior Ministers. An announcement of this distribution would be made during the week.

(ii) A draft outline of the Budget speech had been circulated within the Treasury and contributions to it sought.

(iii) The Chancellor would be discussing the Budget measures with Lord Cockfield shortly and before consulting the Prime Minister.

(iv) The 9 February Economic Cabinet had agreed to the broad shape of the Budget and to roll the MTFS forward for a further two year period. The Green Paper on longer term finances as proposed by the Chief Secretary had also been agreed without the need for a further reference back to Cabinet.

6. In discussion, Sir Peter Middleton emphasised the need to co-ordinate the preparation of the MTFS and the Green Paper on longer term finances. The statistics and assumptions underlying both exercises must be comparable and consistent. Mr Cassell noted that the presentation in the Green Paper of the company taxation package and particularly the presentation of the relationship between the corporation tax measures and the fiscal adjustment in the years beyond the MTFS were crucial. Mr Bailey pointed to some potential timetabling difficulties. The Green Paper was scheduled to be with the printers in very early March when the Budget and decisions about presentation could still be subject to some amendment.

7. Sir Terence Burns said, subject to the Chancellor's agreement to the MTFS figures submitted on 10 February,

the ranges would be extended beyond the MTFS to include the Green Paper period firstly on a basis including all three stages of the corporation tax package and secondly on the basis that only stage 1 of the package was included. These profiles should have been completed by the end of the week. It was suggested that these ranges might be considered at the Chancellor's overview meeting on 21 February.

8. Mr Kemp asked about the assumptions about pay to be made in the Green Paper on longer term finances. Sir Terence Burns said there were no explicit assumptions about movements in pay or in unemployment levels since the Green Paper analysis was purely in cost terms.

9. In the subsequent discussion, PCC members were invited to comment on the Budget packages attached to the fourth Budget score card. The following were among the main points made:

(i) The abolition of PAS would be a difficult measure to present but generated the revenue necessary to reconcile the packages. The distributional consequences of the abolition of PAS, and IIS, would be a particular presentational difficulty.

(ii) The proposed credit licence duty was cumbersome in its present form and could require additional manpower to administer.

(iii) An announcement of an increase in child benefit to coincide with the Budget could ease presentation.

(iv) The extension of the VAT base to construction could have significant consequences on the industry.

(v) The Government would probably be expected to explain why other distortions in the tax structure, such as the tax treatment of commercial buildings and mortgage interest rate relief, had not also been addressed in this Budget.

HM Treasury
15 February 1984

CH/EX REF NO B(84)153

FROM: J O KERR

DATE: 16 February 1984

PS/CHIEF SECRETARY
PS/FINANCIAL SECRETARY
PS/MINISTER OF STATE
PS/ECONOMIC SECRETARY
SIR P MIDDLETON
SIR L AIREY
MR FRASER
SIR T BURNS
MR LITTLER
MR BAILEY
MR CASSELL
MR MONCK
MR BATTISHILL
MR EVANS
MR MONGER
MR ODLING-SMEE
MR RIDLEY
MR HALL
MR LORD
MR PORTILLO

cc Mr Green: IR) item i
Mr Lankester)
Mr Scholar)

Mr Isaac: IR) item ii
Mr Blythe: IR)

Mr Isaac: IR) item iii
Mr Houghton: IR)

NB CT package

Also: Gower's review also on a non-taxation basis

NB also Fowler's amendments (& terms??)

Green Paper
Enterprise Allowance
Review of CGT

BUDGET "OVERVIEW" MEETING: 11.00 am, 21 FEBRUARY:
PROVISIONAL AGENDA

The provisional agenda for the 5th overview is as follows:-

(a) Long Term Fiscal Prospects: minute to be circulated by Mr Odling-Smee (17 February). Mr Odling-Smee's minute of 10 February on the MTFS, and Mr Beighton's of 9 February on the Finance Bill handling of the corporation tax package, are also relevant.

opposite

(b) Personal Tax Options, and distributional implications: minute of 16 February by Mr Blythe. (Mr Monger's minute on unemployment and the poverty trap, to be circulated on 17 February, is also relevant.)

opposite

(c) Capital Taxes: minute of 16 February from Mr Houghton on CGT, and further note (also of 16 February) from Mr Houghton of all CGT/CTT/DLT proposed changes.

opposite

Separate folder

(d) Budget "Score-Card": revised version to be circulated (17 February) by Mr Battishill.

2. Private Secretaries will wish to ensure that their Ministers see the relevant papers in good time.

3. Copy addressees are invited to attend for the items shown.

J O KERR

cc CST
EST
FST
MST
Sir P. Middleton
Mr Cassell
Mr Monger
Mr Battishill
Mr Griffiths
Mr Lord
Mr Wilmott/C&E

Ch/Ex Ref No. B(84)162

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

I owe you a report on the changes in the excise duties which I envisage for the Budget.

2. I am sure that it is right to aim at broad revalorisation: this is what people have come to expect, and the RPI impact effect is small, given low inflation. But I propose a number of minor exceptions.

3. The most politically sensitive items are of course petrol and derv. For petrol, I have in mind an increase of 4.5p a gallon, exactly what is required by revalorisation, but on derv I propose an increase of only 3.5p a gallon, which is a slight rounding down of the strict revalorisation increase (3.8p). I have consulted Nick Ridley, Peter Walker, George Younger, Nick Edwards, and John Wakeham: all are content, with my plans. (But I might of course still have to review them again if our forecast or the outlook for crude oil prices, were to change significantly before the Budget.)

Ch/Ex 16/2

EXCISE DUTIES

4. As to tobacco, I have in mind an increase of 4p for 20 cigarettes. This is a rounding up of the straight revalorisation increase of 3.5p. As a minor concession, sought by Jim Prior, because of the industrial implications in Northern Ireland, there would be no increase in the duty on pipe tobacco.

5. On the Vehicle Excise duty, straight revalorisation of the £85 rate for cars and light vans would produce £89.50, but

Nick Ridley and I have agreed that this should be rounded up to £90. We have also agreed changes in VED on goods vehicles which will produce very slightly (£3m) more than revalorisation. The duty for most goods vehicles will in fact rise broadly in line with revalorisation but there will be reductions for the lightest lorries offset by higher increases for some heavier lorries, to recognise their differing contribution to road costs.

6. Finally, drinks. After consultation with Geoffrey Howe about the recent European Court judgement, I propose an increase in the duty on beer of 2p a pint, and a reduction in the duty on wine of about 18p a bottle. Following the unsatisfactory talks which Michael Jopling and I had in Rome with our Italian counterparts over the Italian foot-dragging on the implementation of the analogous European Court judgement against their discrimination against Scotch whisky, I am in touch with Geoffrey Howe about the possibility of a temporary surcharge on vermouth, to put pressure on them. On other drinks, I have in mind an increase of 10p a bottle for spirits - well below revalorisation - 10p a bottle for fortified wines, and 3p a pint for cider.

7. I have in mind one other small concession: abolition, at a cost of only £5m, of the 1p a gallon duty on kerosene, which applies to paraffin used, mainly by the elderly, for home heating.

8. Altogether these increases will yield about £660m in a full year, compared to £640m from strict revalorisation. The RPI impact effect will be only 0.4 per cent, and this has of course already been allowed for in our forecast.

9. I see no serious problems here, but I would be grateful to know whether you too would be content with the proposed changes. I would of course consult you again if I had to consider larger increases for petrol and derv; and I shall let you know in due course what conclusions Geoffrey and I reach about vermouth.

NL

N.L.
16 February 1984

Ch/Ex Ref No B(84) 163

cc PS/FST
Sir P. Middleton
Mr Monck
Mr Cassell
Mr Battishill
Mr Monger.

Treasury Chambers. Parliament Street. SWIP 3AG
01-233 3000

PRIME MINISTER

REFORMING BUSINESS TAXES

In the last Parliament our major achievement was bringing down inflation. It was accompanied by some valuable changes in the structure of personal taxation. But we could do little to bring about the radical structural reform of the present complex and unsatisfactory system of business taxation which we are agreed is long overdue. We now have a rare opportunity. The economic prospect is favourable, with output, liquidity, profits and investment all rising. The first Budget after the election is the right time to launch this reform.

2. My basic aims are to reduce distortions, entrenched in the present tax system, between different types of asset, different forms of finance, and the cost of labour and capital; to widen the tax base and simplify the system; and to lighten the tax burden on business in the next two years and ensure a progressive alleviation thereafter. The reforms will benefit business and the economy as a whole by improving the quality of investment, and by taking less from business profits. At the same time we shall sweep away a host of complex special provisions.

3. The overall package will have three main elements - reforming Corporation Tax; abolishing NIS (which you have called "Labour's pernicious tax on jobs"); and speeding up the payment of VAT on imports. The cash flow effect in the next two years is summarised in Table 1 (annexed).

Corporation Tax

4. This major structural reform will be staged over several years.

It will accompany the further lowering of inflation and inflationary expectations indicated by the MTFS. Stock relief, which was introduced as a rough-and-ready means of coping with high rates of inflation, will be abolished immediately. First year capital allowances, which discriminate heavily in favour of plant, machinery, vehicles and industrial buildings, irrespective of the profitability of the investment, will be phased out, and the Corporation Tax rate will come down in parallel from 52 per cent to about 35 per cent (see Table 2 annexed). This will also greatly reduce the undesirable discrimination in the present system in favour of loan finance and against equity finance. The Corporation Tax rate for small companies will come down in one single step from 38 per cent to 30 per cent. So that business can plan ahead, I intend to announce all stages for allowances and rates in the 1984 Budget, though I have not yet decided how much to put in this year's Finance Bill.

5. These changes will:

a. improve the quality of investment. On average a slightly higher pre-tax yield will be required to achieve a given after-tax yield on new investment, and at the margin projects with a low-tax yield will not go ahead; but there will still be some tax assistance for most investment that gets it now. Projects not at present assisted, like commercial buildings, will show a better post-tax yield;

b. reduce the total tax take from companies over the next two years and also in the long run when the revenue gains from reducing capital allowances run out but the benefits of low corporation tax rates continue.

6. These fundamental changes will provide large overall benefits for companies. But there will inevitably be some losers as well as gainers. Tax exhausted companies will not gain from the CT package and some will lose, as will unincorporated businesses which choose not to incorporate; but both these categories will gain from NIS

(see below). Critics of the CT package will claim that it will reduce the quantity of new investment, particularly in manufacturing whose investment is dominated by plant and machinery. But we expect that in reality a considerable amount of investment will be brought forward in the next two years to benefit from the remaining capital allowances. More important, the quality of investment will be raised. Some inward investment may be encouraged by a lower CT rate, while others will be discouraged by the phasing out of allowances which will make leasing finance more expensive. This poses some problems for Nissan, as Norman Tebbit has pointed out, and we shall need to examine that separately. (It is, of course, the present scale of leasing that enables the banks to pay so little by way of Corporation Tax.)

National Insurance Surcharge

7. The abolition of NIS from 1 August is necessary to help sell the CT package by sharply reducing the number of losers. We are in any event already committed to abolition in this Parliament. It was the CBI's first priority and will bring a continuing benefit to all employers, whatever their tax position. Coupled with the Corporation Tax changes, it will also reduce the present tax bias in favour of investment in capital rather than labour, and should thus at the margin help create new jobs.

Speeding up payment of VAT on imports

8. The UK allows postponed payment, unlike most other major EEC countries. Some manufacturers have asked for this to be ended to help them compete with imports, although others will dislike the cash flow impact or its interest cost. But the once and for all revenue gain from ending it is large. I need it to reconcile bringing forward the ending of NIS to this year with the sharp reduction in the PSBR which we must make in this Budget if we are to maintain downward pressure on inflation and interest rates.

Overall effects

9. The summary table shows that there is a cash flow loss to business in 1984/85 (due to PAS) and a considerably larger cash flow gain in 1985/86. I shall of course present the two years together. On a wider basis, including other tax changes directly affecting business, and scoring PAS in terms of interest cost and not cash flow, business gains in each year - about £900 million in 1984/85 and £1500 million in 1985/86. With a neutral Budget in 1984 and a large fiscal adjustment in prospect for 1985, this leaves room for desirable changes in personal taxation, provided we keep public expenditure flat. That will also be necessary in the longer term to keep CT rates low when the temporary revenue gains from ending capital allowances are running out, a point that fits well with the paper on long-term public expenditure.

Conclusion

10. I have discussed the package with Norman Tebbit and Arthur Cockfield, and the EEC aspects of speeding up VAT payments on imports with Geoffrey Howe. They are generally content. I am sure we should now seize the opportunity to launch this major structural reform of business taxation.

11. I will be letting you have a note on the Budget as a whole next week.

N.L.
16 February 1984

TABLE 1 BUDGET SECRET ANNEX

SUMMARY EFFECTS OF MAIN CHANGES IN BUSINESS TAXATION

Revenue £ million (cost (-)/yield (+))

	1984-85 -	1984-85 +	1985-86 -	1985-86 +
1. Corporation tax reform**				
- abolish stock relief and reduce first year capital allowances; offset by				750
- reduce main CT rate to 50% in 1984/85 and to 45% in 1985/86; and	200		1050	
- reduce small profits CT rate to 30% in 1984/85	80		150	
2. Abolish NIS from 1 August 1984	465		925	
3. Withdraw postponed accounting system (PAS) for VAT on imports*		1200*		
	+455		-1375	

Notes

* Represents once-for-all acceleration in the VAT paid on imports.

** First stage of phased programme. The 1985-86 yield assumes, for capital expenditure incurred after Budget Day, first year allowances are reduced from 100% to 75% for plant and machinery; from 75% to 50% for industrial buildings; and that stock relief is abolished. Later stages are set out in Table 2.

TABLE 2

STAGES OF THE CORPORATION TAX REFORM

	Stock Relief	First year capital allowances for: Plant, Machinery, Vehicles %	First year capital allowances for: Industrial Buildings %	CT Rate
1984/85	-			50%
1985/86	Abolition	75	50	45%
1986/87		50	25	about 40%
1987/88		25 WDA	4 WDA	about 35%

The table sets out the years in which cash flow would first be affected by each measure if all the stages were implemented in the next three budgets. For example the first reduction in capital allowances and the loss of stock of relief apply in 1984/85 but affect cash flow in 1985/86.

Ch/Ex Ref. No. B(84)176

FROM: J O KERR
DATE: 17 February 1984

MR BATTISHILL

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Monger
Mr Lankester

BUDGET: MINUTES TO THE PRIME MINISTER

You will have seen the business tax and excise duty minutes which went to No 10 yesterday. The Chancellor would be grateful if you could let him have drafts of two similar minutes for next week: covering:-

a. the main "MTFS" issues - i.e. the period to be covered, the monetary ranges, and the PSBR and fiscal adjustment figures; and

b. savings and investment, and the indirect/direct tax switch.

(b) should cover a - slightly simplified - scorecard on the Budget as a whole (referring back of course to this week's two minutes on the issues which will not be covered substantively in next week's).

2. You have kindly agreed to let the Chancellor see drafts on Monday night; with a view to their finalisation after the overview on Tuesday, and despatch to No 10 before the Chancellor's meeting with the Prime Minister on Wednesday.

JOK

J O KERR

S

BUDGET SECRET

CH/EX REF NO B(84)216

jobs tax 3½% = 3p off basic rate.

Undisclosed copies:

Sir P Middleton
Sir T Burns
Mr Cassell
Mr Battishill

PRIME MINISTER

MEDIUM TERM FINANCIAL STRATEGY

The key to sustained recovery remains keeping inflation down, which in turn means further firm control of money supply growth, and of borrowing. So I plan to emphasise on 13 March the continuity of our economic policies, and to restate the Medium Term Financial Strategy, which, as Cabinet agreed on 9 February, will be extended to cover the next five years.

Ch/Ex 20/2

MTFS

2. I shall of course be announcing monetary ranges for 1984-85. As you know, I have reviewed the formulation of monetary policy, and the results were foreshadowed in my Mansion House speech in October. I am sure that it is right now to have separate targets, consistent with a continuing reduction in inflation, for broad and narrow money, and the MTFS will therefore show ranges for £M3 and MO. There is no reason to change the range of 6-10 per cent for £M3 shown for 1984/85 in the 1983 MTFS. For MO (mainly notes and coin in the hands of the public) a range of 4-8 per cent would be appropriate. I envisage a subordinate role for PSL2 and M2 as cross checks on growth of broad and narrow money respectively. These changes were discussed with Alan Walters when he was last over; he was very much in favour of the new range for narrow money. For later years the MTFS will include illustrative ranges showing a downward path for both money measures, and making clear our determination to achieve a substantial reduction in monetary growth, taking us towards the ultimate objective of stable prices.

3. The monetary targets need of course to be supported by a consistent policy for public borrowing. The 1983 MTFS suggested a PSBR for 1984-85 of 2½ per cent of GDP, or £8 billion. As you know, I believe it would be right, for three reasons, to aim a little below this:-

(a) First, interest rates are still high both in nominal and in real terms. Lower public borrowing will ease the domestic sources of pressure on our interest rates, and insulate us to some extent against possible disturbances arising from uncertainties about the outcome of United States policies.

(b) Secondly, special sales of assets may bring in some £2 billion next year, or nearly £½ billion more than was assumed at the time of the 1983 Budget. The monetary benefit from this form of reducing expenditure is smaller than from other forms, and we must allow for this in settling the size of the PSBR.

(c) Thirdly, 1984-85 may be the peak year for North Sea revenue, and therefore ought to be a year in which to make a substantial reduction in borrowing: thereafter the PSBR would need to decline only very gradually.

I have of course taken full account of the views expressed in Cabinet on 9 February, and I shall not take a final decision until the latest revisions to the forecasts are available. But my present intention is to publish a figure of 2¼ per cent of GDP, or some £7-7½ billion. The reduction on the 1983 Red Book figure would demonstrate that we had taken account of the three factors mentioned above. Publishing £7-7½ billion would put borrowing firmly back on track after the likely PSBR overshoot this year. And the latest forecast suggests that it would be consistent with the neutral Budget I envisage, and would still leave us a safety margin in hand, which we both think important.

4. The MTFS would show an illustrative path for the PSBR declining further to 1¾ per cent of GDP in 1988-89, with room for cutting taxation next year and over the remainder of the life of this Parliament - provided of course that firm control is on public spending is retained. The path shown in the MTFS will of course be consistent with the assumptions to be used in the Green Paper on expenditure and revenue in the longer term.

If any of the numbers mentioned above cause you any concern, I should of course be happy to discuss them.

N.L.

20 February 1984

Ch/6 21/2

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

cc. Sir P. Middleton
Mr Battishill.

PRIME MINISTER

BUDGET: TAX REFORM

You already have my Budget proposals on the MTFS, on the Excise Duties, and on the reform of Business taxation. This minute covers my remaining tax proposals, and in particular the two further areas in which I envisage major reform, ie changes in the balance of taxation on income and on expenditure, and changes in the area of savings and investment to increase the role of individuals.

Shifting the balance

2. I am sure it is right to shift when and where we can to taxing spending rather than earning. It is not simply a matter of increasing individual freedom to spend or save: only by cutting income tax can we tackle the poverty and unemployment traps, and maintain the momentum of improving incentives.

3. I do not believe that the right route is a further increase in the VAT rate; my preference is for widening the VAT base, which at present covers little more than half of consumers' expenditure. As you know, there are three areas where I believe we can, and should, extend the base. These are:-

(a) newspapers, periodicals, newspaper advertisements and news services. There is no case on merit for leaving these untaxed. Nor, in logic, is there a case for not applying VAT to books, but I have decided against bringing them in.

(b) building alterations and extensions. The present position, with necessary maintenance and repairs attracting VAT, but alterations and extensions not doing so, is manifestly absurd.

(c) hot take-away food. By this I mean hamburgers and other fast food products, fish and chips, Chinese take-away meals etc. It makes no sense that the fast food restaurants now have two price-lists, one including VAT for those who will do their eating on the premises, another, without VAT, for those who carry their purchases away. VAT is, of course, already levied on ice-cream, confectionery, chocolate, crisps etc.

These changes will raise an extra £600 million or so next year, and over £1 billion in 1985-86 - £340 230 million on newspapers etc, £490 250 million on alterations, and £220 130 million on take-away food. The effect on the RPI will be less than one-half of one per cent, so there is no threat to the counter inflation policy: inflation this year is still expected to be on a declining path.

4. In addition, as a surrogate for VAT - which the EC rules do not allow us to apply to financial services - I envisage a new licence duty on consumer and other forms of personal credit. An effective system of taxing the banks is long overdue. The new duty would be charged on a six monthly basis on outstanding credit issued, but would not be applied to loans made to businesses or to mortgages qualifying for income tax relief. I envisage a rate of 1 per cent. To allow time for preparation, it would apply only from July 1985, raising some £90 million in 1985-86, and some £200 million in a full year.

5. Given the extra money from VAT, it is already clear that, within the context of a neutral Budget, I can this year increase the single income tax allowance by £200 and the married allowance by £300. That is an 11 per cent increase, slightly more than double the amount required by indexation, and will particularly help the low paid. I am considering whether there is any way in which I could go a little further, in order to ensure that every married couple paying income tax gains - NIC apart - by at least £2 a week. There would be considerable attractions in that. The higher rate threshold, and the higher rate bands, would be fully revalorised but no more, as would the age allowance. (The higher paid of course get the largest cash gains from raising the allowances).

6. I should also mention that I have decided to sweep away two small out-dated reliefs: the relief on foreign earnings for those who spend 30 days or more working abroad, and (with suitable staging) the relief for foreigners coming here to work for foreign employers. Both date from the days of confiscatory top rates of income tax and have outlived their justification, and both are subject to substantial abuse. I must

also announce the 1985-86 car benefit scales for those who have company cars. We have been slowly increasing these to more realistic levels in recent Budgets. The increase last year was 15 per cent, but, with lower inflation, I plan to hold it to 10 per cent this time.

7. I also propose to make the tax treatment of executive share option schemes markedly more generous, along the lines we discussed before Christmas. The essence of my proposals is that gains under such schemes would in future be subject to Capital Gains Tax rather than (as at present) to income tax. This improvement, which has long been pressed upon us, will be widely welcomed, especially by smaller companies, who will now be able to attract key staff by the promise of substantial rewards.

8. The overall effect of this shift in the balance of direct and indirect taxation should be generally welcome. We have good news for the building trade, eg on Stamp Duty (para 12 below) and DLT (the threshold for which I envisage raising from £50,000 to £75,000, thus reducing by a third the number of cases it affects), and this will cushion the blow of VAT alterations. But I have no illusions about Fleet Street's likely reaction to the change affecting them. It may indeed colour their attitude to the whole Budget, but I am sure that it is right, and should not be ducked on that account.

Savings and investment

9. As you know, I believe that we must also make a start in removing some of the features of the tax system which distort the pattern of personal savings. I have three aims in mind:-

(a) to reduce the extensive privileges for institutional savings and make it more attractive for individuals to invest directly in equities;

(b) more generally, to increase the encouragement given to personal savings; and

(c) to put the banks and building societies on to a more equal footing.

10. First, I have reviewed the array of tax privileges which are putting more and more personal savings into the hands of the institutions and driving the direct investor out of equities. This is a classical case of reliefs and exemptions eroding the tax base and keeping income tax rates higher than they need be. It is something we have been concerned about for a very long time, and which our friends constantly urge us to tackle.

11. We cannot touch the tax treatment of pensions until Norman Fowler has completed his enquiry. But we can act now on life assurance premium relief. Relief from higher rates of tax was removed some years ago, but the allowance (at half the basic rate on qualifying premiums) still costs £700 million a year, is growing, and has been subject to considerable abuse in recent years. So I have concluded that the time has come to withdraw relief on new policies taken out after Budget Day. There is a strong case for gradually phasing out relief on existing policies as well; but to avoid any possibility of hardship, I propose to leave these completely untouched.

12. At the same time I propose to encourage investment in equities by halving the rate of Stamp Duty from 2 per cent to 1 per cent, which will help to strengthen the London market against growing US competition. I intend the cut also to apply to sales of houses and land, which will help housebuyers and the construction industry, and to raise the stamp duty threshold from £25,000 to £30,000, which will mean that 90 per cent of first-time buyers will not have to pay Stamp Duty at all.

13. Secondly, direct encouragement to personal savings. I see no justification whatsoever for continuing to tax savings income more heavily than earnings, and I propose to abolish the Investment Income Surcharge. Of course, our opponents will represent this as a hand-out to the rich; but half those liable to the surcharge are elderly, and many are by no means well-off. And the criticism is one which we shall have to face whenever we remove the surcharge - as we certainly must. I think it best to do it straight away, in the first Budget of the new Parliament.

14. In a broadly neutral Budget, I do not have room for substantial cuts in the capital taxes: we shall in any case be reviewing them, with Arthur Cockfield's help, before next year. But there are some small but useful changes which can be made now at modest cost. In particular, I have in mind to cut the top rate of capital transfer tax from 75 per cent to 60 per cent.

15. Finally, the banks and building societies. The banks have long complained of the unfair advantage enjoyed by the building societies by virtue of the composite rate, and campaigned for its abolition. But the composite rate is a sensible arrangement which simplifies tax return-filling, and saves large numbers of Revenue staff. So instead of taking it away from the building societies, I propose instead to extend it to the banks as well. This will eventually save 750-1000 Revenue staff, and demonstrates our willingness to encourage the movement towards interest on current accounts. The banks have been informed and don't like it; but their case is weakened by their having for so long complained that the composite rate gave the societies a competitive edge. And the fact that the new arrangements will not apply to deposits by foreign residents (or, of course, businesses) will help to meet fears of loss of overseas business. The banks will need a year to prepare: the new arrangements will not therefore apply until 1985-86.

16. The banks may to some extent be mollified by the fact that building society gains on gilts transactions will, as you know, be taxed in future on the same basis as gains by the banks. But it must be admitted that the effect of the composite rate on the banks may well be to cause upwards of £1 billion of bank deposits to be switched to the building societies in 1985-86, and we can expect them to object strongly to the change.

Summary

17. I enclose a table setting out all the main measures proposed (with the exception of North Sea taxation, for I still have to discuss with Peter Walker some possible ACT changes). The net effect is roughly neutral in 1984-85, but they reduce taxes by about £1.5 billion in 1985-86. Most of the extra second year benefit goes to business, but provided we stick to our published plans for public expenditure, the 1985-86 fiscal prospect still leaves room for substantial income tax cuts in next year's Budget.

18. The measures proposed for this year will mean we make a real start on reforming the tax system and getting the supply performance of the economy moving. There will be gainers and losers, as is inevitable in any radical change, and it will be vital to get the presentation right. But the story will be a good one, and I am determined that it should be well told.

N.L.

21 February 1984

BUDGET SECRET

Provisional Costing of Proposed Changes

		1984-85 −	1984-85 +	1985-86 −	1985-86 +
		£m*			
A	**Income and Spending**				
1.	Excise duties (see 16 February minute)		10		10
2.	VAT on newspapers etc; alterations; hot take-away food		610		1050
3.	Consumer Credit Duty				90
4.	Withdraw reliefs on foreign earnings and foreign emoluments		42		65
5.	Car benefit scales for 1985-86				30
6.	Income tax thresholds etc**	700		860	
B	**Businesses** (see 16 February minute)				
7.	Corporation tax reform				
	- abolish stock relief and reduce first year capital allowances				750
	- offset by reducing main CT rate to 50 per cent in 1984-85 and to 45 per cent in 1985-86	200		1050	
	- and small companies CT rate to 30 per cent	80		150	
8.	VAT on imports (PAS)		1200		
9.	Abolish NIS from 1 August 1984	465		925	
C	**Savings and Investment**				
10.	Composite Rate on banks		neg		neg
11.	Life Assurance relief		90		240
12.	Halve Stamp Duty on share transfers	160		155	
13.	Halve Stamp Duty on land and buildings	290		360	
14.	Improve Share Options schemes			30	
15.	Capital Taxes				
	- CTT changes	3		7	
	- DLT threshold	1		5	
16.	Abolish IIS	25		210	

*All figures are over and above the cost/yield from indexation

**Assumes double-indexation of basic threshold

BOX

CH/EX REF NO B(84)231

COPY NO 31 OF 34 COPIES

RECORD OF THE ~~FIFTH~~ SIXTH BUDGET OVERVIEW MEETING: 11AM 28 FEBRUARY 1984

Present:

Chancellor	Mr Littler ~~Mr Littler~~	~~Mr Lankester~~ ~~Mr Monger~~ Mr Monger Mr Odling-Smee
Chief Secretary Financial Secretary	Mr Bailey	~~Mr Scholar (item i)~~
Minister of State	Mr Green (IR)	~~Mr Blythe: IR (item ii)~~
Economic Secretary	Mr Isaac (IR) Mr Cassell	~~Mr Houghton: IR (item iii)~~
Sir P Middleton	Mr Monck	Mr Ridley
Sir T Burns	Mr Battishill	Mr Lord
Sir L Airey (IR)	Mr Evans	Mr Hall Mr R I G Allen
Mr Fraser (C&E)	~~Mr Monger~~ Mr Lankester	Mr Portillo Mr Folger
~~Mr Littler~~	~~Mr Monger~~	Mr Norgrove.

Papers:

~~(a) Long Term Fiscal Prospects: minute by Mr Odling-Smee (17 February).~~

~~(b) Personal Tax Options: minute by Mr Blythe (16 February).~~

~~(c) Capital Taxes: two minutes by Mr Houghton (16 February).~~

(d) Budget "score-card": minute by Mr Battishill (24 February).

I LONG TERM FISCAL PROSPECTS, AND THE CORPORATION TAX PACKAGE

1. The Chancellor reported that he and the Financial Secretary had concluded that the right answer to the questions about the Finance Bill handling of the corporation tax package, raised in Mr Beighton's minute of 9 February, would be to include in the 1984 Finance Bill the full 4 year programme for reductions in CT rates and capital allowances. The rate reduction would be 50/45/40/35, rather than - as previously suggested - 50/45/37/33. It was noted that the picture of long term fiscal prospects presented in Mr Odling-Smee's minute of 17 February was generally acceptable, and would improve when the numbers were re-worked to take account of CT rate reductions only to 35 per cent. The point was made that, with the CT yield currently low for cyclical reasons, the revenue neutrality which the CT/capital allowances package offered was in fact very attractive to the corporate sector. Some investment might be brought

forward by the announcement of the running down of capital allowances, but it was thought unlikely that any would be brought forward by more than 12 months.

2. It was agreed that the Finance Bill treatment of the CT/capital allowances package should be as proposed by the Chancellor and the Financial Secretary. It should be reflected in the revision of the draft Budget speech /Action: Inland Revenue/ and in the re-working of the long term fiscal prospects numbers /Action: Mr Odling-Smee/.

3. Attention was drawn to the £4.8 billion positive fiscal adjustment shown for 1986-87 in the annex to Mr Odling-Smee's minute of 10 February. It would be more prudent to show for 1986-87 a fiscal adjustment more in line with the numbers for 1985-86, 1987-88 and 1988-89, ie closer to £2 billion. It was suggested that one solution would be to change the personal taxation indexation assumption throughout, moving from indexation to prices to indexation to earnings. But it was thought more appropriate to devise a solution particular to 1986-87. /Action: Mr Evans/Mr Odling-Smee/

II PERSONAL TAXATION

4. The meeting considered whether the higher rate threshold should be raised above indexation; whether the age allowance should be raised above indexation; or whether action above indexation should be limited to the basic threshold.

5. The Chief Secretary, Financial Secretary, and Economic Secretary all argued that, given the abolition of IIS, action above indexation should be concentrated on the basic threshold. The time to rationalise the higher rate bands would be in Budget '85. Although those on incomes of over £9,000 derived no benefit from age allowance, over-indexation of it was less efficient than over-indexation of the basic threshold as a way of dealing with poverty. While the basic threshold

could not in Budget '84 be raised sufficiently to make a major impact on the poverty trap, some movement straightaway was highly desirable.

6. The Chancellor noted that the score-card suggested that an increase of more than double-indexation on the basic threshold might, on the score-card arithmetic, be consistent with overall revenue neutrality. It was suggested by Mr Isaac that raising the single person's allowance to £220 and the married man's to £350 would, at a cost (on top of option 3XA) of £191 million in 1984-85, have the effect of ensuring that every tax-paying married couple received a tax reduction of at least £2 per week. It was agreed that this would be an attractive option; and a note on it was commissioned.
/Action: Mr Isaac/

7. It was noted that the non-rentier middle manager did not stand to gain very much from the Budget, particularly if he had until now enjoyed relief on foreign earnings. It was however felt that the worsening of his position relative to those who would gain from IIS abolition was unavoidable, given the political impossibility of more than indexing the higher rate bands in a revenue-neutral Budget in which IIS was abolished. And it was noted that double-, or more than double-, indexation of the basic threshold would of course produce major cash gains for the higher paid.

8. It was accordingly agreed that:-

(a) the higher rate bands, age allowance, and the dependent relative allowance should simply be indexed; while

(b) the basic threshold should be raised as far as would be compatible with overall Budget revenue neutrality.

III CAPITAL TAXES

9. On capital transfer tax, the proposal to reduce the maximum rate to 60 per cent, eliminating the 75 per cent, 70 per cent and 65 per cent rate bands, received strong support. Additional proposals further to reduce the rates all down the scale, or to increase agricultural land relief or business relief, were considered, but rejected. It was accordingly agreed:-

(a) that the CTT maximum rate should be reduced to 60 per cent;

(b) that the life time scale should be one-half of the death rates; and

(c) that the threshold should be indexed, increasing from £60,000 to £64,000.

10. On development land tax, it was agreed that:-

(a) the rate should remain unchanged at 60 per cent; and

(b) the threshold should rise from £50,000 to £75,000.

11. On capital gains tax, an announcement of the forthcoming review might, it was suggested, be included in the Budget Speech. After discussion, this was however thought inappropriate, though it was noted that the next version of the draft Speech should include some indication of future plans for the tax. /Action: Inland Revenue/ It was noted that new corporate bonds would be exempt from CGT; and agreed that:-

(a) the CGT rate would be unchanged at 30 per cent; and

(b) the threshold would rise to £5,600.

CHANCELLOR OF THE EXCHEQUER

IV OVERALL BUDGET BALANCE

12. On the individual measures set out in the score-card:-

(a) it was agreed that the consumer credit duty would be so described, and would be introduced from 1 July 1985 (producing a reduced revenue gain of £90 million in 1985-86). The case for including building society mortgages not qualifying for mortgage interest relief was debated, and attention was drawn to possible political problems in the South-East. It was argued that the increased costs to the building societies would in fact be recouped on all mortgages, including those under £30,000, and it was agreed that this should be further explored. [Action: Mr Cassell] But the majority view was that, even if this proved the case, the political difficulties of counting against CCT second mortgages and the excess above £30,000 on first mortgages would be manageable, given that mortgage interest relief itself would be unaffected by the Budget. A note on the effect on the building societies of all the Budget measures relevant to them was commissioned. [Action: Mr Cassell]

(b) The proposed surcharge on vermouth would be further considered in the light of a report from Customs and Excise on consultations with the Law Officers, and with the FCO. [Action: Customs and Excise]

(c) The extension of the VAT base should be primary legislation (Mr Jefferson Smith's minute of 20 February). A decision on whether the 3 extensions need entail 3 separate Resolutions need not and should not be taken without consultation with the Whips, close to Budget Day. Resolutions should be drafted on both assumptions. [Action: Customs and Excise]

(d) Foreign earnings and foreign emoluments would be discussed at a separate meeting on 24 February, which all Ministers would attend. /Action: Private Office/

(e) The case for a further reduction to half per cent of the rate of stamp duty on share transfers was discussed. It was however noted that it would be difficult to have a larger deduction on shares than on land and buildings, and the decision was to hold to the plan to reduce both to 1 per cent.

(f) The proposal to raise the building societies CT rate to 45 per cent was further discussed. It was agreed that a much higher priority should be attached to the proposal to extend CCD coverage to non-qualifying mortgages; that the minor additional revenue in 1985-86 could easily be foregone; and that the argument for securing symmetry between banks and building societies at a CT rate of 45 per cent, rather than a year later at 40 per cent, was not particularly strong. It was decided that the measure should, subject to review, be dropped.

(g) On North Sea taxation, it was noted that the latest proposals, still to be discussed with Mr Walker, would produce additional ACT revenue of some £150 million in 1985-86. Further figures were requested. /Action: Inland Revenue/

(h) On Corporation Tax and stamp duty, references to the Green Papers should be included in the draft Budget Speech. Representations in response to the Corporation Tax Green Paper should be reviewed to establish whether GEC and others had in fact sought changes along the lines of those now envisaged. /Action: Inland Revenue/

13. It was noted that the list of measures, and the present draft of the Budget Speech, contained no concessions on "the heritage"; but that the Chancellor would be discussing with the Chief Secretary a possible minor public expenditure concession to Mr Jenkin on Calke Abbey; and that a concession of this kind would be preferable to a broader fiscal change.

V FUTURE BUSINESS

14. It was agreed that the main items for consideration on 28 February would be the draft presentation strategies on individual sections of the Budget to be submitted this week by the Chief Secretary, Financial Secretary, Minister of State, and Economic Secretary. /Action: Private Offices/

JOK

J O KERR

Distribution:

Those present
Mr Green: IR
Mr Anson
Mr Lankester (or)
Mr Pirie
Mr Norgrove
Ms Goodman

BUDGET SECRET

Copy No 29 of 30

(PUT)

CH/EX REF NO B(84) 254

FROM: J O KERR

DATE: 23 February 1984

MR ISAAC: INLAND REVENUE

cc Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Sir T Burns
Sir L Airey (IR)
Mr Fraser (C&E)
Mr Littler
Mr Bailey
Mr Green (IR)
Mr Cassell
Mr Monck
Mr Battishill
Mr Evans
Mr Monger
Mr Odling-Smee
Mr Scholar
Mr Blythe
Mr Houghton
Mr Anson
Mr Lankester
Mr Ridley
Mr Pirie
Mr Hall
Mr Portillo
Mr Norgrove
Ms Goodman

FIFTH BUDGET OVERVIEW MEETING: RECORD

I regret that there are two errors in my record of the 21 February overview.

2. First, paragraph 8 (a) wrongly refers to the dependent relative allowance, and should state that it was agreed that "the higher rate bands, age allowance, and the additional personal allowance should simply be indexed".

3. Secondly, the diligent reader may be puzzled by the discrepancy between the attendance list, which does not mention you though it does mention Mr Green, and paragraph 6, where suggestions by you are recorded. The explanation is of course that you were here in the flesh, while Mr Green was, as always, here in spirit.

JOK.

J O KERR

BUDGET CONFIDENTIAL

Pl collect the pps into 2 folders tonight — one for C/E, one for me.
JMe

copy no. 2 of 29

CH/EX REF NO B(84)259

FROM: J O KERR

DATE: 23 February 1984

PS/CHIEF SECRETARY
PS/FINANCIAL SECRETARY
PS/MINISTER OF STATE
PS/ECONOMIC SECRETARY
SIR P MIDDLETON
SIR L AIREY
MR FRASER
SIR T BURNS
MR LITTLER
MR BAILEY
MR CASSELL
MR MONCK
MR BATTISHILL
MR EVANS
MR MONGER
MR ODLING-SMEE
MR RIDLEY
MR HALL
MR LORD
MR PORTILLO

cc Mr Green: IR) both items
Mr Isaac: IR)
Mr Knox: C&E)
Mr Lankester)

Mr R I G Allen) item i
Mr Folger)

Presentation Meeting

BUDGET "OVERVIEW" MEETING: 11AM, 28 FEBRUARY: PROVISIONAL AGENDA

The provisional agenda for the 6th overview is as follows:-

(a) Budget Presentation Strategy: minutes to be circulated on 24 February by the Chief Secretary, Financial Secretary, Minister of State, and Economic Secretary, (my minute of 14 February to Sir Peter Middleton is also relevant); and minute of 24 February by Mr Hall on "Budget - Overall Presentation."

all 4 offices confirm they'll deliver tomorrow volunteered.

(b) Budget "Score-Card": revised version to be circulated (24 February) by Mr Battishill.

2. Private Secretaries will wish to ensure that their Ministers see the relevant papers in good time.

3. Copy addressees are invited to attend for the items shown.

JOK

J O KERR

BUDGET SECRET

Ch/Ex Ref No B(84)285

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

24 February 1984

Andrew Melville Esq
Private Secretary to the Secretary
of State
Department of Transport
2 Marsham Street
LONDON SW1

Dear Andrew,

I am writing to ask you to let me know if you are proposing to issue any press notices on Budget Day that are, or could be construed as, relevant to the Budget. I should be grateful for this information as soon as possible, and preferably by close on Wednesday, 29 February.

Yours ever

Judith

Miss J C Simpson
Private Secretary

BUDGET SECRET

BUDGET SECRET

Ch/Ex Ref No B(84) 286

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

24 February 1984

Brett Bonner Esq
Private Secretary to the Secretary
of State
Department of Employment
Caxton House
Tothill Street

Dear Brett,

I am writing to ask you to let me know if you are proposing to issue any press notices on Budget Day that are, or could be construed as, relevant to the Budget. I should be grateful for this information as soon as possible, and preferably by close on Wednesday, 29 February.

Yours ever,

Judith

Miss J C Simpson
Private Secretary

BUDGET SECRET

BUDGET SECRET

Ch/Ex Ref No B(84) 287

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

24 February 1984

Andrew Landsley Esq
Private Secretary to the Secretary of State
Department of Trade and Industry
1 Victoria Street
LONDON SW1

Dear Andrew,

I am writing to ask you to let me know if you are proposing to issue any press notices on Budget Day that are, or could be construed as, relevant to the Budget. I should be grateful for this information as soon as possible, and preferably by close on Wednesday, 29 February.

Yours ever

Miss J C Simpson
Private Secretary

BUDGET SECRET

BUDGET SECRET

Ch/Ex Ref No B(84)288

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

24 February 1984

Ellen Roberts
Private Secretary to the Secretary of State
Department of Health and Social Security
Alexander Fleming House
Elephant & Castle

Dear Ellen,

I am writing to ask you to let me know if you are proposing to issue any press notices on Budget Day that are, or could be construed as, relevant to the Budget. I should be grateful for this information as soon as possible, and preferably by close on Wednesday, 29 February.

Yours ever
Judith

MISS J C SIMPSON
Private Secretary

BUDGET SECRET

BUDGET SECRET

Ch/Ex Ref No B(84)289

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

24 February 1984

Alan Davis Esq
Private Secretary to the Secretary of State
Department of the Environment
2 Marsham Street
London SW1

Dear Alan,

I am writing to ask you to let me know if you are proposing to issue any press notices on Budget Day that are, or could be construed as, relevant to the Budget. I should be grateful for this information as soon as possible, and preferably by close on Wednesday, 29 February.

Yours ever,

Judith

MISS J C SIMPSON
Private Secretary

BUDGET SECRET

BUDGET SECRET

Ch/Ex Ref No B(84)290

Treasury Chambers, Parliament Street, SWIP 3AG
01-233 3000

24 February 1984

David Dawson Esq
Private Secretary to the Minister

Ministry of Agriculture, Fisheries and Food

Whitehall Place
London SW1

Dear David,

I am writing to ask you to let me know if you are proposing to issue any press notices on Budget Day that are, or could be construed as, relevant to the Budget. I should be grateful for this information as soon as possible, and preferably by close on Wednesday, 29 February.

Yours ever,

Judith

MISS J C SIMPSON
Private Secretary

BUDGET SECRET

(PW)

BUDGET SECRET

Ch/Ex Ref No B.(84).291..

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

24 February 1984

Michael Reidy Esq
Private Secretary to the Secretary of State
Department of Energy
Thames House South
Millbank

Dear Michael,

I am writing to ask you to let me know if you are proposing to issue any press notices on Budget Day that are, or could be construed as, relevant to the Budget. I should be grateful for this information as soon as possible, and preferably by close on Wednesday, 29 February.

Yours ever,

Judith

MISS J C SIMPSON
Private Secretary

BUDGET SECRET

Spare.

CH/EX REF NO B(84)367

COPY NO 33 OF 34 COPIES

RECORD OF THE SIXTH BUDGET OVERVIEW MEETING: 11AM 28 FEBRUARY 1984

Present:

Chancellor	Mr Littler	Mr Monger
Chief Secretary	Mr Bailey	Mr Odling-Smee
Financial Secretary	Mr Green (IR)	Mr Ridley
Minister of State	Mr Isaac (IR)	Mr Lord
Economic Secretary	Mr Cassell	Mr Hall
Sir P Middleton	Mr Monck	Mr R I G Allen
Sir T Burns	Mr Battishill	Mr Folger
Sir L Airey (IR)	Mr Evans	Mr Portillo
Mr Fraser (C&E)	Mr Lankester	Mr Norgrove
	Mr Knox (C & E)	

Paper:

Budget "score-card": minute by Mr Battishill (24 February)

I Individual Measures

A number of individual Budget measures were discussed.

2. VAT on imports. It was noted that a compromise CBI position might be to propose a change in PAS arrangements involving a reduction of the delay between entry and payment from 11 weeks to 30 days. Mr Fraser explained that the Customs and Excise proposal - para 13 of Mr Jefferson Smith's minute of 24 February - would, by aligning VAT with duty payments, have the effect of introducing an average 4-week delay. Any other system would involve greater administrative complication and difficulty for importers. It was noted that Customs and Excise were seeking a formal and quotable opinion from the Law Officers on the illegality of differential arrangements for raw materials. It was agreed that the Budget Speech, and subsequent presentation, should stress (a) HMG's willingness to revert to the previous arrangements if and when our EC partners make such a change; (b) the fact that the cash flow effects of the Budget measure would in part be felt by foreign rather than UK business; (c) the 4-week delay which most importers would still enjoy on average; and, (d) subject to the Law Officers' opinion, the illegality of exempting raw materials.

3. On the VAT base, the Minister of State expressed continuing misgivings about the proposal in respect of newspapers. Reduced VAT rates for newspapers were common practice abroad; and revenue foregone could be obtained by more than valorising tobacco duty. It was however argued that action on newspapers would have to be taken in the first Budget of the Parliament, or not at all; and that the time for a sharp rise in tobacco duty would be Budget 1985. The proposed expansion of the VAT base was confirmed.

4. The proposed consumer credit duty was discussed. It was noted that, whereas the original aim had been to raise substantial revenue in 1984-85, the latest variant of the scheme would produce nothing before 1985-86, and then only £75 million. Even so, it would evoke protests from the building societies, already complaining at the gilts tax treatment decision, and likely to complain further at the abolition of LAPR. As for the banks, they would certainly argue that the administrative difficulty of moving to the composite rate would be more than doubled by the simultaneous imposition of CCD. It was on the other hand pointed out that the financial sector had long been held to be under-taxed, that the CCD was no bad surrogate for VAT, and that the inclusion of the building societies - in respect of non-qualifying mortgage business - would set a good precedent.

5. The Chancellor, Chief Secretary and Economic Secretary thought that, given the effect on banks' leasing business of the abolition of capital allowances, it would be as well to drop CCD for Budget '84. The cumulative effect on the financial sector of the capital allowance package, the composite rate, the building society gilts decision, and CCD would be substantial, and CCD was clearly the marginal item. The Financial Secretary thought it a pity to make no start on an appropriate way of widening the tax base to include the financial sector: the Minister of State agreed, but did not oppose dropping CCD. Mr Fraser argued that CCD would not in practice have been a tax on the banks, for its effects would have been passed on to their customers: he also drew attention to its substantial manpower requirement.

6. It was agreed that CCD should be shelved. All work on it geared to Budget and FB 1984 should cease forthwith; but the question should be re-opened early in the preparations for Budget 1985.

7. On the income tax thresholds, it was noted that the "£2 a week" option was attractive, and probably affordable. No decision was taken on what precise variant would be adopted.

8. On the foreign emoluments deduction, Mr Isaac pointed out that, if a concession were to be made in deference to Bank views, the right course might be to go for symmetry with the action on foreign earnings and reduce the 25 per cent rate to zero over 2 years - with an interim 12½ per cent year, rather than 1. The Economic Secretary backed this proposal: the Financial Secretary resisted it. The Chief Secretary argued against seeing the concession as one which might be made in Committee. It was provisionally decided - subject to further discussion with the Bank on 29 February - that the original proposal, without phased transition, should stand.

9. Composite rate. It was noted that more accurate figures for the financial effect in 1985-86, assuming the composite rate were introduced from April 1985, were required, together with a breakdown of the effects throughout the banking sector /action: Inland Revenue/. It was agreed that no final decision on the implementation date should be taken before the 2 March meeting with the banks. As for smoothing building society composite rate payments, it was argued that no decision as between the options identified by the Inland Revenue in discussion with the building societies could fairly be taken at present, for the building societies could not unreasonably say that changes since the negotiation had undermined the premises on which it had been conducted. "Smoothing the PSBR" was highly desirable, but the deal with the building societies could not be concluded in present circumstances, and should be shelved for the present.

10. Capital allowances. Mr Battishill's paper had drawn attention to a reduction of £200m in the expected 1985-86 yield from the changes

in capital allowances - partly offset by a £50m reduction in the cost of cutting the CT rate. This was due to a changed estimate of the extent to which companies might bring forward investment projects into 1984-85. It was noted that expenditure of some £1.5b might be brought forward in this way, though only about £0.5b would be actual advanced investment, the rest being advanced billing. It was also noted that some at the Bank expected higher figures, and that it was not possible to form a reliable estimate. The advancement of genuine investment would bring benefits; and consideration would have to be given to how best to prevent purely financial, and even circular, transactions amounting to avoidance. /Action: Inland Revenue/. The £200m estimate, though uncertain, would have to be accepted, and taken into account in the Budget arithmetic. There would be no advantage in publishing lower figures for advanced investment.

11. It was noted that the overall effects of the CT rate, capital allowances, and stock relief changes would amount to net losses to the Revenue of £280m and £600m in 1984-85 and 1985-86, with subsequent gains of £50m and £380m in 1986-87 and 1987-88. The effect in 1988-89 would be broadly neutral. Business would therefore receive a major boost in the first two years, and would gain from the package over the MTFS period.

12. Minor starters. It was noted that starter No 149 (expensive houses) had been dropped; and agreed that the VAT threshold (starter No 2) should be revalorised to £18,700 rather than £18,500.

13. NIS It was noted that the 1984-85 revenue effects of the Budget as now constituted would mean a net tax decrease of £147m. Against this background, it was agreed that the abolition of NIS should be w.e.f. 1 October (thus saving £125m c.f. abolition from 6 August).

II General Issues

14. Presentation It was agreed that the four Ministerial papers on presentational issues should be considered at a separate and

smaller meeting on 1 March. The Minister of State drew attention to the particular difficulty of the treatment of VAT on imports. Because only interest cost figures were used in calculating the effects of the Budget on individual groups, we appeared to have pulled off the trick of devising a revenue-neutral Budget reducing taxation of both business and individuals. Though the question would be further discussed on 1 March, it was provisionally agreed that the right course would be to show gross figures for the effects on business of the VAT on imports change. Business would as a result be seen to lose overall in 1984-85, but gain substantially in 1985-86. And the point would of course be made that some of the losses would be borne abroad.

15. EC Commission. It was agreed that Mr Fraser's proposal (minute of 24 February) for a message from the Chancellor to Commissioner Tugendhat on the EC implications of the Budget should be implemented. It should be delivered on Budget Day. Arrangements should also be made for Mr Knox to see Commission officials on the early evening of Budget Day.

16. Furniss v Dawson. The Chancellor said that he accepted the Chief Secretary's advice that the proposed passage on the implications of the Furniss v Dawson judgement was inappropriate to the Budget Speech. The subject would be more appropriate to a speech by the Chief Secretary or Financial Secretary later in the Budget Debate. The aim should be to allay exaggerated fears of the extent of the implications. In addition, as suggested by the Chief Secretary, consideration should be given to the removal from the statute book of anti-avoidance provisions made unnecessary by the Furniss v Dawson ruling, and of the case for a move to a formal system of clearance.
/Action: Inland Revenue/

17. NISSAN It was noted that the solution to the NISSAN problem which Mr Tebbit advocated would cause extreme difficulty, and might be very costly. (A costing was commissioned.) An expenditure

solution was more likely to be suitable, despite EC difficulties. An urgent analysis of the options was commissioned. /Action: Inland Revenue/

18. Composite Rate: publicity. It was noted that the banks had broken confidence on the composite rate proposal, though they had not released any documents. If their leaks were to escalate into a major press campaign, it would be necessary to consider counter-briefing; though it would be best if possible to hold the line until Budget Day. It was noted that coming clean on the discussion with the banks would entail providing full information to the building societies.

19. It was agreed that the right action would be:-

a. to inform the CLCB that their publicity, in breach of confidence, was not well received, and that its continuation would endanger the possibility of future confidential consultations /action: Mr Lankester/;

b. the press should be carefully monitored for signs that a hostile campaign was taking off successfully /action: Mr Hall/;

c. a plan, and texts, for counter-publicity, including knocking copy, should be prepared, on a contingency basis /action: Mr Lankester/Mr Green/; and

d. the Parliamentary Questions due for immediate answer would be answered un-informatively.

20. National savings target. It was noted that there was a political case - given current issues with the banks and building societies - for not raising the national savings target from £3b to £3.5b. The matter would be further reviewed.

J O Kerr

28 February 1984

Distribution: Those present, Mr Anson, Mr Freedman: C & E
Ms Goodman

Ch/Ex Ref No B.(84).391

FROM: J O KERR
DATE: 2 March 1984

Mr Battishill cc Sir P Middleton

BUDGET MEASURES: OUTSTANDING DECISIONS

Sir P Middleton suggested this morning that I should compare notes with you about Budget measures on which final decisions have not yet been taken.

2. My list is as follows:-

a. income tax thresholds (action: J O Kerr/Isaac);

b. stamp duty implementation date (action: FST - minute due today);

c. capital allowances: stopping financial fore-stalling (action: Beighton);

d. capital allowances: short-life assets (action: ? EST);

e. capital allowances: assured tenancies (action: FST/Corlett - meeting with DOE official today);

f. composite rate: implementation date (action: IR - minute expected today);

g. composite rate: local authorities and foreign currency deposits (action: JOK to arrange meeting on Tuesday);

h. executive share options (action: FST);

i. VAT on cars for the disabled (action: MST);

j. capital allowances: the future of secondary allowances (action: Beighton - minute expected today).

3. We in the Private Office are chasing all that lot. If you have additions to the list, please let me know.

4. We might have a word about the possible case for circulating a list, to terrify the laggards. But I think it would not make sense to do so until we see tonight's crop of submissions, and how the Chancellor reacts to them over the weekend.

J O KERR

BUDGET CONFIDENTIAL

CH/EX REF NO B(84) 399

FROM: J O KERR

DATE: 2 March 1984

PS/CHIEF SECRETARY
PS/FINANCIAL SECRETARY
PS/MINISTER OF STATE
PS/ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR LITTLER
MR BAILEY
MR BATTISHILL
MR RIDLEY
MR LORD
MR PORTILLO

BUDGET "OVERVIEW": 6 MARCH

There will be no "overview" meeting on 6 March. Instead, the following three separate meetings will take place:-

(a) at 11am, a Budget Measures meeting, on the basis of a new scorecard to be circulated by Mr Battishill tonight.

(b) at 11.30am, a final run-through the FSBR (full printers proof to be circulated by the Central Unit on 5 March); and

(c) at 12.30pm, a discussion of any remaining major issues on the LTPE Green Paper (draft being circulated by Mr Scholar).

2. Private Secretaries will wish to ensure that their Ministers see the relevant papers in good time.

3. Additional officials are being invited (separately) to the FSBR and LTPE meetings. All addressees of this meeting are invited to all three.

(3 below)

J O KERR

BUDGET CONFIDENTIAL

CH/EX REF NO B(84)400

FROM: J O KERR

DATE: 2 March 1984

MR SCHOLAR

cc Sir P Middleton
Mr Bailey
Mr Battishill
Mr Monger
Mr Odling-Smee

LTPE

As you know, the Chancellor plans an LTPE meeting at 12.30pm on 6 March. All Ministers, Permanent Secretaries, and Special Advisers have already been invited: I hope that you, and Mr Monger and Mr Odling-Smee, will be able to attend.

2. The object of the meeting will be to deal with any strategic issues emerging from this weekend's consideration of the draft Green Paper by Cabinet Ministers and those Treasury Ministers who have not so far seen it, but to whom you will today be circulating it. Points of detail will be reserved for a smaller meeting in the afternoon, which will be arranged separately.

JOK.

J O KERR

BUDGET CONFIDENTIAL

CH/EX REF NO B84/401.

FROM: J O KERR

DATE: 2 March 1984

SIR L AIREY - copy each

MR FRASER

cc Sir P Middleton
Mr Battishill

There will be no Budget "overview" meeting on 6 March. Instead, the following two separate meetings will take place:-

(a) at 11am, a final run-through the scorecard, on the basis of a new version to be circulated by Mr Battishill tonight; and

(b) at 11.30am, a final look at the FSBR, on the basis of the printers' proofs, which the Central Unit will circulate on 5 March.

I should be grateful if you could attend for the first meeting. If you would like to stay for the second, that too would be entirely in order, and it would be helpful if you could arrange for Mr Walton and Mr Middleton to be here from 11.30am in case some statistical question arises on the back part of the FSBR.

JOK.

J O KERR

BUDGET CONFIDENTIAL

CH/EX REF NO B(84)402.

FROM: J O KERR
DATE: 2 March 1984

MR CASSELL

cc Sir P Middleton
Sir T Burns
Mr Battishill

FSBR

At 11.30am on 6 March the Chancellor will hold a final FSBR meeting, on the basis of a complete printers proof to be circulated by the Central Unit on 5 March. Ministers and Permanent Secretaries have already been invited. I should be grateful if you could be present throughout, and if the following would be ready to join the meeting when the appropriate part of the FSBR is reached:-

Parts 1 and 2	- Mrs Lomax and Mr Riley
Part 3	- Mr Evans
Part 4	- Mr Monger, Mr Allen
Part 5 and 6	- Mr Scholar, Mr Stibbard

Copies of this minute go to those listed above, and to Mr Norgrove, who will I hope attend throughout.

JOK.

J O KERR

BUDGET SECRET

CH/EX REF NO B(84)508

FROM: J O KERR
DATE: 7 March 1984

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Monck
Mr Lankester
Mr Monger
Mr Ridley

Sir L Airey)
Mr Isaac)
Mr Green) IR
Mr Beighton)
Mr O'Leary)

c
We've also added building society gilts.

MOM
7/3

BUDGET MEASURES: OUTSTANDING ISSUES

We spoke about the three major outstanding issues which the Chancellor is concerned to settle today - ie LAPR, capital allowances and forestalling, and capital allowances and short life assets. On all three the action lies in the Financial Secretary's office. On the first, the Chancellor is hoping for a report on the Financial Secretary's negotiations last night with the Revenue and Parliamentary Counsel. On the second, the Chancellor awaits the Financial Secretary's reactions to Mr Beighton's minute of 5 March, and hopes for a worked-up version of his proposal. And on the third, you have Mr Green's minute of 6 March, and have been considering the Chancellor's request for the Financial Secretary's views on the Economic Secretary's minute of 2 March and Mr Green's earlier (17 February) proposal.

2. The Chancellor hopes that all three problems can be settled at the meeting which has been arranged for 3pm today. It would clearly help a lot if the Financial Secretary's advice, at least on the first two points, could be available in advance.

3. If it will be necessary to have Mr Graham in attendance to deal with LAPR, could you please be in touch with him. And if Mr Bridgeman's presence will be required, perhaps Mr Lankester could contact him.

JS

pp J O KERR

6.26

BUDGET SECRET

CH/EX REF. NO. B(84)521

FROM: MISS J C SIMPSON

DATE: 8 March 1984

cc PS/Chief Secretary
PS/Financial Secetary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Battishill
Mr Monger
Mr R I G Allen
Mr Griffiths
Mr Ridley
Mr Lord
PS/IR
Mr P Lewis - IR
PS/C&E
Mr P Wilmott - C&E
Mr Graham - Parly Counsel

MR MARTIN

FINANCE BILL: AMENDMENT OF THE LAW RESOLUTION

The Chancellor has seen your minute of 1 March and the comments from the Minister of State and the Chief Secretary. He agrees with the Chief Secretary that the amendment of the law resolution should certainly be restricted as proposed in paragraph 8 of your submission. He has also commented that there should be separate VAT resolutions for the separate groups of VAT extension.

JB

MISS J C SIMPSON

PERSONAL AND BUDGET SECRET

E 3

7/4

FROM: ADAM RIDLEY
9 March 1984

Wermuth
PAS - 4 weeks

CHANCELLOR

cc CST
FST
MST
EST
Mr Lord
Mr Portillo

DRAFT BACKBENCHERS' BUDGET BRIEF

Here, as promised, is the first draft which Michael, Rodney and I have prepared. It is necessarily rough, but I am sure you and copy recipients will pardon the appearance. We have yet to check figures and facts finally; and some have certainly been revised since this went to press. We shall get on with that process over the weekend and on Monday, and the next version will go to EB for final scrutiny.

2. At this stage we should be most grateful for comments from you and your colleagues on both the general shape, and

- treatment of particular points, particularly political ones, some of which inevitably tend to get swamped by facts in a first draft;
- extra material which might help (or excisions);
- specific drafting suggestions.

3. As this Budget contains so many measures, this brief has inevitably to give a compact account of more factual matters than usual, and to contain less advocacy - unless it is to be inordinately long.

4. It is not quite complete. We still have to prepare a round-up of smaller miscellaneous measures of the "nugget" variety, such as Paraffin, and any ideas on that would be welcome. And we shall also prepare a very short one page "brief for broadcasters" which the Whips will make available as usual to members who are to go on Radio or TV on Tuesday afternoon. This is always found most useful.

5. I attach both the skeleton we have worked to, and our material, in the hope that we can have a brief word about it all at Prayers on Monday. If you and your colleagues can annotate your copies and leave them with us at Prayers, so much the better!

AR

A N RIDLEY

P.S. There will, of course, be repetition. Some of this can be cut out

P T O

But on occasions it is essential if one is to produce a brief which covers each issue or heading reasonably thoroughly.

BUDGET - SECRET
and STRICTLY PERSONAL

B(84) 1057

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

From: B H KNOX

9 March 1984

MR KERR

... As requested yesterday evening I attach speaking notes for the Secretary of State for Social Services and the Secretary of State for Northern Ireland with reference to their letters received by the Chancellor on 6 and 27 January (dated 25th).

Bryce Knox

B H KNOX

SPEAKING NOTE FOR MEETING WITH SECRETARY OF STATE FOR SOCIAL SERVICES

Tobacco

When you wrote to me at the beginning of the year you stressed the implications for health of the level of the excise duties on tobacco. I have decided in the Budget to raise these duties by substantially more than would be needed to keep pace with inflation. A packet of cigarettes will go up by about 10p, with equivalent increases on cigars and hand-rolling tobacco. These changes represent a duty increase of about 15% - nearly three times the rise in prices to December last year.

However, I have decided not to increase the duty on pipe tobacco. I have noted your comments that this product is just as dangerous as cigarettes if the smoke is inhaled, but I am also conscious of the fact that over 50% of all UK pipe tobacco is manufactured in Northern Ireland, and directly provides some 650 jobs there. It is also a fact that pipe tobacco is smoked by older and poorer people, who would be hit hard by a substantial real increase in price.

Overall I hope you will agree the changes I propose to make will have a very real impact on smoking in this country. Although it is difficult to forecast changes in consumption, I am confident that there will be a real drop - of about 2½% - in the number of cigarettes smoked this year.

Alcohol

I have had to take a series of complicated decisions on the alcohol duties, mainly to ensure that we comply with the European Court Judgment on the taxation of wine and beer. As a consequence, some duty rates will go up and others will go down. But overall the extra revenue which I shall raise from the alcoholic drinks will be broadly equivalent to the product of straightforward revalorisation. I can assure you that, according to our calculations, the package of measures I propose will not lead to any increase in the total consumption of alcohol. I am sure you will understand that, given the changes I am making on tobacco, this is as far as I can go towards meeting the requests in your letter.

BUDGET - SECRET

SPEAKING NOTE FOR MEETING WITH SECRETARY OF STATE FOR NORTHERN IRELAND

When you wrote to me on 25 January you stressed the importance of the tobacco companies for manufacturing employment in the Province, and you pressed strongly for special treatment to be given to pipe tobacco. I have decided in the Budget to impose substantial real increases on tobacco - a packet of 20 cigarettes will go up by 10p, a duty increase of about 15% and similar increases will apply to cigars and to hand-rolling tobacco. I have decided on these measures for both health and revenue reasons. The extra revenue will be of particular use in financing some of the reforming measures which I shall be announcing in the Budget. However, I am very conscious of the force of the arguments you advanced, and it is very much for this reason that I have decided once again to spare pipe tobacco from a duty increase. I hope in this way to avoid the further erosion of the manufacturing base in the Province to which you refer.

PERSONAL AND BUDGET SECRET

E 3

FROM: ADAM RIDLEY
9 March 1984

CHANCELLOR

cc CST
FST
MST
EST
Mr Lord
Mr Portillo

DRAFT BACKBENCHERS' BUDGET BRIEF

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A N RIDLEY

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